

**SCHOLARSHARE  
ADMINISTRATIVE FUND**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

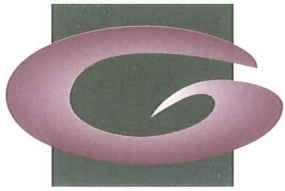
**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011**

# SCHOLARSHARE ADMINISTRATIVE FUND

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## **INDEPENDENT AUDITOR'S REPORT**

**ScholarShare Investment Board**  
**Sacramento, California**

We have audited the accompanying financial statements of the ScholarShare Administrative Fund (the Fund) of the State of California, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the ScholarShare Administrative Fund and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2011 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ScholarShare Administrative Fund of the State of California as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**October 5, 2011**

# SCHOLARSHARE ADMINISTRATIVE FUND

## BALANCE SHEET JUNE 30, 2011

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### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents in state treasury	\$ 6,935,417
Accounts receivable	214,105
Due from other funds	108,994
Interest receivable	8,537
Prepaid expenses	16,000
Capital assets, net	14,201
Total assets	<u>\$ 7,297,254</u>

### LIABILITIES

#### CURRENT LIABILITIES:

Accounts payable	\$ 255,698
Due to other funds	7,642
Accrued vacation	20,597
Total current liabilities	<u>283,937</u>

#### NONCURRENT LIABILITIES:

Accrued vacation	158,429
OPEB obligation	150,000
Total noncurrent liabilities	<u>308,429</u>
Total liabilities	<u>592,366</u>

#### NET ASSETS:

Invested in capital assets	14,201
Unrestricted	<u>6,690,687</u>
Total net assets	<u>6,704,888</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>7,297,254</u></b>
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# SCHOLARSHARE ADMINISTRATIVE FUND

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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### OPERATING REVENUES:

Fees revenue	\$ 2,418,306
Other income	<u>305</u>
Total operating revenues	<u>2,418,611</u>

### OPERATING EXPENSES:

Consultants and professional services	1,322,247
Salaries, wages, and benefits	742,668
General expenses	209,577
Printing	39,213
Travel	34,446
Facilities operation	27,015
Communications	7,921
Training	5,928
Depreciation expense	2,839
Postage	<u>1,592</u>
Total operating expenses	<u>2,393,446</u>

**OPERATING INCOME** 25,165

### NON-OPERATING REVENUE:

Interest income	<u>33,681</u>
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**CHANGE IN NET ASSETS** 58,846

**NET ASSETS, Beginning of Year** 6,646,042

**NET ASSETS, End of Year** \$ 6,704,888

# SCHOLARSHARE ADMINISTRATIVE FUND

## STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from fees	\$ 2,381,105
Receipts from other income	305
Payments to employees	(660,305)
Payments to suppliers	(1,208,669)
Net cash and cash equivalents provided by operating activities	<u>512,436</u>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Transfer to other funds	<u>(349,008)</u>
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### CASH FLOWS FROM INVESTING ACTIVITIES:

Interest receipts from Surplus Money Investment Fund	<u>34,428</u>
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**NET INCREASE IN CASH AND CASH EQUIVALENTS** 197,856

**BEGINNING CASH AND CASH EQUIVALENTS** 6,737,561

**ENDING CASH AND CASH EQUIVALENTS** \$ 6,935,417

### RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	\$ 25,165
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### ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS:

Depreciation expense	2,839
(Increase) decrease in:	
Accounts receivable	(37,201)
Prepaid expenses	204,964
Increase (decrease) in:	
Accounts payable	234,306
Accrued vacation	29,363
OPEB obligation	<u>53,000</u>
Net cash provided by operating activities	\$ <u><u>512,436</u></u>

# SCHOLARSHARE ADMINISTRATIVE FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. GENERAL

The Golden State ScholarShare College Savings Trust (the Trust) was formed by California Law in April 1999, to help individuals save for the costs of higher education. Under the Trust, an individual (Account Owner) opens an account on behalf of a designated beneficiary that the Account Owner names and the contributions can be allocated among a number of investment options. The California Law that formed the Trust also established the ScholarShare Administrative Fund (the Administrative Fund) to administer the Trust activities. The oversight of the Trust and the Administrative Fund is the responsibility of the ScholarShare Investment Board (the Board).

The Board entered into management agreements with TIAA-CREF Tuition Financing, Inc. (TFI) until November 10, 2006 and with Fidelity Brokerage Services, LLC (Fidelity) thereafter to serve as Program Managers of the Trust's accounts until the Account Owner requests funds. These accounts are not included in the financial statements of the Administrative Fund. Other auditors audit the financial statements of these accounts and a copy of the Trust's audited financial statements can be obtained from the ScholarShare Investment Board.

#### B. THE REPORTING ENTITY

These financial statements present information on the financial activities of the Administrative Fund. The Administrative Fund is a fund of the State of California and its financial information is included in the totals for the Enterprise Funds of the State of California's basic financial statements. Management's Discussion and Analysis can be found in the June 30, 2011 Comprehensive Annual Financial Report of the State of California.

#### C. BASIS OF PRESENTATION

The Administrative Fund is a public instrumentality of the State of California and is treated as an Enterprise Fund. The accrual basis of accounting is utilized whereby revenues are recorded when earned and expenses are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a governmental entity, the Administrative Fund follows the accounting standard hierarchy established by the GASB. However, since the Administrative Fund operates proprietary activities, which are usually thought to be business-type activities (enterprise fund accounting), applicable statements and interpretations of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 may apply unless they conflict with or contradict GASB pronouncements. The Administrative Fund has elected not to apply FASB pronouncements issued after November 30, 1989.

#### D. ACCOUNTS RECEIVABLE

Receivables consist of administrative fees and interest earned on investments.

# SCHOLARSHARE ADMINISTRATIVE FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### E. PREPAID EXPENSES

Payments made for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

### F. INTERFUND TRANSACTIONS

Interfund receivables and payables typically result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system or (3) payments between funds are made. As of June 30, 2011, the interfund receivables and payables are indicative of short-term cash flow borrowings.

At June 30, 2011 the Administrative Fund has an amount due to the State Department of General Services Revolving Fund of \$7,633 and an amount due to the State General Fund of \$9 for expenses paid by the funds on behalf of the Administrative Fund.

At June 30, 2011 the Administrative Fund had an amount due from the Governor's Scholarship Programs, General Fund (Program) of \$108,994 for expenses paid by the Administrative Fund on behalf of the Program.

### G. CAPITAL ASSETS AND DEPRECIATION

Capital assets are defined as assets with a useful life of at least one year and a unit acquisition cost of at least \$5,000. Equipment is depreciated using the straight-line method over five years.

### H. REVENUES

Monthly, the Administrative Fund collects from the Trust fund a fee for the purpose of paying for its operating costs associated with administering the Trust. In addition, the Administrative Fund earns interest on its funds pooled with the State of California's Surplus Money Investment Fund.

The Administrative Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the administration of trust activities.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

### I. VACATION AND SICK LEAVE

The accrued liability for the vacation compensation is recognized as an expenditure and liability in the Administrative Fund's financial statements. Additionally, accumulated sick-leave balances are not recorded as compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.



# SCHOLARSHARE ADMINISTRATIVE FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### J. RISK MANAGEMENT

The Administrative Fund is a fund of the State of California, which is primarily self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs or it becomes fixed and determinable. The Administrative Fund has not had any claims subject to this coverage. Additional disclosures are presented in the basic financial statements of the State of California.

### K. USES OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

## 2. CASH AND CASH EQUIVALENTS IN STATE TREASURY

The Administrative Fund considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents in state treasury at June 30, 2011 were as follows:

Deposits in Surplus Money Investment Fund	\$ 6,935,000
Cash in State Treasury	268
General Cash	<u>149</u>
Cash and Cash Equivalents in State Treasury	<u>\$ 6,935,417</u>

The investments held must be allowable under California Government Code Section 53601. Allowable investments are as follows:

- Passbook Savings Account Demand Deposits
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies
- Securities of the U.S. Government, or its agencies
- Bankers' Acceptances
- Commercial Paper
- Medium Term Corporate Notes
- Investments in Repurchase Agreements
- Local Agency Investment Fund (State Pool) Demand Deposits

# SCHOLARSHARE ADMINISTRATIVE FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The Administrative Fund invests excess cash funds in the Surplus Money Investment Fund (SMIF). All of the resources of SMIF are invested through the Pooled Money Investment Account (PMIA). The PMIA investment program is designated by the Pooled Money Investment Board and is administered by the office of the State Treasurer. As of June 30, 2011, the Administrative Fund has invested funds in SMIF in the amount of \$6,935,000.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 3, No. 31, and No. 40, regarding cash deposits and investments are presented in the financial statements of the State of California for the year ended June 30, 2011.

### 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets, being depreciated:				
Equipment	\$ 26,080	\$ -	\$ -	\$ 26,080
Less accumulated depreciation for:				
Equipment	(9,040)	(2,839)	-	(11,879)
Total capital assets, being depreciated	<u>\$ 17,040</u>	<u>\$ (2,839)</u>	<u>\$ -</u>	<u>\$ 14,201</u>

### 4. ACCRUED VACATION

Administrative Fund employees are granted vacation and sick leave in varying amounts, depending upon the employee. These hours are accrued for all employees on the basis of monthly payrolls. Upon separation, employees are paid for accumulated vacation days up to specified limits. Accrued vacation and sick leave follow State employees from agency to agency and are not necessarily earned since the inception of the Administrative Fund. Accrued vacation activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Accrued vacation	\$ 149,663	\$ 49,960	\$ (20,597)	\$ 179,026	\$ 20,597

# SCHOLARSHARE ADMINISTRATIVE FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### 5. DEFINED BENEFIT PLAN

Eligible Administrative Fund employees participate in the California Public Employees' Retirement System of the State of California (CalPERS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for participating State and Local Government Agencies. Since all State agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund's employees cannot be determined. The significant actuarial assumptions used to compute the actuarially determined State contribution requirements are the same as those used to compute the State pension benefit obligation as defined by CalPERS. The State charges the Administrative Fund for its share of the required contributions. For the year ended June 30, 2011, the Administrative Fund's contributions to CalPERS were \$80,409. Participant contributions range from zero to six percent of their salary depending on the tier of participation.

Generally, full-time and permanent part-time employees are eligible to participate in CalPERS. Depending upon the plan option selected, benefits vest after five or ten years of service. Participants are eligible for service retirement after age 50 or 55 and must have five or ten years of CalPERS credited service, depending upon the tier of participation. Upon retirement, participants are entitled to an annual retirement benefit payable monthly for life based on their highest average monthly salary over any 12-month period within their last 36 months of employment, times a benefit factor of .50 to 2.418 percent depending on retirement age, years of credited service and the tier of participation. CalPERS also provides death and disability benefits to covered participants. These benefit provisions and all other requirements are established and may be amended by State statute.

CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 25, No. 27, and No. 50, regarding the defined benefit plan are presented in the financial statements of the State of California for the year ended June 30, 2011.

# SCHOLARSHARE ADMINISTRATIVE FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The State of California (the State) provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer. A portion of the State's post-retirement benefit costs have been allocated to the Administrative fund as follows:

Annual required contribution	\$ 83,000
Interest on net OPEB obligation	7,000
Adjustment to annual required contribution	<u>(6,000)</u>
Annual OPEB cost (expense)	84,000
Contributions made	<u>(31,000)</u>
Increase in net OPEB obligation	53,000
Net OPEB obligation – beginning of year	<u>97,000</u>
Net OPEB obligation – end of year	<u>\$ 150,000</u>

Additional disclosure detail required by Government Accounting Standards Board Statement No. 45, regarding post-retirement benefits are presented in the financial statements of the State of California for the year ended June 30, 2011.