

**GOVERNOR'S SCHOLARSHIP
PROGRAMS, GENERAL FUND**

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

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

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<ul style="list-style-type: none">• Personnel• Operating	

INDEPENDENT AUDITOR'S REPORT

**ScholarShare Investment Board
Sacramento, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the Governor's Scholarship Programs, General Fund (the Programs), a program within the General Fund of the State of California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Programs' basic financial statements as listed in the 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.

Auditor's Responsibility

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 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 auditor's 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governor's Scholarship Programs, General Fund of the State of California as of June 30, 2016, and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Programs' basic financial statements. The Budgetary Comparison Schedule – Legal Basis, and the Schedule of Expenditures – Fund Basis, are presented for purposes of additional analysis and are not a required part of the financial statements.

The Budgetary Comparison Schedule – Legal Basis, and the Schedule of Expenditures – Fund Basis, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule – Legal Basis, and the Schedule of Expenditures – Fund Basis are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Governor's Scholarship Programs, General Fund are intended to present the financial position, and the change in financial position of the Governor's Scholarship Programs, General Fund of the State of California that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Gilbert Associates, Inc.

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

October 17, 2016

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

BALANCE SHEET JUNE 30, 2016

ASSETS:

Due from Other Funds	\$ <u>99,080</u>
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LIABILITIES:

Due to Other Funds	\$ <u>99,080</u>
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Fund Balance	<u>-</u>
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Total Liabilities and Fund Balance	\$ <u>99,080</u>
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GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE FISCAL YEAR ENDED JUNE 30, 2016

EXPENDITURES:

Scholarship Activities:

Personnel	\$ 39,785
Operating	<u>199,154</u>
Total Expenditures	238,939

Transfers In from Other Funds	<u>238,939</u>
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Changes in Fund Balance	<u>-</u>
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FUND BALANCE:

Beginning of the Year	<u>-</u>
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End of the Year	<u>\$ -</u>
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GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1. DEFINITION OF THE REPORTING ENTITY

The Governor's Scholarship Programs, General Fund (the Programs) was established by Chapter 404 (S.B. 1688), on September 12, 2000, and provides eligible California public high school students with scholarship awards. These financial statements present only financial information on the activities of the Programs, which are programs within the State of California's General Fund. As programs of the State of California's General Fund, the related financial information is included in the totals for the State's basic financial statements.

Effective calendar year 2003 and subsequent, the Programs' awards were not funded and the Programs were not statutorily allowed to grant awards to students for exams taken after December 31, 2002. Currently, the awards for test years 2000, 2001, and 2002 may no longer be claimed. The Programs will continue to receive funding for administration of awards claimed for test years 2000, 2001, and 2002.

The Programs offered two merit-based scholarship awards. The first award was the Governor's Scholars Award, which provided \$1,000 scholarships to students who demonstrated high academic achievement on various exams in the Standardized Testing and Reporting Programs in the 9th, 10th, and 11th grades. The second award was the Governor's Distinguished Mathematics and Science Scholars Award, which provided \$2,500 scholarships to public high school students who attained required scores on Advanced Placement, International Baccalaureate, or Golden State exams.

The Programs are administered by the ScholarShare Investment Board (the Board). When a student claimed an award, an account was established with the State of California as the account owner and the student as the beneficiary. These trust accounts are maintained by the Program Manager for the Programs, currently TIAA-CREF Tuition Financing, Inc. (TFI), until funds are disbursed. These trust funds maintained by TFI are not included in the Programs' financial statements. The financial statements of these trust accounts are audited by other auditors and a copy of the audited financial statements can be obtained from the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Programs conform to generally accepted accounting principles as applicable to governments. The following is a summary of significant accounting policies:

A. FUND ACCOUNTING

The accounts of the Programs are maintained in accordance with the principles of fund accounting under standards issued by the Governmental Accounting Standards Board (GASB). Fund accounting is the procedure by which resources for various Programs are classified for accounting and reporting into funds established in accordance with their nature and purpose. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, expenditures, and transfers.

The Programs' operating fund, as Programs of the State of California's General Fund, is a governmental fund type.

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

B. BASIS OF ACCOUNTING/ FUND FINANCIAL STATEMENTS

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Financial statements are provided for the Programs' operating fund, governmental fund type. This governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

C. BUDGETS AND BUDGETARY ACCOUNTING

For the fiscal year 2015-2016, the Programs' budget appropriation was \$360,000. The level of legal expenditure control is the current budget appropriation.

The accompanying Budgetary Comparison Schedule - Legal Basis, included as supplementary information in this report, is compiled using the State of California's legal basis accounting practices. The accounting records of the Programs are compiled using the legal basis to maintain budgetary accountability for the Programs' appropriation. After legal basis financial reports are prepared, adjustments are made to convert the legal basis financial reports to financial statements that conform to generally accepted accounting principles.

The primary difference between legal basis accounting practices and generally accepted accounting principles is the treatment of encumbrances and year-end accruals.

Encumbrances represent goods or services that are ordered but not yet received by the end of a fiscal year. They are recorded as expenditures using the legal basis. They are reported as a reservation of fund balance using generally accepted accounting principles.

D. FUND TRANSFERS

Pursuant to former Education Code Section 69996, if, due to death or disability, an award recipient is unable to attend an institution of higher education before reaching the age of 30 and the scholarship funds have not already been used, the scholarship funds designated for the recipient are reverted by the Board from the Trust to the General Fund.

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

E. RISK MANAGEMENT

The Programs are part of the State of California's General Fund, 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 Programs have not had any claims subject to this coverage. Additional disclosures are presented in the financial statements of the State of California.

F. USE 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.

3. CAPITAL ASSETS

Capital assets held for use by the Program, which include equipment, are not reported in the Program's fund financial statements as they do not meet the criteria of recognition using the current financial resources measurement focus and the modified accrual basis of accounting. 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 ten years.

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets, being depreciated:				
Equipment	\$ 34,500	\$ -	\$ -	\$ 34,500
Less accumulated depreciation for:				
Equipment	<u>(34,500)</u>	<u>-</u>	<u>-</u>	<u>(34,500)</u>
Total capital assets, being depreciated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

4. INTERFUND PAYABLES AND RECEIVABLES

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, 2016, the interfund receivables and payables are indicative of short-term cash flow borrowings. The amounts due to ScholarShare Administrative Fund are for expenses paid by the Administrative Fund on behalf of the Programs. The following schedule briefly summarizes the amounts due to/from other funds at June 30, 2016:

Due From:

General Fund	\$ <u>99,080</u>
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Due To:

ScholarShare Administrative Fund	\$ <u>99,080</u>
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SUPPLEMENTAL INFORMATION

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

BUDGETARY COMPARISON SCHEDULE - LEGAL BASIS

(SEE NOTE 2 C)

JUNE 30, 2016

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
FUNDS AVAILABLE:				
General Fund Appropriation - State				
Operations	\$ 365,000	\$ 360,000	\$ 99,080	\$ (260,920)
Expired Unclaimed Scholarships	-	-	139,859	139,859
	-	-	139,859	139,859
Total Funds Available	\$ 365,000	\$ 360,000	\$ 238,939	\$ (121,061)
EFFECT OF OPERATIONS:				
Expenditures				
Personnel	\$ 73,340	\$ 69,340	\$ 39,785	\$ 29,555
Operating	291,660	290,660	199,154	91,506
	291,660	290,660	199,154	91,506
Total Expenditures	365,000	360,000	238,939	121,061
Transfers In	365,000	360,000	238,939	\$ (121,061)
Net Effect of Operations	\$ -	\$ -	\$ -	

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

SCHEDULE OF EXPENDITURES - FUND BASIS

JUNE 30, 2016

PERSONNEL EXPENDITURES:

Salaries and Wages	\$ 22,949
Staff Benefits	<u>16,836</u>
Total Personnel Expenditures	<u>\$ 39,785</u>

OPERATING EXPENDITURES:

Consultants/Professional Services- External	\$ 199,000
Communications	<u>154</u>
Total Operating Expenditures	<u>\$ 199,154</u>