

**SCHOLARSHARE
ADMINISTRATIVE FUND**

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

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

SCHOLARSHARE ADMINISTRATIVE FUND

TABLE OF CONTENTS JUNE 30, 2018

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Balance Sheet	7
Statement of Revenues, Expenses, and Changes in Fund Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10

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, 2018, 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, 2018, 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 2018 the ScholarShare Administrative Fund adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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.

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, 2018 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

March 5, 2019

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2018

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, 2018. 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 (deficit) was \$(166,940).
- Operating revenues were \$1,385,111.
- The total cost of operations was \$2,260,431.

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2018

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 years ended June 30, 2018 and 2017 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, 2018</u>	<u>June 30, 2017</u>
<i>Assets and Deferred Outflows of Resources</i>		
Current Assets	\$ 4,985,861	\$ 5,533,898
Deferred Outflows of Resources	<u>759,062</u>	<u>622,237</u>
Total Assets and Outflows of Resources	<u>\$ 5,744,923</u>	<u>\$ 6,156,135</u>
<i>Liabilities and Deferred Inflows of Resources</i>		
Current Liabilities	\$ 196,548	\$ 268,592
Non-Current Liabilities	5,379,947	2,800,787
Deferred Inflows of Resources	<u>335,368</u>	<u>4,679</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 5,911,863</u>	<u>\$ 3,074,058</u>
Net Position (Deficit)	<u>\$ (166,940)</u>	<u>\$ 3,082,077</u>
Total Net Position (Deficit)	<u>\$ (166,940)</u>	<u>\$ 3,082,077</u>
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	<u>\$ 5,744,923</u>	<u>\$ 6,156,135</u>

The Fund's total liabilities, deferred inflows of resources, and net position (deficit) were \$5,744,923 as of June 30, 2018. This total includes net pension liability in the amount of \$2,061,344 and net OPEB liability in the amount of \$3,042,000, included in non-current liabilities, and deferred inflows of resources, in the amount of \$40,368, as required pursuant to GASB Statement 68 (GASB 68) and GASB Statement 71 (GASB 71), and in the amount of \$295,000 as required pursuant to GASB Statement 75 (GASB 75), respectively.

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2018

- The *Statement of Revenues, Expenses, and Changes in Fund Net Position* accounts for all revenues earned and expenses incurred by the Fund for the years ended June 30, 2018 and 2017. This statement reflects the results of the Fund's operations over the year (see Table 2).

	<u>FY 2017-18</u>	<u>FY 2016-17</u>
Operating Revenues		
Fees Revenue	\$ 1,385,111	\$ 1,337,374
Total Operating Revenues	\$ 1,385,111	\$ 1,337,374
Operating Expenses		
Operating Expenses	\$ 2,260,431	\$ 2,181,817
Total Operating Expenses	\$ 2,260,431	\$ 2,181,817
Non-Operating Revenue		
Interest Income	\$ 65,303	\$ 40,589
Total Non-Operating Revenue	\$ 65,303	\$ 40,589
Change in Net Position	\$ (810,017)	\$ (803,854)
Net Position – Beginning, restated in FY 2017-18	\$ 643,077	\$ 3,885,931
Net Position (Deficit) – Ending	\$ (166,940)	\$ 3,082,077

In fiscal year 2017-2018, the Fund's change in net position was \$(810,017). This change in net position is a result of a \$47,737 increase in total operating revenue and a \$78,614 increase in total operating expenses from the prior year.

In fiscal year 2017-2018, total operating expenses increased during the fiscal year when compared to the prior fiscal year. Reasons for this change include increases in consultants and professional services, facilities operation, and general expenses.

SCHOLARSHARE ADMINISTRATIVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2018

- The *Statement of Cash Flows* provides information about the Fund's cash receipts and cash payments during the years ended June 30, 2018 and 2017. 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 2017-18</u>	<u>FY 2016-17</u>
<i>Cash Flows</i>		
Cash Flows from Operating Activities	\$ (716,632)	\$ (459,545)
Cash Flows from Investing Activities	<u>57,503</u>	<u>36,213</u>
Net Decrease in Cash and Cash Equivalents	\$ <u>(659,129)</u>	\$ <u>(423,332)</u>
Beginning Cash and Cash Equivalents	\$ <u>5,304,823</u>	\$ <u>5,728,155</u>
Ending Cash and Cash Equivalents	\$ <u>4,645,694</u>	\$ <u>5,304,823</u>

The net decrease in cash and cash equivalents of \$659,129, which is a decrease from the decrease of \$423,332 from the prior fiscal year, is due to the overall increase in total operating revenues and overall increase in total operating expenses during fiscal year 2017-2018.

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

FACTORS BEARING ON THE FUND'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; 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 590, Sacramento, California 95814.

SCHOLARSHARE ADMINISTRATIVE FUND

BALANCE SHEET JUNE 30, 2018

ASSETS

CURRENT ASSETS:

Cash and cash equivalents in state treasury	\$ 4,645,694
Accounts receivable	263,310
Due from other funds	56,678
Interest receivable	20,179
Total assets	<u>4,985,861</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflows related to OPEB	74,230
Deferred outflows related to pensions	684,832
Total deferred outflows of resources	<u>759,062</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 5,744,923

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 83,278
Due to other funds	16,192
Accrued vacation	80,078
Loan payable - SMIF (SB 84)	17,000
Total current liabilities	<u>196,548</u>

NONCURRENT LIABILITIES:

Accrued vacation	94,603
Loan payable - SMIF (SB 84)	182,000
Net OPEB Liability	3,042,000
Net Pension Liability	2,061,344
Total noncurrent liabilities	<u>5,379,947</u>
Total liabilities	<u>5,576,495</u>

DEFERRED INFLOWS OF RESOURCES:

Deferred inflows related to OPEB	295,000
Deferred inflows related to pensions	40,368
Total deferred inflows of resources	<u>335,368</u>

NET POSITION (DEFICIT):

Unrestricted	<u>(166,940)</u>
--------------	------------------

**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND NET POSITION** \$ 5,744,923

SCHOLARSHARE ADMINISTRATIVE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OPERATING REVENUES:

Fees revenue	\$ 1,385,111
--------------	--------------

OPERATING EXPENSES:

Salaries, wages, and benefits	1,262,461
Consultants and professional services	760,942
Travel	79,155
Facilities operation	63,655
General expenses	70,994
Training	7,338
Communications	5,934
Equipment	5,879
Printing	2,604
Postage	1,469
Total operating expenses	<u>2,260,431</u>

OPERATING LOSS	(875,320)
-----------------------	-----------

NON-OPERATING REVENUE:

Interest income	<u>65,303</u>
-----------------	---------------

CHANGE IN NET POSITION	(810,017)
-------------------------------	-----------

NET POSITION, Beginning of Year, as restated (Note 1M)	<u>643,077</u>
---	----------------

NET POSITION, End of Year	<u>\$ (166,940)</u>
----------------------------------	---------------------

SCHOLARSHARE ADMINISTRATIVE FUND

STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from fees	\$ 1,263,546
Receipts from interfund services provided	6,273
Payments to employees	(928,700)
Payments to suppliers	(534,257)
Payments for interfund services used	<u>(523,494)</u>
Net cash used by operating activities	<u>(716,632)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest receipts from Surplus Money Investment Fund	<u>57,503</u>
--	---------------

NET DECREASE IN CASH AND CASH EQUIVALENTS (659,129)

BEGINNING CASH AND CASH EQUIVALENTS 5,304,823

ENDING CASH AND CASH EQUIVALENTS \$ 4,645,694

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	\$ (875,320)
----------------	--------------

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATIONS:

(Increase) decrease in:	
Accounts receivable	(121,565)
Due from other funds	6,273
Prepaid expenses	12,000
Deferred outflows related to OPEB	(74,230)
Deferred outflows related to pensions	(62,595)
Increase (decrease) in:	
Accounts payable	(87,350)
Due to other funds	15,569
Accrued vacation	18,061
Loan payable - SMIF (SB 84)	199,000
Net OPEB liability	(101,000)
Net pension liability	23,836
Deferred inflows related to OPEB	295,000
Deferred inflows related to pensions	<u>35,689</u>
Net cash used by operating activities	<u>\$ (716,632)</u>

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, the interfund receivables and payables are indicative of short-term cash flow borrowings.

At June 30, 2018, the Administrative Fund had an amount due to the State Department of General Services Revolving Fund of \$219, an amount due to Prison Industries Revolving Fund of \$1,338, and an amount due to the State General Fund of \$14,635 for expenses paid by the funds on behalf of the Administrative Fund.

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

At June 30, 2018, the Administrative Fund had an amount due from the Governor's Scholarship Programs, General Fund (Program) of \$56,230 for expenses paid by the Administrative Fund on behalf of the Program and an amount due from the State Compensation Insurance Fund of \$448.

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. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Administrative Fund's portion of the State Substantive Plan (OPEB Plan) and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. 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.

J. 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, 2018

K. 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.

L. 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.

M. CHANGE IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2018, Administrative Fund implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB) by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It requires employers to report a net OPEB liability for the difference between the present value of projected OPEB benefits for past service and restricted resources held in trust for the payment of benefits. GASB 75 identifies 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 75 requires retroactive application, the net OPEB liability offset by the related deferred outflow of resources and prior recognized OPEB liabilities as of June 30, 2017 reduces the beginning net position for the fiscal year ended June 30, 2018. As a result, for the fiscal year ended June 30, 2018, the beginning net position decreased by \$2,439,000 as the cumulative effect of a change 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, 2018 were as follows:

Deposits in Surplus Money Investment Fund	\$ 4,615,000
Cash in State Treasury	<u>30,694</u>
Cash and Cash Equivalents in State Treasury	<u>\$ 4,645,694</u>

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The investments must be allowable through the Pooled Money Investment Account (PMIA), which is operated by the State Treasurer's Office, which is granted the authority by California Government Code Sections 16430 and 16480.4. Allowable investments are as follows:

- U.S. government securities
- Securities of federally-sponsored agencies
- Domestic corporate bonds
- Interest-bearing time deposits in California banks
- Savings and loan associations and credit unions
- Prime-rated commercial paper
- Repurchase and reverse repurchase agreements
- Security Loans
- Banker's Acceptances
- Negotiable certificates of deposits
- Loans to various bond funds

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, 2018, the Administrative Fund has invested funds in SMIF in the amount of \$4,615,000.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 3, No. 31, No. 40, and No. 72 regarding cash deposits and investments is presented in the financial statements of the State of California.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets, being depreciated:				
Equipment	\$ 26,080		\$ (19,510)	\$ 6,570
Less accumulated depreciation for:				
Equipment	<u>(26,080)</u>		<u>19,510</u>	<u>(6,570)</u>
Total capital assets, being depreciated	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2018, was as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Due Within</u> <u>One Year</u>
Accrued vacation	\$ 156,620	\$ 98,140	\$ (80,078)	\$ 174,681	\$ 80,078

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, 2018, the contributions recognized as part of pension expense was \$178,505.

In addition to the Administrative Fund's contributions to the plan, during the year ended June 30, 2018, the State Surplus Money Investment Fund (SMIF) made a contribution to the Plan of \$199,000, on behalf of the Administrative Fund, as required by Senate Bill No. 84 (SB 84) to fund future Net Pension Liabilities. The Administrative Fund established an Interfund Loan Payable to SMIF for this contribution as required by SB 84. This Interfund Loan Payable, is required to be repaid by June 30, 2030.

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, 2017, 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, 2016 rolled forward to June 30, 2017 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

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 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, 2017 was 0.005642%.

As of June 30, 2018, the Administrative Fund reported net pension liabilities for its proportionate shares of the Plan's net pension liability of \$2,061,344.

For the year ended June 30, 2018, the Administrative Fund recognized pension expense of \$374,436. At June 30, 2018, the Administrative Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 377,505	
Change in proportion		\$ (21,130)
Changes in assumptions	239,824	
Net differences between expected and actual experience	9,031	(19,238)
Net differences between projected and actual earnings on plan investments	58,472	
Total	\$ 684,832	\$ (40,368)

\$377,505 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2019	\$ 142,587
2020	92,822
2021	61,356
2022	(29,805)

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, 2017, which is the latest available on the State Controllers website at www.sco.ca.gov.

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The State also provides postemployment medical and prescription drug benefits to employees and dependents through CalPERS under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT) administered by CalPERS, a substantive agent multiple-employer defined benefit other postemployment benefits plan (State's Substantive Plan). Assets within each valuation group benefit retirees and dependents associated with that valuation group. CalPERS reports on the CERBT as part of it separately issued annual financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

The State has identified 25 separate valuation groups within the State Substantive Plan. For each agency and/or fund, the SCO determined the proportion of pensionable compensation attributable to employees within these valuation groups. SCO then used these proportions to allocate the OPEB accounting elements from the June 30, 2017 State of California Retiree Health Benefits Program Actuarial Valuation Report to State agencies and their funds.

The Administrative Fund participates in the State's Substantive Plan on a cost sharing basis. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis. The Administrative Fund recognizes the costs of providing health and dental insurance to annuitants based on their required contribution. Contributions to the State's Substantive Plan from the Administrative Fund were \$62,230 for the year ended June 30, 2018.

At June 30, 2018, the Administrative Fund reported a liability of \$3,042,000 for their proportionate share of the State's Substantive Plan net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Administrative Fund's proportion of the net OPEB liability was based on the SCO's projection. The Administrative Fund's combined proportionate share, based on its attributable employee valuation groups pensionable compensation, as of June 30, 2017 was 0.0040663%.

For the fiscal year ended June 30, 2018, Administrative Fund recognized OPEB expense of \$119,770. At June 30, 2018, Administrative Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions		\$ (295,000)
Differences between contributions and proportionate share of contributions	\$ 12,000	
OPEB contributions subsequent to measurement date	<u>62,230</u>	
Total	<u>\$ 74,230</u>	<u>\$ (295,000)</u>

SCHOLARSHARE ADMINISTRATIVE FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The \$62,230 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows or resources and deferred inflows of resources related to OPEB will be recognized in the Administrative Fund's OPEB expense as follows:

Fiscal Year Ended June 30	
2019	\$ (47,000)
2020	(47,000)
2021	(47,000)
2022	(47,000)
2023	(47,000)
2024	(48,000)

Additional disclosure detail required by Government Accounting Standards Board Statement No. 75, regarding post-retirement benefits are presented in the financial statements of the State of California, on the State Controller's website at www.sco.ca.gov.