STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2016

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SAVINGS PLUS PROGRAM
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INDEPENDENT AUDITORS' REPORT

Mr. Richard Gillihan, Director
State of California, Department of Human Resources Savings Plus Program
Sacramento, California

Report on the Financial Statements

We have audited the accompanying combined financial statements of fiduciary net position and changes in fiduciary net position of the State of California, Department of Human Resources Savings Plus Program (the Plan), which comprise a 457(b) plan, a 401(k) plan, a Part-time, Seasonal, and Temporary Employees Retirement Program ("PST"), and an Alternate Retirement Program ("ARP"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Plan as of December 31, 2016, and the respective changes in its net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2018, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
February 1, 2018

The State of California, Department of Human Resources (CalHR) administers the Savings Plus Program – referred to as SPP or Savings Plus. SPP consists of a deferred compensation plan established in 1974 under Section 457(b) of the Internal Revenue Code (IRC) ("457(b)" Plan"); a tax-deferred thrift plan established in 1985 and implemented in 1989 under Section 401(k) of the IRC ("401(k) Plan"); a Part-time, Seasonal, and Temporary Employees Retirement Program ("PST Program") established in 1991 under Section 457(b) of the IRC; and an Alternate Retirement Program ("ARP" or "401(a) Plan") established in 2004 under Section 401(a) of the IRC. CalHR's authority to establish these plans is found in the *California Government Code* sections 19993, 19999.5, 19999.2, and 19999.3, respectively. The 457(b) and the 401(k) together are referred to as the "Main Plan." The four plans together are referred to as the "Plan" or "Savings Plus" for the sake of this document. CalHR administers these plans as the Savings Plus Program (Savings Plus).

This discussion and analysis of SPP's financial performance provides an overview of the Plan's financial activities for the year ended December 31, 2016.

Using the Financial Report

This discussion and analysis is an introduction to the basic financial statements. This financial report for each Plan consists of two financial statements and the notes to the financial statements.

The Statements of Fiduciary Net Position report the SPP's assets, liabilities, and resultant fiduciary net position where Assets - Liabilities = Fiduciary Net Position. The assets are held in a trust for the benefit of participants at the SPP year-end, December 31. It can be thought of as a snapshot of the financial position of the Plan at that specific point in time.

The Statement of Changes in Fiduciary Net Position report the SPP's transactions that occurred during the fiscal year where Additions - Deductions = Net Change in Fiduciary Net Position. It is a record of the activity that occurred over the year, and explains the changes that have occurred to the prior year's fiduciary net positions on the Statement of Fiduciary Net Position.

Although the 457(b) and 401(k) Plans are separate, distinct retirement savings programs, they are generally and collectively referred to as the "Main Plan." Main Plan investment options consist of eleven (11) Target Date Funds; five (5) passively managed funds (index funds); four (4) actively managed equity funds, one (1) actively managed socially responsible fund, one (1) diversified real return fund, one (1) actively managed bond fund, one (1) short term investment fund (STIF), one (1) STIF–Cash fund, and a self-directed brokerage account option. The PST Program and ARP invest assets in the above-noted STIF option. SPP utilizes a combination of separately managed investment accounts, collective investment trusts, and mutual funds.

The notes to the financial statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

Financial Highlights

457(b) Plan

The following financial highlights occurred during the 457(b) Plan year ended December 31, 2016:

- The 457(b) Plan's fiduciary net position increased to approximately $5.929 billion; an increase of approximately $467 million during plan year 2016. Asset growth was primarily due to an increase in net appreciation in value of investments and net contributions/withdrawals. Net appreciation in value of investments, which measures net appreciation in the fair market value of investments and interest earned on those investments, was approximately $389 million. In addition, net contributions into and withdrawals from the Plan netted a positive inflow of $78 million.
- The number of 457(b) participant accounts increased to 140,840 on December 31, 2016; an increase of nearly 6,400 accounts over the prior year. 457(b) participants may have 401(k) accounts as well.
- At year end, the five (5) largest 457(b) investment options were: Large Cap Index Fund (13.8%); STIF (12.1%); Large Cap Fund (11.0%); STIF–Cash (10.4%); and Mid Cap Fund (8.6%) totaling 55.9% of Program assets. Combined Target Date Fund assets totaled 18.7% of 457(b) assets.

401(k) Plan

The following financial highlights occurred during the 401(k) Plan year ended December 31, 2016:

- The 401(k) Plan's fiduciary net position increased to approximately $5.886 billion; an increase of approximately $540 million during plan year 2016. Asset growth was primarily due to an increase in net appreciation in value of investments and net contributions/withdrawals. Net appreciation in value of investments, which measures net appreciation in the fair market value of investments and interest earned on those investments, was approximately $416 million. In addition, net contributions into and withdrawals from the Plan netted a positive inflow of $123 million.
- The number of 401(k) participant accounts increased slightly to 110,828 on December 31, 2016; an increase of nearly 1,000 accounts over the prior year. 401(k) participants may have 457(b) accounts as well.
- At year end, the five (5) largest 401(k) investment options were: Large Cap Index Fund (15.8%); Large Cap Fund (12.2%); STIF (10.0%); Mid Cap Fund (9.7%); and STIF–Cash (6.8%), totaling 54.5% of Program assets. Combined Target Date Fund assets totaled 17.8% of 401(k) assets.

PST Program and ARP

The following financial highlights occurred during the Plan's year ended December 31, 2016:

- The PST Program's fiduciary net position increased to approximately $86 million; an increase of approximately $3.9 million during plan year 2016. The PST Program's asset growth shows new contributions slightly outpaced transfers out and withdrawals. Net appreciation in value of investments contributed $1.4 million.

Financial Highlights (CONTINUED)

- ARP's fiduciary net position declined to approximately \$32 million; a decrease of approximately \$29 million during plan year 2016. The Plan is designed such that reduction in assets is expected at this point in the Plan's timeline. Net appreciation in value of investments was just under \$1.0 million.
- The total number of PST Program participant accounts increased to 92,751 on December 31, 2016; an increase of nearly 10,900 accounts over the prior year.
- The number of ARP participant accounts decreased to 7,362 at December 31, 2016; a decrease of nearly 4,900 accounts over the prior year. The decline in ARP accounts was anticipated as a result of the program no longer accepting new participants as of June 30, 2013. Since the majority of ARP accounts leave the program during Phase III, and since new accounts are not being created, the program experienced the expected decline during CY 2016.

Condensed Summary of Financial Statements

The following table presents a condensed summary of the fiduciary net position and changes in fiduciary net position for the year ended December 31, 2016 (in thousands):

Combined Statement of Fiduciary Net Position

	457(b) Plan	401(k) Plan	PST	ARP	Total
ASSETS					
Total Investments	$ 5,784,845	$ 5,755,897	$ 85,148	$ 31,920	$ 11,657,810
Total Receivables	144,241	130,017	1,122	-	275,380
Total Assets	5,929,086	5,885,914	86,270	31,920	11,933,190
NET POSITION HELD IN TRUST					
Total Fiduciary Net Position Held in Trust	$ 5,929,086	$ 5,885,914	$ 86,270	$ 31,920	$ 11,933,190

Combined Statement of Changes in Fiduciary Net Position

	457(b) Plan	401(k) Plan	PST	ARP	Total
ADDITIONS					
Total Contributions	$ 503,787	$ 479,815	$ 25,083	$ (381)	$ 1,008,304
Net Investment Income	392,657	419,513	1,421	974	814,565
Total Additions	896,444	899,328	26,504	593	1,822,869
DEDUCTIONS					
Total Withdrawals	426,145	356,499	22,585	29,930	835,159
Administrative Expenses	3,441	2,829	4	32	6,306
Total Deductions	429,586	359,328	22,589	29,962	841,465
CHANGE IN NET POSITION	$ 466,858	$ 540,000	$ 3,915	$ (29,369)	$ 981,404

Other Highlights

Effective January 1, 2016, Savings Plus entered into agreement with Nationwide Retirement Solutions, Inc. (Nationwide) to provide Third Party Administrator (TPA) / recordkeeping duties. Nationwide had previously been the TPA from 2001 through 2012. Hewitt Associates LLC (Aon Hewitt) provided TPA services from 2013 through 2015.

Asset Class and Economic Discussion

Global growth in 2016 came in at a post-crisis low of 2.3%, with stagnant global trade, subdued investment, and heightened policy uncertainty marking another difficult year for the world economy. Major developed-market economies struggled in an environment of increased uncertainty about politics, policy direction, tepid investment, and sluggish productivity growth.

U.S. Equities

Early in the year, U.S. equities fell sharply as investors looked for safety amid concerns of high Chinese debt, rising U.S. rates, and falling commodity prices. As policy makers allayed these concerns, the markets quickly reversed direction. However, the market was surprised and sold off heavily in late June when the U.K. voted by referendum to leave the European Union ("EU"). More defensively-oriented stocks soared while cyclicals were negatively impacted. Despite the vote, it became apparent that the EU and Great Britain would both survive and the markets rebounded quickly.

A rebound in corporate earnings, accelerating U.S. economic growth, and the stabilization of energy prices all contributed to renewed investor enthusiasm for equities later in the reporting period. The rally gained further momentum after the U.S. Presidential election as investors expected business friendly policies from the new administration, such as tax cuts, less regulation, and fiscal stimulus. Domestic equities hit all-time highs following the U.S. election in November. The prospects for banking deregulation and higher interest rates caused financial stocks to rally. Energy stocks also rose on the potential of more drilling and less regulation. Industrial names also traded up in anticipation of future infrastructure spending measures and trade reforms.

The bulk of the U.S. stock market gains came in the second half of the year, with U.S. Equities finishing the year strong. For the year, the S&P 500 returned 12% with Energy and Telecomm Services showing the strongest returns at 25.9% and 23.8%, respectively. Health Care was the only sector in negative territory, down 2.9% for the year, as the industry garnered increased political scrutiny over pricing practices.

Small Cap stocks, up 21.3%, outperformed large cap stocks, which were up 12.1%. Mid Cap stocks finished the year up 13.8%. Small Cap Value stocks were the best performing sector, gaining 31.7% for the year. Value outperformed Growth across all market capitalizations during the year.

Calendar Year 2016 was a difficult year for active managers. Growth managers trailed through the first half of 2016, when investors were paying a premium for higher yielding equities in a low interest rate environment. Savings Plus actively managed investment options yielded the following 2016 one-year results (return, benchmark, and peer universe): Socially Responsible Fund (8.88%, 8.31%, 7.77%); Large Cap Fund (8.80%, 12.05%, 10.0%); Mid Cap Fund (12.91%, 13.8%, 14.8%); Small Cap Fund (19.99%, 21.31%, 20.09%).

Asset Class and Economic Discussion (CONTINUED)

Savings Plus passively managed investment options yielded the following 2016 one-year results (return, benchmark, and peer universe): Large Cap Index Fund (11.92%, 11.96%, 10.00%); Mid Cap Index Fund (20.65%, 20.74%, 14.8%); Small Cap Index Fund (20.84%, 21.31%, 20.09%). The results in each case show that SPP trailed the benchmark slightly, but beat the peer universe.

International Equities
International stock markets fell sharply early in the year on concerns of weak oil prices, slowing economic growth in China, and a strengthening U.S. dollar. Though markets improved post-Brexit, sub-par economic expansion and other political issues continued to suppress international developed market sentiment. In U.S. dollar terms, the MSCI Europe, Australia-Asia, and Far East ("EAFE") was up 1.0% in 2016. In local currency terms, the index was up 5.3%.

The SPP International Index Fund one-year performance of 4.41% equaled its benchmark, the MSCI ACWI ex US IM Index, and beat its peer universe by 2.10%. The actively managed SPP International Fund one-year performance of 2.81% trailed the benchmark by 1.60%, but beat the peer universe by 0.50%.

Currencies
Brighter domestic economic prospects and higher interest rates helped boost the U.S. dollar. The dollar strengthened significantly during the fourth quarter of 2016, particularly after the U.S. election. The Dollar Index (DXY) rose 7.1% during the fourth quarter and finished 2016 up 3.6%. For the year, the euro declined by 3.2% relative to the dollar. The yen appreciated by 2.9% against the dollar due to a strong first half of 2016. The British pound experienced significant declines in 2016. The British pound weakened significantly in the immediate wake of the U.K.'s Brexit decision.

Fixed Income
Interest rates rose during the fourth quarter as the market began to price a more rapid pace in Fed rate increases. After holding off raising rates for most of the year, the Fed increased rates by 0.25 percentage points in December.

After falling for much of the first half of 2016, U.S. Treasury yields reversed course and moved higher for the remainder of the year. The bellwether 10-year Treasury yield reached a historic low of 1.37% in early July before climbing to end the year at 2.45%, accelerating its rise after the election. The Fed increased the overnight rate by 0.25% at their December meeting, while credit spreads tightened during the quarter in both investment grade and high yield bonds. The move was dramatic enough within high yield to result in a net quarterly gain.

The SPP Bond Fund one-year performance of 1.94% trailed both its benchmark and peer universe by 0.50% and 3.46%, respectively. The SPP Bond Index Fund one-year performance of 2.46% trailed both its benchmark and peer universe by 0.14% and 0.13%, respectively.

While rising interest rates impacted the prices on all bonds towards the second half of 2016, corporate bonds performed better than most other fixed income securities during the year as credit spreads tightened alongside an improving economy. U.S. Corporate Bonds were up 6.1% for the year, outperforming U.S. Treasuries by 510 basis points. For 2016, high yield bonds returned 17.1%, outperforming global equities.

Asset Class and Economic Discussion (CONTINUED)

The SPP Short-Term Investment Fund (STIF) one-year performance of 1.69% exceeded both the benchmark and peer universe by 0.41% and 0.51%, respectively. The STIF–Cash option performance of 0.33% matched its benchmark and exceeded the peer universe by 0.23%.

Commodities and Real Assets

The Bloomberg Commodity Index finished the year up 11.8%. U.S. REITs finished the year up 8.6%, while global REITs lagged, returning 5% for the year. The Bloomberg Barclays U.S. TIPS Index was up 4.7%. Oil saw its biggest annual gain since the financial crisis, propelled by a deal among OPEC nations and major oil producers to cut production. Oil prices rebounded from a low of $26 per barrel in February and subsequently increased to $53 by year-end.

The SPP Diversified Real Return Fund returned 12.78% for the year, which exceeded the benchmark (i.e. Consumer Price Index plus 3%) and peer universe by 7.82% and 8.13%, respectively.

Economic Discussion

There were some major economic and political events in 2016 that surprised expectations. After a dreadful start to the year, U.S. stocks rebounded from being down -11.0% in early-February to post meaningful gains by the year's end (e.g. Wilshire 5000 +13.4%). In fact, U.S. and emerging market stocks had strong years (Wilshire 5000 Total Market Index +13.4%, MSCI EM Index +11.2%), while non-U.S. developed market stocks struggled (MSCI EAFE Index +1.0%).

Meanwhile, the political landscape dramatically shifted with both the Brexit vote in June and the U.S. presidential election in November. In the case of Brexit, international markets immediately sold off, but seemed to quickly brush off the event by rebounding to pre-Brexit levels. In the U.S., markets sold off dramatically on election night, but traded higher in subsequent days and rallied strongly from Election Day into the end of the year.

Requests for Information

This financial report is designed to provide a general overview of the California Savings Plus Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to CalHR Savings Plus Program, 1515 S Street, Suite 500N, Sacramento, CA, 95811. Inquiries may also be made online at savingsplusnow.com or by calling (855) 616-4776.

STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
COMBINED STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2016
(In Thousands)

	457(b) Plan	401(k) Plan	PST	ARP	Total
ASSETS					
Investments:					
Short-Term Investments	$ 1,304,585	$ 966,295	$ 85,148	$ 31,920	$ 2,387,948
Investment Options	4,179,245	4,483,150	-	-	8,663,395
Self-Directed Brokerage Option	301,015	306,452	-	-	607,467
Total Investments	5,784,845	5,755,897	85,148	31,920	11,657,810
Receivables:					
Contributions Receivable	31,936	30,007	1,122	-	63,065
Loans Receivable from Participants	112,305	100,010	-	-	212,315
Total Receivables	144,241	130,017	1,122	-	275,380
Total Assets	5,929,086	5,885,914	86,270	31,920	11,933,190
FIDUCIARY NET POSITION HELD IN TRUST					
Total Fiduciary Net Position Held in Trust	$ 5,929,086	$ 5,885,914	$ 86,270	$ 31,920	$ 11,933,190

See accompanying Notes to Combined Financial Statements.

STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2016
(In Thousands)

	457(b) Plan	401(k) Plan	PST	ARP	Total
ADDITIONS					
Contributions:					
Employee Contributions (Adjustments)	$ 352,807	$ 331,031	$ 24,573	$ (782)	$ 707,629
Transfers In	150,980	148,784	510	401	300,675
Total Contributions	530,787	479,815	25,083	(381)	1,008,304
Investment Income:					
Net Appreciation in Value of Investments	389,261	416,235	1,421	974	807,891
Net Loan Activity	3,396	3,278	-	-	6,674
Net Investment Income	392,657	419,513	1,421	974	814,565
Total Additions	896,444	899,328	26,504	593	1,822,869
DEDUCTIONS					
Withdrawals:					
Benefits and Withdrawals	164,068	99,732	5,524	3,093	272,417
Transfers Out	262,077	256,767	17,061	26,837	562,742
Total Withdrawals	426,145	356,499	22,585	29,930	835,159
Administrative Expenses	3,441	2,829	4	32	6,306
Total Deductions	429,586	359,328	22,589	29,962	841,465
CHANGE IN NET POSITION	466,858	540,000	3,915	(29,369)	981,404
Net Position – Beginning of Year	5,462,228	5,345,914	82,355	61,289	10,951,786
NET POSITION – END OF YEAR	$ 5,929,086	$ 5,885,914	$ 86,270	$ 31,920	$ 11,933,190

See accompanying Notes to Combined Financial Statements.

NOTE 1 DESCRIPTION OF THE PLANS

The following description of the Plan provides only general information. Participants should refer to the Plan's documents for a more complete description of the Plan's provisions.

General

The State of California, Department of Human Resources (CalHR) administers a deferred compensation plan established in 1974 under Section 457(b) of the Internal Revenue Code (IRC) ("457(b)" or "457 Plan"); a tax-deferred thrift plan established in 1985 and implemented in 1989 under Section 401(k) of the IRC ("401(k)" or "401(k) Plan"); a Part-time, Seasonal, and Temporary Employees Retirement Program ("PST" or "PST Program") established in 1991 under Section 457(b) of the IRC; and an Alternate Retirement Program ("ARP" or "401(a) Plan") established in 2004 under Section 401(a) of the IRC. CalHR's authority to establish these plans is found in the *California Government Code* sections 19993, 19999.5, 19999.2, and 19999.3, respectively. The 457(b) and the 401(k) together are referred to as the "Main Plan." The four plans together are referred to as the "Plan" or "Savings Plus" for the sake of this document. CalHR administers the Plans as the Savings Plus Program (Savings Plus).

The purpose of the 457(b) and 401(k) plans is to encourage and increase savings opportunities for state employees to better provide for and to complement their retirement income, including income received from their defined benefit retirement plan. Persons eligible to participate in the 457(b) Plan and the 401(k) Plan include state employees, appointed and elected officers of the state, California State Judges, California State University employees, and other eligible employees.

The PST Program was implemented as a result of the 1990 Federal Omnibus Budget Reconciliation Act, and its purpose is to provide a retirement savings program for employees who are not covered by CalPERS, Social Security, or other specified state retirement plans. The purpose of ARP is to provide a retirement savings plan in lieu of retirement benefits under CalPERS during the first twenty-four (24) months of state employment for certain employees first hired into state service (employment with the State of California) between August 11, 2004 and June 30, 2013.

Staff Support

Savings Plus staff provides primary support to the Director of CalHR in the Director's role as the Fiduciary who has ultimate oversight of the administration of Savings Plus. Savings Plus staff makes recommendations to the Director on plan design; monitors contract compliance; serves as liaison to the TPA, investment providers, investment consultants, external legal counsel, and other third-party providers; and facilitates employee participation in Savings Plus.

The Savings Plus Investment Committee makes recommendations to the CalHR Director on plan design, investment structure, and investment changes; establishes and maintains the Investment Policy Statement; and evaluates the Program's investment performance, investment costs, and total plan costs to administer the Plans.

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Administration

Savings Plus operates in an "unbundled" program structure. Currently, Nationwide serves as Savings Plus' TPA. Nationwide provides consolidated recordkeeping services, a self-directed brokerage account option, participant education and outreach services, processing functions, and call center services.

Savings Plus maintains separate contracts for the following services: Investment Management; Custodial, Trustee, and Securities Lending; Investment Consulting; Transition Management; External Legal Counsel; and Financial Audit. Savings Plus provides some in-house specialized administrative functions.

Participant Accounts

Each participant's account is credited with the participant's contributions and earnings (realized and unrealized). The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants' contributions and related earnings are immediately and fully vested.

Portfolio Structure

Savings Plus currently offers participants twenty five (25) investment options and a self-directed brokerage account option through the following three-tiered structure:

Tier 1 – Target Date Funds: This tier consists of eleven (11) custom asset allocation funds. The funds are constructed using a combination of Savings Plus' core investment options/strategies.

Tier 2 – Build Your Own Portfolio: This tier consists of five (5) index funds, four (4) actively managed equity funds, one (1) actively managed socially responsible fund, one (1) diversified real return fund, one (1) actively managed bond fund, one (1) short term investment fund (STIF), and one (1) STIF–Cash fund. Except for the index funds and the socially responsible fund, Savings Plus' investment options are constructed through the use of fund-of-fund structures.

Tier 3 – Schwab Personal Choice Retirement Account® (PCRA): This tier provides a self-directed brokerage account option.

Savings Plus' investment strategies are currently offered through twenty-seven (27) separate accounts, four (4) commingled trust funds, and three (3) mutual funds. Additional information about Savings Plus' investments is available at savingsplusnow.com.

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Portfolio Structure (Continued)

CalHR evaluates, selects, and reaches agreements with investment management companies in accordance with the *State Contracting Manual*. This resource can be found at: https://www.dgs.ca.gov/OLS/Resources/Page-Content/Office-of-Legal-Services-Resources-List-Folder/State-Contracting. CalHR essentially uses competitive bidding processes; other state-approved non-competitive processes may be used in rare circumstances.

Participant Loans

A participant in active payroll status is eligible to take a loan from the pre-tax portion of their 457(b) Plan and the pre-tax portion of the 401(k) Plan provided they agree to repay the outstanding loan balance, including accrued interest, within the specified time period. Since participants borrow from their account, their loan does not affect their credit rating. During 2016, participants were permitted to take up to two loans per plan and the minimum loan amount was $2,500. The maximum loan amount is the lesser of 50 percent of plan account balance by plan minus outstanding loan balances from all state-sponsored plans on the date of the loan or $50,000 minus highest outstanding loan balances from all state-sponsored plans within the last 12 months. The participant is charged a one-time $50 loan initiation fee.

Savings Plus offers two types of Loans: General Purpose for up to five (5) years and Purchase of Primary Residence for up to 15 years. Savings Plus reports a participant loan default as a distribution – a taxable event in the year of default.

The loan interest rate is equal to the prime rate plus 1.0 percent. The prime rate used is based upon the rate published in the Wall Street Journal two weeks prior to the end of the most current calendar quarter. The rate will be effective on the first day of the next calendar quarter. As of December 31, 2016, the loan interest rate was 4.5 percent.

Self-Directed Brokerage Account

Participants may transfer assets from their core account to a self-directed brokerage account option. This allows investors to direct investments to a wider variety of options other than those available in the core investment lineup. The Schwab PCRA allows greater flexibility by allowing the freedom to select and manage a portfolio from a larger universe of mutual funds, individual stocks, bonds, and a variety of other investment choices. Participants must maintain a minimum balance of $2,500 or 50 percent of their total account balance, whichever is less, in their core account.

Administrative Expenses

Savings Plus assesses all participants an administrative fee of $1.50 per month in their 457(b) Plan account and a $1.50 per month in their 401(k) Plan account. Additionally, participants may incur the following participant-directed fees: (1) managed accounts, (2) loan initiation, (3) ACH loan non-sufficient funds, (4) paper check, (5) overnight check, (6) QDRO split, and (7) short-term trade (redemption).

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Contributions

For the 457(b) and 401(k), contributions by eligible employees are voluntary. Participants predominantly contribute salary on a pre-tax basis. The Office of the State Controller (SCO) is the primary payer of salary and processor of deductions of Savings Plus contributions. Savings Plus also permits contributions on a post-tax (Roth) basis. Aside from the SCO, there are a small number of payroll offices (e.g., Senate, Assembly, Legislative Analyst, District Fairs) who submit their contribution data separately.

For CY 2016, the IRS announced the limits on contributions as follows:

Normal Deferrals	$18,000
Aged-Based Deferrals (age 50 or older)	$6,000
Traditional Catch-up deferrals (457(b) only)	up to $36,000

There are two catch-up provisions that allow participants to contribute more than the standard annual deferral limits if they are closer to retirement and eligible to participate:

- Age 50+ Catch-Up – For CY 2016, participant age 50 or older and actively employed may defer up to $6,000 over the normal deferral limit to their 457(b) and to their 401(k) Plan accounts.
- Traditional 457(b) Catch-Up – For CY 2016, participants within the three years prior to their plan's Normal Retirement Age may be eligible to make a one-time election to defer additional money into their 457(b) for up to three (3) consecutive years. Participants may only use one of these catch-up options in their 457(b) Plan.

Normal Retirement Age is the age specified in the employer's 457(b) Plan and the age is typically chosen by the participant for the purpose of initiating the Traditional 457(b) Catch-Up election. To be eligible, the participant must have the right to retire to receive full retirement benefits under the employer's pension plan with no reduction for age or service and must not be later than age 70½.

Participants may cash out their accumulated unused leave time (Lump Sum Pay) when they retire; a taxable event. Another option is to contribute all or a portion of their Lump Sum Pay into their Savings Plus accounts. This may allow the participant to maximize their contribution and defer taxes, while offering more flexibility with future distribution options.

For CY 2016, participants who separated from service on or after November 1 could defer their Lump Sum Pay to their Savings Plus account into the following tax year, allowing them to potentially maximize contributions for both CY 2016 and CY 2017.

Savings Plus added in-plan Roth conversion provisions to the Main Plan in 2016. All pre-tax contribution sources, not including outstanding loans and balances invested in the PCRA, and earnings thereon, are eligible for in-plan Roth conversions in accordance with the standard in-service withdrawal distribution provisions. Savings Plus reports the gross Roth conversion amount to the IRS as taxable income in the year of the conversion.

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Contributions (Continued)

For PST, employees hired by the state or the California State University (CSU) system on a part-time, seasonal, or temporary time basis, whose wages do not qualify for Social Security deductions or membership in CalPERS, are required to contribute 7.5% of gross wages on a pre-tax basis into their PST account.

For ARP, as of July 1, 2013, new CalPERS membership-eligible state employees are appointed directly into CalPERS instead of into ARP. While no new contributions were added to ARP during CY 2016, state departments made corrections to personnel records of employees who were erroneously appointed into ARP. These corrections/contribution adjustments account for the ($782) on the Employee Contributions (Adjustments) line item within the Combined Statement of Changes in Fiduciary Net Position financial statement.

Payment of Benefits

Generally, participant accounts cannot be closed and payments cannot be made until a “distributable event” occurs. A “distributable event” is an IRS approved event that allows payments from the Plan, such as death, disability, separation, retirement, etc.

Participants are eligible to take benefit payments from their 457(b) pre-tax assets upon separation from state service or beginning at age 70½, regardless of employment status. Participants are eligible to take benefit payments from their 401(k) pre-tax assets without an additional 10 percent tax for early withdrawal if they meet one of the following criteria: separated from state service during or after the year they turn age 55; for public safety employees, separated from state service during or after the year they turned 50; or attainment of age 59½ regardless of their employment status. Participants are eligible to take a tax-free qualified payment from their Roth assets, if they meet the withdrawal guidelines stipulated above and the payment is made on account of death, disability, or attainment of age 59½ and the payment is made five (5) years or more after January 1 of the first year the participant made a Roth contribution.

For the PST Program, the participant must be separated from state service and have not had a contribution into or out of their account for 90 days or be at least age 70½, regardless of employment status. For ARP, the participant must be separated from state service during or after the year they turn age 55 or be at least age 59½, regardless of employment status to receive a payment without an additional 10 percent early withdrawal penalty or select Option 2 during ARP Phase III (see next paragraph).

For 457(b) and 401(k), participants have the following payment options: as a lump-sum payment; periodic payments; installments payments; a partial lump-sum payment or as a rollover to another qualified plan or to an IRA. The PST Program allows for direct payment or direct rollover distributions. ARP Phase III provided three payout options available based on date of appointment into ARP: Option 1 - Transfer ARP funds to CalPERS for retirement service credit; Option 2 - Take a distribution via direct payment or direct rollover; or Option 3 - Transfer ARP funds to a Savings Plus 401(k) account.

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

In-Service Distributions

A 457(b) Plan participant who experiences an unforeseeable emergency (as defined by the Code) may apply in writing for an unforeseen emergency withdrawal of both their contribution and the associated earnings. A 401(k) Plan participant who experiences an immediate and heavy financial need (as defined by the Code) may apply in writing for a Hardship Withdrawal of their contributions, participants may not request payment of a portion of their earnings. Payments are subject to applicable taxes and may be subject to early withdrawal penalties.

A participant may be entitled to a full withdrawal of their 457(b) account prior to severance from service if their account balance does not exceed $5,000, there have been no contributions during the two-year period ending on the date of distribution, they do not have an active loan, they have not defaulted on a loan, and they have not taken advantage of this provision in the past.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board ("GASB"), and on the accrual basis of accounting.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect amounts reported in financial statements and accompanying notes. Actual results may differ from those estimates.

Adoption of New Accounting Standard

GASB Statement No. 72, *Fair Value Measurement and Application*, is effective for financial statement periods beginning after June 15, 2015, and has been implemented in the financial statements prepared for the calendar year ended December 31, 2016. This statement addresses accounting and financial reporting issues related to fair value measurements. It requires measurement of certain assets and liabilities at fair value using a consistent and detailed definition of fair value and accepted valuation techniques. It also enhances disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. The adoption of this statement resulted in expanded note disclosures.

Contributions and Contributions Receivable

Contributions are recognized when amounts are withheld from employees' payroll and posted to the participants' accounts. Contributions receivable represents amounts withheld from employees, but not yet remitted to / recorded by the master trust as of December 31.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Participant Loans and Loans Receivable

Participant loans are valued at their outstanding balances, which approximate fair value. The TPA reviews participant loans receivable throughout the year and delinquent loans identified by the TPA are disbursed from the participant's account through a deemed taxable distribution. The loan status remains in default until either the participant pays the outstanding amount or upon separation, at which time the defaulted loan amount is reduced from the participant's account balance. Once a loan default occurs, the participant is prohibited from receiving another loan from the loan program unless/until the loan is paid off. Loans Receivable represents the value of investments on loan to participants as of December 31, 2016.

In the Combined Statement Of Changes In Ficudicary Net Position financial statement: the *Net Loan Activity* values include the net of all loan disbursements and loan repayments, interest earned on participant loans receivable, and the value of defaulted participant loans.

Short Term Investments

Short Term Investments consist of the Short Term Investment Fund (STIF) and Short Term Investment Fund–Cash (STIF–Cash) investment funds. The STIF invests in fixed income securities including securities issued by the U.S. Government, U.S. Agencies, corporate bonds, residential and commercial mortgage-backed securities and asset-backed securities. The STIF–Cash provides safety and stability with savings account-like returns or better through a diversified combination of money market funds and Federal Deposit Insurance Corporation (FDIC) insured savings accounts. The STIF–Cash managers include Government Money Market funds that invest primarily in U.S. Government related securities, and FDIC insured accounts which have guarantees on deposits backed by the full faith and credit of the U.S. Government.

Securities Lending

The securities lending program is a non-cash collateral program. Bonds are received as collateral on securities lending transactions and are reported as investments in the accompanying financial statements. See Note 3 for further discussion.

NOTE 3 INVESTMENTS

This section describes the Plan's authorized investments, investments authorized by debt agreements, GASB 72 disclosure of fair value measurement and application, credit risk, interest rate risk, custodial credit risk, foreign currency risk, and concentration of credit risk.

Authorized Investments

Funds held by the state may be invested in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, annuities, mortgages, deeds of trust, or other security interests in real or personal property. Deferred compensation funds are retirement funds for the purposes of Section 17 of Article XVI of the California Constitution.

NOTE 3 INVESTMENTS (CONTINUED)

Authorized Investments (Continued)

Pursuant to sections 19993.05 and 19999.5 of the *California Government Code*, assets of the Plans may be invested in a range of investment options including, but not limited to, stocks and bonds listed with and traded on the New York Stock Exchange, the American Stock Exchange, or the National Market System sponsored by the National Association of Securities Dealers (NASD) and the National Association of Securities Dealers Automated Quotations system (NASDAQ), or any successor association, annuities, and shares or units of open-ended registered investment companies. However, CalHR may limit the number of banks, mutual fund companies, investment brokers, life insurance companies, and other financial institutions offering investments under the Plans as necessary to ensure the continued qualification of the Plans under the *California Government Code* and the cost-efficient and timely administration of the Plans.

Although the Plans are exempt from the provisions of Section 3(32), Title I, of the Employee Retirement Income Security Act of 1974 (ERISA), the Department generally follows the fiduciary best practices as outlined in ERISA.

The Plans' *Investment Policy Statement (IPS)* indicates that investment vehicles may consist of mutual funds, commingled investment trusts, and separate accounts. Investments made through mutual funds, commingled investment trusts, and separate accounts are governed by the Fund's investment guidelines outlined in the prospectus/fact sheet, and investment advisory agreements respectively.

NOTE 3 INVESTMENTS (CONTINUED)

Authorized Investments (Continued)

The Plan offers participants the option to choose among Target Date Funds (TDF), index funds, actively managed funds, and a self-directed brokerage option (PCRA). The investment options and Assets Under Management (in thousands) consisted of the following at December 31, 2016:

Investments Participant Directed	457(b) Plan Balance	401(k) Plan Balance	PST Balance	ARP Balance	Total Plan Balance	% of Total Plan AUM‡
STIF – Cash	$ 604,338	$ 392,783	$ -	$ -	$ 997,121	**8.6%**
STIF*	700,247	573,512	85,148	31,920	1,390,827	**11.9%**
TDF Income*	145,192	121,585	-	-	266,777	2.3%
TDF 2015*	131,910	150,119	-	-	282,029	2.4%
TDF 2020*	202,127	216,524	-	-	418,652	3.6%
TDF 2025*	179,207	190,239	-	-	369,446	3.2%
TDF 2030*	138,495	140,461	-	-	278,955	2.4%
TDF 2035*	115,211	101,112	-	-	216,323	1.9%
TDF 2040*	83,328	56,765	-	-	140,093	1.2%
TDF 2045*	62,352	32,538	-	-	94,890	0.8%
TDF 2050*	17,402	11,264	-	-	28,666	0.2%
TDF 2055*	3,334	1,302	-	-	4,636	0.1%
TDF 2060*	3,287	3,569	-	-	6,856	0.1%
Bond Index	266,374	287,132	-	-	553,505	4.7%
Large Cap Index	796,062	908,655	-	-	1,704,717	**14.6%**
Mid Cap Index	210,974	224,224	-	-	435,198	3.7%
Small Cap Index	120,045	120,496	-	-	240,542	2.1%
International Index*	81,430	97,847	-	-	179,277	1.5%
Socially Responsible	85,666	96,996	-	-	182,663	1.6%
Bond*	93,682	95,849	-	-	189,531	1.6%
Large Cap	636,869	705,063	-	-	1,341,933	**11.5%**
Mid Cap*	499,077	560,756	-	-	1,059,832	**9.1%**
Small Cap	155,377	179,800	-	-	335,177	2.9%
International*	138,262	165,721	-	-	303,982	2.6%
Diversified Real Return	13,582	15,133	-	-	28,715	0.2%
Self-Directed Brokerage Account	301,015	306,452	-	-	607,467	**5.2%**
Balance as of 12/31/2016	$ 5,784,845	$ 5,755,897	$ 85,148	$ 31,920	$ 11,657,810	100%

†Percentages in bold face font = investments with five percent or greater of total Plan AUM
*Represents international strategy/exposure contained within this investment option

NOTE 3 INVESTMENTS (CONTINUED)

Loans Receivable

At December 31, 2016, outstanding participant loans totaled $212.3 million, with $112.3 million in the 457(b) and $100.0 million in the 401(k). These loan values are reported as loans receivable in the accompanying financial statements.

Investments Authorized by Debt Agreements

Except for the self-directed brokerage account, Plan investment options do not include individual bond issuances. Bond exposure is limited to open-end investment options provided through Amundi Investments USA LLC, T. Rowe Price Associates, Inc., and BlackRock Financial Management, Inc. through the Bond Fund and the Bond Index Fund; Janus Capital Management LLC and Wells Capital Management, Inc. through the STIF option; and Boston Trust & Investment Management Company through the Socially Responsible Fund.

Disclosure about Fair Value of Financial Instruments

Savings Plus investments are recorded at fair value as of December 31, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the Plan's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Plan utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

NOTE 3 INVESTMENTS (CONTINUED)

Disclosure about Fair Value of Financial Instruments (Continued)

The following table summarizes Savings Plus investments (in thousands) within the fair value hierarchy at December 31, 2016:

		Fair Value Measurements Using		
	At 12/31/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value				
Investment Options	$ 7,671,016	$ 5,733,161	$ 1,937,855	$ -
Self-Directed Brokerage Option	607,467	594,602	12,865	-
Short-Term Investments	1,115,494	337,032	778,462	-
Total Investments at Fair Value	9,393,977	6,664,795	2,729,182	-
Investments at Amortized Cost				
Investment Options	109,401			
Short-Term Investments	1,272,454			
Total Investments at Amortized Cost	1,381,855			
Investments at Net Asset Value				
Investment Options	881,978			
Total Investments at Net Asset Value	881,978			
Total Investments	$ 11,657,810	$ 6,664,795	$ 2,729,182	$ -

Investments in certain entities that calculate a net asset value (NAV) per share (or its equivalent) sometimes do not have a readily determinable fair value. For these investments, governmental accounting standards permit establishment of fair value using a practical expedient based on the NAV per share (or its equivalent). The following table summarizes Savings Plus investments measured at NAV (in thousands), unfunded commitments, the investment redemption frequency and redemption notice period as of December 31, 2016:

	Investments Measured at Net Asset Value			
	At 12/31/2016	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Investment Options	$ 881,978	$ -	Daily	1–3 Days
Total Investments at Net Asset Value	$ 881,978	$ -		

NOTE 3 INVESTMENTS (CONTINUED)

Securities Lending

The Plan's investment portfolio currently participates in a non-cash (bonds borrowed) securities lending program managed by JP Morgan ("Securities Lending Program"), whereby securities are loaned for the purpose of generating additional income, which is used by the Plans to offset administrative expenses. JP Morgan is responsible for making loans of securities on a collateralized basis from the Plan's investment portfolio to various third party broker-dealers and financial institutions. The fair value of the required bonds used as collateral must initially meet or exceed 102.0 percent of the fair value of the securities loaned for U.S. securities and 105.0 percent for Non-U.S. securities, providing a margin against a decline in the fair value of collateral. Collateral is marked-to-market each business day to ensure the fair value of the collateral meets the collateral requirements.

The types of securities available for loan during the year ended December 31, 2016 included U.S. Government securities, U.S. Government agencies, Corporate bonds, Non-U.S. Fixed Income, U.S. equities, and Non-U.S. equities. The contractual agreement in place at calendar year-end between the Plan and JP Morgan as the securities lending agent provides indemnification in the event the borrower fails to return the securities lent or due to borrower default. U.S. Government Securities, U.S. Government Agencies, and U.K. Gilts are received as collateral for these loans and are held in safekeeping until such time that the borrower returns the loaned assets.

Since the securities lending program is a non-cash collateral program, bonds are received as collateral on securities lending transactions. At December 31, 2016, the fair value of securities on loan was $193.9 million, the fair value of the bonds on loan was $61.8 million, totaling $255.8 million in securities lending obligations. The value of securities on loan are included within the investments in the accompanying financial statements.

Borrowers pay a fee to the Plan to borrow the securities. Revenue received by the Plan is used to help offset Plan administrative expenses. The gross securities lending revenue for the calendar year was $1.547 million, a decrease from $1.919 million in the prior year. Securities Lending fees were $0.309 million with net income of $1.237 million to the Plan.

With regard to counterparty credit risk, the Plan's bond collateral is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Plan or the borrower. Loans to an individual counterparty may not exceed 25 percent of the Plan's lendable portfolio. At December 31, 2016, there had been no losses resulting from borrower defaults and the Plan had nominal credit risk exposure to borrowers related to any potential shortfall between JP Morgan's indemnification coverage and borrower collateral.

NOTE 3 INVESTMENTS (CONTINUED)

Investment Fees

The Plan's Investment Managers charge an Investment Management fee to manage the investments. The Plan assesses a 0.05 percent annualized expense reimbursement fee against Plan assets in the 401(k) and 457(b) Plans. This fee is used to help offset Plan administrative expenses. Additionally, there is a nominal Trustee/Custodial fee for JP Morgan's trustee and custodial services. The fund expense ratio represents the summarization of these fees. The investment-related expenses are included in net appreciation of fair value of investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates could adversely affect the fair value of an investment. Since all investments are participant-directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and have responsibility for managing their exposure to fair value loss.

Investments within the Bond Fund, Bond Index Fund, STIF–Cash Fund, STIF Fund, Socially Responsible Fund, Diversified Real Return Fund, and the Target Date Funds are subject to such risk.

The following table depicts the December 31, 2016 value of investments subject to interest rate risk. These investments are unrated. The Department selects the weighted average maturity as its primary mechanism for reporting interest rate risk. Market value (in thousands) and weighted average maturity (in years) for each applicable investment and its respective fund(s) are as follows:

Investment	Fund(s)	Fair Value at 12/31/2016	Weighted Average Maturity
BlackRock Bond Index	TDF Income Fund, TDF 2015 – 2060 Funds, Bond Index Fund, Bond Fund	$ 854,837	13.42
Wells Capital Management Fixed Income	STIF Fund, TDF Income Fund, TDF 2015 – 2040 Funds	778,461	2.58
Janus Capital Management Short Duration Bond	STIF Fund, TDF Income Fund, TDF 2015-2040 Funds	847,736	2.59
Amundi Global Fixed Income	TDF Income Fund, TDF 2015-2060 Funds, Bond Fund	191,391	8.35
Boston Trust Socially Responsible Fund	Socially Responsible Fund	51,891	6.16
T. Rowe Price Core Plus Bond	TDF Income Fund, TDF 2015-2060 Funds, Bond Fund	205,324	14.31
BlackRock Government Money Market	STF-Cash Fund, TDF Income Fund, TDF 2015-2040 Funds	426,525	0.25
RBC Government Money Market	STIF-Cash Fund, TDF Income Fund, TDF 2015-2040 Funds	194,682	0.20
Northern Trust TIPS	TDF Income Fund, TDF 2015-2060 Funds, Diversified Real Return Fund	100,962	8.26
		$ 3,651,809	

NOTE 3 INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations, such as the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately to repay the principal. Credit quality is evaluated by one of the independent bond-rating agencies - for example, Moody's Investors Service ("Moody's"), Standard and Poor's ("S&P"), or Fitch Ratings ("Fitch"). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

NOTE 3 INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The following table presents the fixed income investments held within the investment options at December 31, 2016 (in thousands), categorized to give an indication of the level of credit risk assumed by Savings Plus:

	Credit Rating [1]								
Investments	AAA	AA	A	BBB	BB	B	CCC & Below	Not Rated	Fair Value
Asset Backed	$ 123,383	$ 7,258	$ -	$ 7,664	$ -	$ -	$ -	$ -	$ 138,305
CMO/REMIC	380	10,405	95	-	-	-	-	391	11,271
Commercial Mortgage Backed Securities	37,091	3,599	-	-	-	-	-	175	40,865
Corporate Bonds	19,814	67,784	339,097	624,665	158,282	8,763	854	405	1,219,664
Government Bonds	30,673	92,428	10,855	23,143	19,789	-	-	-	176,888
Mortgage Backed Securities	-	195,992	-	-	-	-	-	-	195,992
Municipal Bonds	236	5,617	16,572	2,802	-	-	-	-	25,227
STIF	-	-	-	-	-	-	-	1,373,663	1,373,663
Total	211,577	383,083	366,619	658,274	178,071	8,763	854	1,374,634	3,181,875
Other Investments Not Subject to Credit Risk [2]									8,475,935
Total Investments	$ 211,577	$ 383,083	$ 366,619	$ 658,274	$ 178,071	$ 8,763	$ 854	$ 1,374,634	$ 11,657,810

[1] When a security received split ratings between Moody's and S&P, this schedule was prepared using the rating that is indicative of the highest degree of risk.
[2] Includes obligations of the United States Government or obligations explicitly guaranteed by the United States Government, which are not considered to have credit risk and do not require disclosure of credit quality.

NOTE 3 INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Plan's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Plan's name.

All deposits of the Plan are held on behalf of the Plan by the Plan custodian in accordance with the formal deposit policy for custodial credit risk and are not exposed to custodial credit risk as defined by Governmental Accounting Standards Board Statement No. 40.

The Plans' policy for custodial credit risk requires that deposits in the Short Term Investment Fund–Cash held by Nationwide Bank, Union Bank, and Bank of Oklahoma be insured by the Federal Deposit Insurance Corporation (FDIC) (currently at $250,000 per participant account per institution). Amounts held in excess of the $250,000 FDIC limit are properly collateralized at 110 percent of the excess amount. At December 31, 2016, approximately $2.3 million of participant assets representing 580 accounts required collateralization.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates that could adversely affect the fair value of the investment. The fair value of these investments was $475,008,058 as of December 31, 2016. The individual core investment funds containing international strategies are identified in Note 3.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options. The investment percentages of Assets Under Management are identified in Note 3 with percentages that exceed 5 percent of the Plan's net position in bold font. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their position on demand and has responsibility for managing their exposure.

NOTE 4 TRANSFERS

In the Combined Statement Of Changes In Ficudicary Net Position financial statement:

The *Transfer In* values include all rollovers and transfers in, PCRA transfers in, account splits transfers in, and any corrections for these request types processed on participant accounts.

The *Transfers Out* values include all account splits, external plan-to-plan transfers, in-plan Roth rollovers, rollovers out, transfers out, and PCRA transfers out, and any corrections for these request types processed on participant accounts.

NOTE 5 PLAN TERMINATION

Although it has not expressed any intent to do so, the state has the right under the Plan to discontinue employee deferrals and to terminate the Plan. Upon termination of the Plan, benefits under the Plan would be payable as provided in the Plan documents.

NOTE 6 TAX STATUS

The IRS has determined and informed the Plan by letter dated January 12, 2010 that the 457(b) Plan and related trust are designed in accordance with Section 457 of the Internal Revenue Code (IRC), by letter dated January 11, 2017 that the 401(k) Plan and related trust are designed in accordance with Section 401 of the IRC, by letter dated January 12, 2010 that the PST Program and related trust are designed in accordance with Section 457 of the IRC, and by letter dated July 7, 2011 that ARP and related trust are designed in accordance with 401(a) of the IRC and, as such, are not subject to tax under present income tax law. The Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. Richard Gillihan, Director
and Management of State of California, Department of Human Resources Savings Plus Program
Sacramento, California

We have audited the basic financial statements of the State of California, Department of Human Resources Savings Plus Program (the Plan) as of and for the year ended December 31, 2016, and have issued our report thereon dated February 1, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Director, Plan management, and others within the Plan, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
February 1, 2018