

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

**Financial Statements**

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**June 30, 2013**

**GOLDEN STATE SCHOLARSHARE COLLEGE SAVINGS TRUST  
GOVERNOR’S SCHOLARSHIP PROGRAMS  
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June 30, 2013**

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## **Independent Auditor's Report**

To the Trustee of the Golden State ScholarShare College Savings Trust:

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Golden State ScholarShare College Savings Trust (the "Trust"), which comprise the Statement of Fiduciary Net Position as of June 30, 2013 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 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 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 Trust'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 Trust'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 Fiduciary Net Position of the Golden State ScholarShare College Savings Trust, as of June 30, 2013, and the Changes in Fiduciary Net Position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the Trust changed the accounting guidance used to prepare the financial statements from Financial Accounting Standards Board accounting principles to Governmental Accounting Standard Board accounting principles.



**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2013 on our consideration of the Trust'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 Trust's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

August 15, 2013

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

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 year ended June 30, 2013. 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 year ended June 30, 2013, the GSP received interest income of 1% or \$0.4 million on its investment.

In May 2012, the State Department of Finance (the "DOF") proposed amendments to Education Code section 69999.6 to the State Legislature (the "Amendments"). These Amendments directed the GSP to return funds that are not anticipated to be redeemed from the GSP back to the State's General Fund. Further, the Amendments provide the State's intent to appropriate for the GSP any funds that are insufficient to cover the remaining redemption requests.

The Amendments were approved by the State Legislature (SB 1016) and signed by the Governor of California ("Governor") on June 27, 2012. Additional legislation (SB 1028) included clarification to the previously approved legislation (SB 1016) and it was approved by the State Legislature and signed by the Governor on September 26, 2012.

During the year ended June 30, 2013, the ScholarShare Investment Board, as trustee of the Trust, withdrew \$70.0 million from the GSP per the Amendments, \$4.8 million was redeemed by GSP beneficiaries, while \$4.1 million was forfeited by GSP beneficiaries.

As of June 30, 2013, the unfunded obligation of the GSP was \$65.9 million. The ScholarShare Investment Board believes the remaining balance of \$9.9 million in the GSP as of June 30, 2013, will adequately fund all remaining award withdrawals.

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

## **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, 2013. 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.

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

**Financial Analysis**

**Net position.** The following are the condensed Statements of Fiduciary Net Position as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Investments	\$ 9,859,828	\$ 84,240,108
Receivable	14,266	-
<b>Total Assets</b>	<b>\$ 9,874,094</b>	<b>\$ 84,240,108</b>
Payable	14,266	-
<b>Total Liabilities</b>	<b>14,266</b>	<b>-</b>
<b>Net Position</b>	<b>\$ 9,859,828</b>	<b>\$ 84,240,108</b>

Net position represent 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.

**Changes in net position.** The following are the condensed Statements of Changes in Fiduciary Net Position for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
<b>Additions</b>		
Investment income	\$ 450,142	\$ 1,785,037
<b>Total Additions</b>	<b>450,142</b>	<b>1,785,037</b>
<b>Deductions</b>		
Redemptions – Beneficiaries	(4,830,422)	(5,178,884)
Redemptions – State of California	(70,000,000)	-
<b>Total Deductions</b>	<b>(74,830,422)</b>	<b>(5,178,884)</b>
<b>Changes in Net Position</b>	<b>(74,380,280)</b>	<b>(3,393,847)</b>
Net Position – beginning of year	84,240,108	87,633,955
<b>Net Position – end of year</b>	<b>\$ 9,859,828</b>	<b>\$ 84,240,108</b>

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

**June 30, 2013**

**ASSETS**

Investment at Value (cost: \$9,859,828)	\$ 9,859,828
Receivable - TIAA-CREF Life Insurance Company	<u>14,266</u>
<b>TOTAL ASSETS</b>	<u>9,874,094</u>

**LIABILITIES**

Payable - Beneficiaries	<u>14,266</u>
<b>TOTAL LIABILITIES</b>	<u>14,266</u>

<b>NET POSITION</b>	<u><u>\$ 9,859,828</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, 2013**

**ADDITIONS**

Investment income	\$ 450,142
Total Additions	<u>450,142</u>

**DEDUCTIONS**

Redemptions – Beneficiaries	(4,830,422)
Redemptions – State of California	<u>(70,000,000)</u>
Total Deductions	<u>(74,830,422)</u>

Changes in net position (74,380,280)

Net position – beginning of year	<u>84,240,108</u>
Net position – end of year	<u>\$ 9,859,828</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 owed 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 ScholarShare Investment 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.

Effective for the June 30, 2013 reporting period, the State of California has approved changing the accounting guidance used to prepare the GSP's financial statements from Financial Accounting Standards Board accounting principles to Government Accounting Standards Board ("GASB") accounting principles. Adopting GASB is preferable to provide the financial reporting consistent with the State of California's government reporting. The net position and change in net position are not affected by the change in accounting principles; however, the format of the financial statements and the disclosures have been updated for GASB requirements.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB Statement No. 34 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 valuation:** The Funding Agreement is considered a nonparticipating interest earning investment contract and is accounted for at cost. There is no impairment of the underlying issuer that affects the contract.

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

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

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

## **State of California Redemption**

In May 2012, the State Department of Finance (the "DOF") proposed amendments to Education Code section 69999.6 to the State Legislature (the "Amendments"). These Amendments directed the GSP to return funds that are not anticipated to be redeemed from the GSP back to the State's General Fund. Further, the Amendments provide the State's intent to appropriate for the GSP any funds that are insufficient to cover the remaining redemption requests.

The Amendments were approved by the State Legislature (SB 1016) and signed by the Governor of California ("Governor") on June 27, 2012. Additional legislation (SB 1028) included clarification to the previously approved legislation (SB 1016) and it was approved by the State Legislature and signed by the Governor on September 26, 2012.

During December 2012, the Board withdrew \$70 million from the GSP per the Amendments based on the Board's estimation of the anticipated funds needed to satisfy redemptions from the GSP. See Note 5 - Estimated Future Redemptions.

## **Note 2 – Valuation of Investments**

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 the Trust with a guarantee of principal and a minimum annual rate of return, with the possibility of such additional returns as may be declared in advance by TIAA-CREF Life. TIAA-CREF Life Funding Agreement represents the principal contributed and earnings credited less any withdrawals to date.

## **Note 3 – Affiliates**

No fee is charged on the assets invested in the Funding Agreement; however, a fee is paid to TFI by TIAA-CREF Life.

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

**Note 4 – 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 significantly mitigated.

**Credit risk:** The underlying Funding Agreement is a guaranteed insurance product issued by TIAA-CREF Life. TIAA-CREF Life had a AA+ credit rating at June 30, 2013.

**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 5 – Estimated Future Redemptions**

The Board intends to redeem assets from the Trust 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, 2012	\$ 84,240,108
Increase from Operations	450,142
Redemptions – Beneficiaries	(4,830,422)
Forfeitures	(4,070,165)
Outstanding GSP Awards as of June 30, 2013	75,789,663
 Unfunded Obligations as of June 30, 2013	 (65,929,835)
Funding Agreement as of June 30, 2013	\$ 9,859,828



***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 the Trustee of the Golden State ScholarShare College Savings Trust:

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 Golden State ScholarShare College Savings Trust (the "Trust") which comprise the Statement of Fiduciary Net Position as of June 30, 2013, 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 15, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Trust'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 Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 Trust'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 Trust'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 Trust'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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PricewaterhouseCoopers LLP*

August 15, 2013