

**SCHOLARSHARE
ADMINISTRATIVE FUND**

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

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

SCHOLARSHARE ADMINISTRATIVE FUND

TABLE OF CONTENTS JUNE 30, 2015

| | <u>PAGE</u> |
|---|--------------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| Balance Sheet | 8 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position | 9 |
| Statement of Cash Flows | 10 |
| Notes to Financial Statements | 11 |

INDEPENDENT AUDITOR'S REPORT

**ScholarShare Investment Board
Sacramento, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the ScholarShare Administrative Fund (the Administrative Fund) of the State of California, as of and for the year ended June 30, 2015, and the related notes to the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ScholarShare Administrative Fund of the State of California, as of June 30, 2015, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the ScholarShare Administrative Fund adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

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, 2015 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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.

Gilbert Associates, Inc.

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

October 6, 2015

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2015

This section of the ScholarShare Investment Board's (SIB or Board) annual financial statements for the ScholarShare Administrative Fund (Fund) presents management's discussion and analysis of the Fund's financial performance during the fiscal year that ended June 30, 2015. Read it in conjunction with the financial statements that follow this section.

GENERAL BACKGROUND, OVERVIEW AND PROGRAMS

The California Legislature authorized creation of the Golden State ScholarShare College Savings Trust (Trust) in 1997 (Education Code Sections 69980-69994 (Act), establishing a "qualified tuition program" as defined in Section 529 (Section 529 of the Internal Revenue Code of 1986, as amended (Code))). The Act authorizes Trust investments for a specific beneficiary's advance savings for qualified higher education expenses at an eligible educational institution. The Board is the State entity responsible for administering the State's qualified tuition program, the ScholarShare 529 College Savings Plan (Plan).

The Act authorizes SIB to collect administrative fees in connection with transactions of the Plan. The fees collected make up the ScholarShare Administrative Fund (Fund). The Fund is used, upon appropriation by the State Legislature, for the purposes specified in the Act. This self-funding structure allows SIB to fund services as required in the Act, such as investments, marketing, and administrative services related to the Plan, including operating costs, without cost to the State's General Fund. All fees are deposited into the Fund and all expenses are paid from the Fund pursuant to the Act. In addition, interest earned from the investment of the Fund in the State's Surplus Money Investment Fund is deposited directly into the Fund.

FINANCIAL HIGHLIGHTS

- Total net position was \$5,045,271.
- Operating revenues were \$999,149.
- The total cost of operations was \$2,174,665.

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2015

OVERVIEW OF REQUIRED FINANCIAL STATEMENTS

The financial statements of the Fund present information as an Enterprise Fund which uses accounting methods similar to those used by private sector companies. The financial statements include a Balance Sheet; Statement of Revenues, Expenses and Changes in Fund Net Position; Statement of Cash Flows; and notes to the financial statements.

- The *Balance Sheet* includes all of the Fund's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for the year ended June 30, 2015 and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's creditors (liabilities) (see Table 1).

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--|----------------------|----------------------|
| <i>Assets and Deferred Outflows of Resources</i> | | |
| Current Assets | \$ 7,075,130 | \$ 8,484,263 |
| Deferred Outflows of Resources | 151,704 | |
| Total Assets and Outflows of Resources | <u>\$ 7,226,834</u> | <u>\$ 8,484,263</u> |
| <i>Liabilities and Deferred Inflows of Resources</i> | | |
| Current Liabilities | \$ 187,551 | \$ 421,023 |
| Non-Current Liabilities | 1,772,258 | 535,797 |
| Deferred Inflows of Resources | 221,754 | |
| Total Liabilities and Deferred Inflows of Resources | <u>\$ 2,181,563</u> | <u>\$ 956,820</u> |
| Net Position | <u>5,045,271</u> | <u>\$ 7,527,443</u> |
| Total Net Position | <u>\$ 5,045,271</u> | <u>\$ 7,527,443</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 7,226,834</u> | <u>\$ 8,484,263</u> |

The Fund's total liabilities, deferred inflows of resources, and net position were \$7,226,834 as of June 30, 2015. This total includes the addition of (1) the net pension liability, in the amount of \$1,189,895, included in non-current liabilities, and (2) the deferred inflows of resources, in the amount of \$221,754, as required pursuant to implementation of GASB Statement 68 (GASB 68) and GASB Statement 71 (GASB 71) in fiscal year 2014-2015.

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2015

- The *Statement of Revenues, Expenses, and Changes in Fund Net Position* accounts for all revenues earned and expenses incurred by the Fund for the year ended June 30, 2015. This statement reflects the results of the Fund's operations over the year (see Table 2).

| | <u>FY 2014-15</u> | <u>FY 2013-14</u> |
|---------------------------------------|-------------------|-------------------|
| Operating Revenues | | |
| Fees Revenue | \$ 999,149 | \$ 1,526,300 |
| Total Operating Revenues | \$ 999,149 | \$ 1,526,300 |
| Operating Expenses | | |
| Operating Expenses | \$ 2,174,665 | \$ 2,080,383 |
| Total Operating Expenses | \$ 2,174,665 | \$ 2,080,383 |
| Non-Operating Revenue | | |
| Interest Income | \$ 19,164 | \$ 20,085 |
| Total Non-Operating Revenue | \$ 19,164 | \$ 20,085 |
| Change in Net Position | \$ (1,156,352) | \$ (533,998) |
| Net Position – Beginning, as restated | \$ 6,201,623 | \$ 8,061,441 |
| Net Position – Ending | \$ 5,045,271 | \$ 7,527,443 |

In fiscal year 2014-2015, the Fund's change in net position was \$(1,156,352). This increased change in net position is a result of a \$527,151 decrease in total operating revenue and a \$94,282 increase in total operating expenses from the prior year.

In fiscal year 2014-2015, the fees revenues during the fiscal year represented a full year of reduced total administrative fees collected by the Fund which was initiated beginning in November 2013.

Similarly, total operating expenses increased during the fiscal year when compared to the prior fiscal year. Reasons for this increase include increases in personal services due to the fulfillment of staff vacancies and increases in travel, facilities operation, printing, and communication.

The difference between the ending net position for FY 2013-2014 and the beginning net position for fiscal year 2014-2015 can be attributed to implementation of GASB 68 and GASB 71, which required retrospective application to the beginning Net Position as of June 30, 2015.

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2015

- The *Statement of Cash Flows* provides information about the Fund's cash receipts and cash payments during the year ended June 30, 2015. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, noncapital financing and investment activities. The statement provides answers to questions of where cash came from, what cash was used for, and what caused changes in cash for the reporting period covered (see Table 3).

| | <u>FY 2014-15</u> | <u>FY 2013-14</u> |
|---|--------------------------|--------------------------|
| <i>Cash Flows</i> | | |
| Cash Flows from Operating Activities | \$ (1,367,005) | \$ (275,971) |
| Cash Flows from Investing Activities | <u>19,019</u> | <u>20,410</u> |
| Net Decrease in Cash and Cash Equivalents | \$ <u>(1,347,986)</u> | \$ <u>(255,561)</u> |
| Beginning Cash and Cash Equivalents | \$ <u>8,166,527</u> | \$ <u>8,422,088</u> |
| Ending Cash and Cash Equivalents | \$ <u>6,818,541</u> | \$ <u>8,166,527</u> |

The net decrease in cash and cash equivalents of \$1,347,986, which is a decrease of \$1,092,425 from the prior fiscal year, is due to the overall decrease in total operating revenues during fiscal year 2014-2015. The decrease in total operating revenues from the prior year is due to the decrease in fees revenue as a result of the elimination of the state administrative fee collected by the Fund for each of the passively-managed portfolios in the Plan and effective beginning in November 2013. Fiscal year 2014-2015 reflects the first full year of the fee reduction that took place during fiscal year 2013-2014.

- The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2015

FACTORS BEARING ON THE ENTITY NAME'S FUTURE

The Fund's operating revenues are directly related to the assets invested in the Plan. A number of factors affect these assets including, but not limited to, market conditions; the rate and amount of contributions from new and existing Plan participants, which may depend on the economic downturn from both a State and national perspective, as well as other issues such as unemployment; and withdrawals from Plan participants either for qualified and non-qualified expenses or rollovers out of the Plan. Anticipation of these factors remains unknown and may result in an increase or decrease in the Fund's operating revenues in future years.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fund's financial position and is intended for distribution to a variety of interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, ScholarShare Investment Board, 915 Capitol Mall, Room 105, Sacramento, California 95814.

SCHOLARSHARE ADMINISTRATIVE FUND

BALANCE SHEET JUNE 30, 2015

ASSETS

CURRENT ASSETS:

| | |
|---|------------------|
| Cash and cash equivalents in state treasury | \$ 6,818,541 |
| Accounts receivable | 177,157 |
| Due from other funds | 74,526 |
| Interest receivable | 4,906 |
| Total assets | <u>7,075,130</u> |

DEFERRED OUTFLOWS OF RESOURCES:

| | |
|--|----------------|
| Pension contributions subsequent to the measurement date | <u>151,704</u> |
|--|----------------|

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 7,226,834

LIABILITIES

CURRENT LIABILITIES:

| | |
|---------------------------|----------------|
| Accounts payable | \$ 147,433 |
| Due to other funds | 2,566 |
| Accrued vacation | 37,552 |
| Total current liabilities | <u>187,551</u> |

NONCURRENT LIABILITIES:

| | |
|------------------------------|------------------|
| Accrued vacation | 115,363 |
| OPEB obligation | 467,000 |
| Net Pension Liability | 1,189,895 |
| Total noncurrent liabilities | <u>1,772,258</u> |

Total liabilities 1,959,809

DEFERRED INFLOWS OF RESOURCES:

| | |
|---|----------------|
| Net differences between projected and actual earnings on the plan investments | <u>221,754</u> |
|---|----------------|

NET POSITION:

| | |
|--------------|------------------|
| Unrestricted | <u>5,045,271</u> |
|--------------|------------------|

**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND NET POSITION** \$ 7,226,834

SCHOLARSHARE ADMINISTRATIVE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE FISCAL YEAR ENDED JUNE 30, 2015

OPERATING REVENUES:

| | |
|--------------|------------|
| Fees revenue | \$ 999,149 |
|--------------|------------|

OPERATING EXPENSES:

| | |
|---------------------------------------|------------|
| Salaries, wages, and benefits | 1,040,349 |
| Consultants and professional services | 962,937 |
| Travel | 63,382 |
| Facilities operation | 50,409 |
| General expenses | 39,967 |
| Printing | 7,783 |
| Communications | 3,967 |
| Training | 2,710 |
| Depreciation expense | 2,839 |
| Postage | <u>322</u> |

| | |
|--------------------------|------------------|
| Total operating expenses | <u>2,174,665</u> |
|--------------------------|------------------|

| | |
|-----------------------|--------------------|
| OPERATING LOSS | (1,175,516) |
|-----------------------|--------------------|

NON-OPERATING REVENUE:

| | |
|-----------------|---------------|
| Interest income | <u>19,164</u> |
|-----------------|---------------|

| | |
|-------------------------------|--------------------|
| CHANGE IN NET POSITION | (1,156,352) |
|-------------------------------|--------------------|

| | |
|---|------------------|
| NET POSITION, Beginning of Year, as restated (Note 1L) | <u>6,201,623</u> |
|---|------------------|

| | |
|----------------------------------|---------------------|
| NET POSITION, End of Year | <u>\$ 5,045,271</u> |
|----------------------------------|---------------------|

SCHOLARSHARE ADMINISTRATIVE FUND

STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|--------------------|
| Receipts from fees | \$ 978,337 |
| Receipts from interfund services provided | 79,265 |
| Payments to employees | (1,109,485) |
| Payments to suppliers | (991,989) |
| Payments for interfund services used | <u>(323,133)</u> |
| Net cash used by operating activities | <u>(1,367,005)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|--|---------------|
| Interest receipts from Surplus Money Investment Fund | <u>19,019</u> |
|--|---------------|

NET DECREASE IN CASH AND CASH EQUIVALENTS (1,347,986)

BEGINNING CASH AND CASH EQUIVALENTS 8,166,527

ENDING CASH AND CASH EQUIVALENTS \$ 6,818,541

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED

BY OPERATING ACTIVITIES:

| | |
|----------------------------|----------------|
| Operating income (deficit) | \$ (1,175,516) |
|----------------------------|----------------|

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET

CASH USED BY OPERATIONS:

| | |
|---------------------------------------|-----------------------|
| Depreciation expense | 2,839 |
| (Increase) decrease in: | |
| Accounts receivable | (20,812) |
| Due from other funds | 79,265 |
| Deferred outflows related to pensions | (151,704) |
| Increase (decrease) in: | |
| Accounts payable | (176,359) |
| Due to other funds | (7,286) |
| Accrued vacation | (105,261) |
| OPEB obligation | 102,000 |
| Net pension liability | (135,925) |
| Deferred inflows related to pensions | <u>221,754</u> |
| Net cash used by operating activities | <u>\$ (1,367,005)</u> |

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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, with Fidelity Brokerage Services, LLC (Fidelity) until November 6, 2011, and with TFI 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.

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.

D. ACCOUNTS RECEIVABLE

Receivables consist of administrative fees collected and interest earned on investments.

E. 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 expenses occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2015, the interfund receivables and payables are indicative of short-term cash flow borrowings.

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

At June 30, 2015, the Administrative Fund had an amount due to the State Department of General Services Revolving Fund of \$294 and an amount due to the State General Fund of \$27 for expenses paid by the funds on behalf of the Administrative Fund. In addition, the Administration Fund had an amount due to the State Compensation Insurance Fund of \$2,245 for insurance premiums.

At June 30, 2015, the Administrative Fund had an amount due from the Governor's Scholarship Programs, General Fund (Program) of \$74,526 for expenses paid by the Administrative Fund on behalf of the Program.

F. 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.

G. PENSION

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Administrative Fund's portion of the California Public Employees' Retirement System (CalPERS) Miscellaneous plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 positions are available, unrestricted resources are used only after the restricted resources are depleted.

I. VACATION AND SICK LEAVE

The accrued liability for the vacation compensation is recognized as an expense 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, 2015

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.

L. CURRENT GASB IMPLEMENTATION

For the year ended June 30, 2015, the Administrative Fund implemented GASB Statement 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, with required implementation for the Administrative Fund during the year ended June 30, 2015. GASB 68 is an amendment of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB 71 is an amendment of GASB 68. The primary objectives of GASB 68 and 71 are to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. They require employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Since GASB 68 and 71 requires retroactive application, the net pension liability offset by the related deferred outflow of resources as of June 30, 2014 reduces the beginning net position as of June 30, 2015. As a result, for the year ended June 30, 2015, the beginning net position decreased by \$1,325,820 as the cumulative effect of changing in accounting principles.

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, 2015 were as follows:

| | |
|---|---------------------|
| Deposits in Surplus Money Investment Fund | \$ 6,818,000 |
| Cash in State Treasury | <u>541</u> |
| Cash and Cash Equivalents in State Treasury | <u>\$ 6,818,541</u> |

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

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, 2015, the Administrative Fund has invested funds in SMIF in the amount of \$6,818,000.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 3, No. 31, and No. 40, regarding cash deposits and investments is presented in the financial statements of the State of California for the year ended June 30, 2015.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

| | <u>Balance</u> <u>July 1, 2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2015</u> |
|---|---------------------------------------|-------------------|-------------------|--|
| Capital assets, being depreciated: | | | | |
| Equipment | \$ 26,080 | | | \$ 26,080 |
| Less accumulated depreciation for: | | | | |
| Equipment | (23,241) | \$ (2,839) | | (26,080) |
| Total capital assets, being depreciated | <u>\$ 2,839</u> | <u>\$ (2,839)</u> | <u>\$</u> | <u>\$</u> |

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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, 2015, was as follows:

| | <u>Balance</u> <u>June 30, 2014</u> | <u>Transfers</u> <u>from/to</u> <u>Other</u> <u>State</u> <u>Agencies</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2015</u> | <u>Due</u> <u>Within</u> <u>One Year</u> |
|------------------|--|---|------------------|-------------------|--|--|
| Accrued vacation | \$ 258,176 | \$ 34,370 | \$ 58,100 | \$ (197,730) | \$ 152,915 | \$ 37,552 |

5. RETIREMENT PLAN

All eligible Administrative Fund employees participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's (State) Comprehensive Annual Financial Report as a fiduciary component unit. CalPERS administers the Public Employees' Retirement Fund (PERF).

PERF is an agent multiple-employer defined benefit retirement plan. Funds, departments and agencies within the State, including ScholarShare, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State funds/agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

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, 2015, the contributions recognized as part of pension expense was \$101,728.

Generally, full-time and permanent part-time employees are eligible to participate in CalPERS. The benefits for the Plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five or ten years of credited service.

The Administrative Fund's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. ScholarShare's proportion of the net pension liability was based on the State Controller's Office (SCO) projection for the Administrative Fund. The SCO identified a total of 29 entities that are reported in the State's CAFR which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

organizations, that have State employees with pensionable compensation (covered payroll). The SCO calculated and provided these funds/organizations with their allocated pensionable compensation percentages by plan. The Administrative Fund's proportionate share of the net pension liability for the Plan as of June 30, 2014 was 0.0047%.

As of June 30, 2015, the Administrative Fund reported net pension liabilities for its proportionate shares of the Plan's net pension liability of \$1,189,895.

For the year ended June 30, 2015, the Administrative Fund recognized pension expense of \$85,829. At June 30, 2015, the Administrative Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$ 151,704 | |
| Net differences between projected and actual earnings on plan investments | | \$ 221,754 |
| Total | <u>\$ 151,704</u> | <u>\$ 221,754</u> |

\$151,704 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Year Ended June 30</u> | |
|-------------------------------|---------------------|
| 2016 | \$ (55,439) |
| 2017 | (55,439) |
| 2018 | (55,438) |
| 2019 | <u>(55,438)</u> |
| Total | <u>\$ (221,754)</u> |

Additional disclosure detail required by Government Accounting Standards Board Statement No. 68, regarding the defined benefit plan are presented in the Comprehensive Annual Financial Report for the year ended June 30, 2015, which is available on the State Controllers website at www.sco.ca.gov.

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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 | \$ 162,000 |
| Interest on net OPEB obligation | 26,000 |
| Adjustment to annual required contribution | <u>(24,000)</u> |
| Annual OPEB cost (expense) | 164,000 |
| Contributions made | <u>(62,000)</u> |
| Increase in net OPEB obligation | 102,000 |
| Net OPEB obligation – beginning of year | <u>365,000</u> |
| Net OPEB obligation – end of year | <u>\$ 467,000</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, 2015.