

**GOLDEN STATE SCHOLARSHARE COLLEGE SAVINGS TRUST
GOVERNOR'S SCHOLARSHIP PROGRAMS**

Financial Statements

June 30, 2015



Independent Auditor's Report

To Management of TIAA-CREF Tuition Financing, Inc.:

We have audited the accompanying basic financial statements of the Governor's Scholarship Programs (the "GSP"), which comprise the Statement of Fiduciary Net Position as of June 30, 2015 and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider internal control relevant to the GSP'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 GSP'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 the Governor's Scholarship Programs, as of June 30, 2015, and the changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying management's discussion and analysis on pages 4 through 5 are required by accounting principles generally accepted in the United States of America 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.

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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 August 17, 2015 on our consideration of the GSP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 GSP's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

August 17, 2015

**GOLDEN STATE SCHOLARSHARE COLLEGE SAVINGS TRUST
GOVERNOR'S SCHOLARSHIP PROGRAMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)**

As the provider of program management services for the Governor's Scholarship Programs ("GSP") of the Golden State ScholarShare College Savings Trust (the "Trust"), TIAA-CREF Tuition Financing, Inc. ("TFI") offers readers of the GSP's financial statements this discussion and analysis of the financial performance for the fiscal year ended June 30, 2015. Readers should consider the information presented in this section in conjunction with the GSP's financial statements and notes to financial statements. The GSP is comprised of a single investment portfolio (the "Portfolio") in which the GSP funds are invested.

Financial Highlights

During the fiscal year ended June 30, 2015, the GSP earned \$0.1 million of interest income on its investment.

During the fiscal year ended June 30, 2015, the GSP beneficiaries redeemed \$2.7 million, and \$18.2 million was forfeited.

As of June 30, 2015, the unfunded obligation of the GSP was \$37.6 million. The ScholarShare Investment Board believes the remaining balance in the GSP of \$3.7 million as of June 30, 2015 will adequately fund all remaining award withdrawals.

Overview of the Financial Statements

The GSP's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, as amended.

This report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements are composed of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position, and Notes to Financial Statements that explain some of the information in the financial statements and provide more detailed information.

The Statement of Fiduciary Net Position presents information on the GSP's assets and liabilities, with the difference between the two reported as net position as of June 30, 2015. This statement, along with all of the GSP's financial statements, is prepared using the accrual basis of accounting. Redemptions are recognized on trade date; expenses and liabilities are recognized when services are provided, regardless of when cash is disbursed.

The Statement of Changes in Fiduciary Net Position presents information showing how the GSP's assets changed during the most recent year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future years.

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

This report presents the operating results and financial status of the GSP, which the State of California reports as a fiduciary fund. Fiduciary fund reporting is used to account for resources held for the benefit of parties outside the governmental entity.

Financial Analysis

Net position. The following are the condensed Statements of Fiduciary Net Position as of June 30, 2015 and 2014:

	2015	2014
Investments	\$ 3,652,186	\$ 6,319,817
Receivable	9,398	39,362
Total Assets	\$ 3,661,584	\$ 6,359,179
Total Liabilities	9,398	39,362
Net Position	\$ 3,652,186	\$ 6,319,817

Net position represents total contributions, plus the net increases (decreases) from operations, less withdrawals and expenses.

Investments are 100% of total net position, and consist of a single Portfolio, which is the Funding Agreement issued by TIAA-CREF Life Insurance Company to the Trust on behalf of the GSP. Receivables consist of investments sold and accrued income. Liabilities consist of payables for investments purchased and withdrawals.

Changes in net position. The following are the condensed Statements of Changes in Fiduciary Net Position for the years ended June 30, 2015 and 2014:

	2015	2014
Additions		
Investment income	\$ 53,850	\$ 79,784
Total Additions	53,850	79,784
Deductions		
Redemptions – Beneficiaries	(2,721,481)	(3,619,795)
Total Deductions	(2,721,481)	(3,619,795)
Changes in Net Position	(2,667,631)	(3,540,011)
Net Position – beginning of year	6,319,817	9,859,828
Net Position – end of year	\$ 3,652,186	\$ 6,319,817

**GOLDEN STATE SCHOLARSHARE COLLEGE SAVINGS TRUST
GOVERNOR'S SCHOLARSHIP PROGRAMS
STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2015

ASSETS

Investment (cost: \$3,652,186)	\$ 3,652,186
Receivable - TIAA-CREF Life Insurance Company	9,398
TOTAL ASSETS	<u>3,661,584</u>

LIABILITIES

Payable – Beneficiaries	9,398
TOTAL LIABILITIES	<u>9,398</u>

NET POSITION	<u><u>\$ 3,652,186</u></u>
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See notes to financial statements

**GOLDEN STATE SCHOLARSHARE COLLEGE SAVINGS TRUST
GOVERNOR'S SCHOLARSHIP PROGRAMS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

FOR THE YEAR ENDED JUNE 30, 2015

ADDITIONS

Investment income	\$ 53,850
Total Additions	<u>53,850</u>

DEDUCTIONS

Redemptions – Beneficiaries	<u>(2,721,481)</u>
Total Deductions	(2,721,481)

Changes in net position	<u>(2,667,631)</u>
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Net position – beginning of year	6,319,817
Net position – end of year	<u>\$ 3,652,186</u>

See notes to financial statements

GOLDEN STATE SCHOLARSHARE COLLEGE SAVINGS TRUST GOVERNOR'S SCHOLARSHIP PROGRAMS NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Significant Accounting Policies

The Golden State ScholarShare College Savings Trust (the "Trust") was created pursuant to California statute in 1998 to help people save for the costs of higher education. The Trust commenced operations on October 4, 1999. The Trust is administered by the ScholarShare Investment Board (the "Board"), its sole Trustee. The Board also oversees the Governor's Scholarship Programs ("GSP"). The GSP are merit-based scholarship programs awarded to California students who demonstrated high academic achievement on various exams. Once an award is claimed, the award and interest is moved to a Student Scholarship Account naming the State of California ("State") as the account owner ("Account Owner") and the student as the Beneficiary. Scholarship awards, including earnings, are owned by the State until they are withdrawn to pay for the student's qualified higher education expenses at an eligible educational institution. In 2003, the Governor's Scholarship Programs were repealed. No awards were granted to students who earned qualifying scores on exams taken after December 31, 2002. Awards granted to students and claimed prior to the deadline were placed into individual scholarship accounts and are administered by the Board until the student withdraws or forfeits the funds or until the student reaches the age of 30. TIAA-CREF Tuition Financing, Inc. ("TFI"), a wholly owned, subsidiary of Teachers Insurance and Annuity Association of America ("TIAA"), has entered into a Standard Agreement for services with the Board under which TFI provides services to the GSP for the period July 1, 2010 to June 30, 2020.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB") which may require the use of estimates made by management and the evaluation of subsequent events. Actual results may differ from those estimates. These financial statements present on the GSP and do not purport to present the net position, results of operations, and changes in net position of the Trust. The following is a summary of the significant accounting policies consistently followed by the GSP.

Investment: The GSP is invested in a separate Funding Agreement issued by TIAA-CREF Life Insurance Company ("TIAA-CREF Life"), a subsidiary of TIAA. The Funding Agreement provides to the Trust on behalf of the GSP a minimum guaranteed rate of interest. The TIAA-CREF Life Funding Agreement is a nonparticipating interest-earning investment contract and is accounted for at cost.

Investment income: Interest is recorded as earned. Investment sales and purchases are recorded on the contractual date.

Income tax: No provision for federal income taxes has been made. The Trust includes plans designed to constitute qualified tuition programs under Section 529 of the Internal Revenue Code and does not expect to have any unrelated business income subject to tax.

New accounting pronouncement: In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (the "Statement"). The Statement provides guidance for enhanced disclosures about fair value measurements. The Statement is effective for financial statements for periods beginning after June 15, 2015. The Trust has early adopted this new guidance beginning with the June 30, 2015 financial statements. Adoption of the Statement did not require additional notes disclosure around fair value measurement.

Note 2 – Affiliates

TFI receives an all-inclusive annual flat fee from the State for providing services to the GSP. TFI also receives a fee from TIAA-CREF Life.

**GOLDEN STATE SCHOLARSHARE COLLEGE SAVINGS TRUST
GOVERNOR'S SCHOLARSHIP PROGRAMS
NOTES TO FINANCIAL STATEMENTS (concluded)**

Note 3– Investment Risks

Certain investments are subject to a variety of investment risks. GASB requires that entities disclose certain essential risk information about deposits and investments. The Funding Agreement is uninsured and unregistered and is held by a custodian in the Trust's name.

Custodial credit risk: Custodial credit risk is the risk that in the event of a failure, the Trust deposits and investments may not be returned. The Account Owner has an investment in the GSP and not a direct investment in the underlying Funding Agreement to which funds in the GSP are allocated. Because of this ownership structure, the custodial credit risk is mitigated.

Credit risk: The underlying Funding Agreement is a guaranteed insurance product issued by TIAA-CREF Life. TIAA-CREF Life had a Standard & Poor's credit rating of AA+ at June 30, 2015.

Interest rate risk: Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Funding Agreement is guaranteed to return a specific interest rate each year, which is reset annually, by TIAA-CREF Life. As the Funding Agreement interest rate is fixed annually, changes in the prevailing market interest rates during the year do not impact the returns of the Funding Agreement.

Note 4 – Estimated Future Redemptions

The Board redeemed assets from the GSP leaving assets necessary to provide for anticipated future redemptions based on the Board's estimation of future redemptions by GSP beneficiaries. The table below reflects the Board's estimation of Scholarship Awards that are anticipated to be redeemed.

	Funding Agreement
Outstanding GSP Awards as of June 30, 2014	\$ 62,144,390
Increase from Investment Income	53,850
Redemptions – Beneficiaries	(2,721,481)
Forfeitures	(18,240,505)
Outstanding GSP Awards as of June 30, 2015	<u>41,236,254</u>
Unfunded Obligations as of June 30, 2015	<u>(37,584,068)</u>
Funding Agreement as of June 30, 2015	<u>\$ 3,652,186</u>

See notes to financial statements



Independent Auditor’s 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

To Management of TIAA-CREF Tuition Financing, Inc.:

We have audited, 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, the basic financial statements of the Governor’s Scholarship Programs (the “GSP”) which comprise the Statement of Fiduciary Net Position as of June 30, 2015, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 17, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the GSP’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the GSP’s internal control. Accordingly, we do not express an opinion on the effectiveness of the GSP’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 GSP’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 GSP’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 results of that testing, and not to provide an opinion on the effectiveness of the GSP'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 GSP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

August 17, 2015