

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

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

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

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



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

ScholarShare Investment Board Sacramento, California

We have audited the accompanying financial statements of the governmental activities and the Governor's Scholarship Programs, General Fund (the Programs), a program within the General Fund of the State of California as of and for the year ended June 30, 2011, which collectively comprise the Programs' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Programs' management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Governor's Scholarship Programs, General Fund and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Governor's Scholarship Programs, General Fund of the State of California as of June 30, 2011, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental financial information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Governor's Scholarship Programs, General Fund. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

October 5, 2011

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET JUNE 30, 2011

	Governor's Scholarship Programs, General Fund	Adjustments (Note 3)	Statement of Net Assets
ASSETS			
Due from Other Funds	\$ 108,994	\$ -	\$ 108,994
Capital Assets	-	34,500	34,500
Accumulated Depreciation	-	(25,013)	(25,013)
Total Assets	<u>\$ 108,994</u>	<u>9,487</u>	<u>118,481</u>
LIABILITIES			
Due to Other Funds	\$ 108,994	-	108,994
Accrued Vacation	-	182	182
Total Liabilities	<u>108,994</u>	<u>182</u>	<u>109,176</u>
FUND BALANCE/NET ASSETS			
Fund Balance	-	-	-
Total Liabilities and Fund Balance	<u>\$ 108,994</u>		
NET ASSETS (DEFICIT):			
Invested in Capital Assets		9,487	9,487
Unrestricted		(182)	(182)
Total Net Assets		<u>\$ 9,305</u>	<u>\$ 9,305</u>

The accompanying notes are an integral part of these financial statements.

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Governor's Scholarship Programs, General Fund</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES:			
Scholarship Activities:			
Personnel	\$ 83,586	\$ (20,378)	\$ 63,208
Operating	386,846	3,450	390,296
Total Expenditures/Expenses	<u>470,432</u>	<u>(16,928)</u>	<u>453,504</u>
Transfers Out to Other Funds	(45,914)	-	(45,914)
Transfers In from Other Funds	<u>516,346</u>	<u>-</u>	<u>516,346</u>
Excess of Transfers Over Expenditures	-	-	-
Changes in Net Assets	-	16,928	16,928
FUND BALANCE/NET ASSETS (DEFICIT):			
Beginning of the Year	<u>-</u>	<u>-</u>	<u>(7,623)</u>
End of the Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,305</u>

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

1. DEFINITION OF THE REPORTING ENTITY

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FUND ACCOUNTING

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

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

B. BASIS OF ACCOUNTING/GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The government-wide financial statement (i.e. the statement of net assets and the statement of activities) reports information on all of the activities of the Programs. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

C. BUDGETS AND BUDGETARY ACCOUNTING

For the fiscal year 2010-2011, the Programs' budget appropriation was \$486,322. The level of legal expenditure control is the current budget appropriation.

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

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

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

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

D. VACATION AND SICK LEAVE

The Programs' 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. All vacation pay is accrued when incurred in the government-wide financial statements. In the fund financial statements for governmental funds no liabilities are accrued, because it is anticipated that compensated absences will not be used in excess of a normal year's accumulation. The balance of the vacation accrual at June 30, 2011, was \$182. Additionally, accumulated sick-leave balances are not included in the compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement. Accrued vacation and sick leave follow State employees from agency to agency and were not necessarily earned since the inception of the Programs.

E. CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include equipment, are reported in the government-wide financial statements. Capital assets are defined as assets with a useful life of at least one year and a unit acquisition cost of at least \$5,000. Equipment is depreciated using the straight-line method over ten years.

F. FUND TRANSFERS

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

G. RISK MANAGEMENT

The Programs are part of the State of California's General Fund, which is primarily self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs or it becomes fixed and determinable. The Programs have not had any claims subject to this coverage. Additional disclosures are presented in the financial statements of the State of California.

H. USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

3. RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS

A. EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The following represents reconciliation between the governmental funds, fund balance, and the government-wide net assets:

Fund Balance	\$	-
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of the capital assets is \$34,500 and the accumulated depreciation is \$25,013.		9,487
Long-term liabilities, including accrued vacation, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(182)</u>
Net Assets	\$	<u>9,305</u>

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The following represents reconciliation between the governmental funds statement of revenues, expenditures, and changes in fund balance, net changes in fund balance and changes in net assets of governmental activities as reported in the government-wide statement of activities:

Net change in fund balance	\$ -
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital assets as expenditures. However, in the statement of net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation in the current period.	(3,450)
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In the statement of activities, certain operating expenses – vacation accruals – are measured by the amounts earned during the year. In the governmental fund, however, expenditures for this item are measured by the amount of financial resources used. This amount is the effect of reporting long-term accrued vacation.	<u>20,378</u>
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Change in net assets	\$ <u><u>16,928</u></u>
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4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets, being depreciated:				
Equipment	\$ 34,500	\$ -	\$ -	\$ 34,500
Less accumulated depreciation for:				
Equipment	<u>(21,563)</u>	<u>(3,450)</u>	<u>-</u>	<u>(25,013)</u>
Total capital assets, being depreciated	<u>\$ 12,937</u>	<u>\$ (3,450)</u>	<u>\$ -</u>	<u>\$ 9,487</u>

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

5. DEFINED BENEFIT PLAN

Eligible employees of the Programs participate in the California Public Employees' Retirement System of the State of California (CalPERS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for participating State and Local Government Agencies. Since all State agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Programs' employees cannot be determined.

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 Programs for their share of the required contributions. For the year ended June 30, 2011, the Programs' contribution to CalPERS was \$11,630. Participant contributions range from zero to six percent of their salary depending on the tier of participation.

Generally, full-time and permanent part-time employees are eligible to participate in CalPERS. Depending upon the plan option selection, benefits vest after five or ten years of service. Participants are eligible for service retirement after age 50 or 55 and must have five or ten years of CalPERS credited service, depending upon the tier of participation. Upon retirement, participants are entitled to an annual retirement benefit payable monthly for life based on their highest average monthly salary over any 12-month period within their last 36 months of employment, times a benefit factor of .50 to 2.418 percent depending on retirement age, years of credited service, and the tier of participation. CalPERS also provides death and disability benefits to covered participants. These benefit provisions and all other requirements are established and may be amended by State statute.

CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 25, No. 27, and No. 50, regarding the defined benefit plan are presented in the financial statements of the State of California for the year ended June 30, 2011.

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

6. INTERFUND PAYABLES AND RECEIVABLES

Interfund receivables and payables typically result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system or, (3) payments between funds are made. As of June 30, 2011, the interfund receivables and payables are indicative of short-term cash flow borrowings. The amounts due to ScholarShare Administrative Fund are for expenses paid by the Administrative Fund on behalf of the Program. The following schedule briefly summarizes the amounts due to/from other funds at June 30, 2011:

<u>Due From</u>	
General Fund	\$ <u>108,994</u>

Due to other funds includes the following at June 30, 2011:

<u>Due To</u>	
ScholarShare Administrative Fund	\$ <u>108,994</u>

SUPPLEMENTAL INFORMATION

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

BUDGETARY COMPARISON SCHEDULE - LEGAL BASIS

(SEE NOTE 2 C)

JUNE 30, 2011

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
FUNDS AVAILABLE				
General Fund Appropriation - State Operations	\$ 486,322	\$ 486,322	\$ 516,346	\$ 30,024
Total Funds Available	\$ 486,322	\$ 486,322	\$ 516,346	\$ 30,024
EFFECT OF OPERATIONS				
Expenditures				
Personnel	\$ 92,637	\$ 92,637	\$ 83,586	\$ (9,051)
Operating	393,685	393,685	386,846	(6,839)
Total Expenditures	486,322	486,322	470,432	(15,890)
Transfers Out	-	-	(45,914)	(45,914)
Transfers In	486,322	486,322	516,346	\$ 30,024
Net Effect of Operations	\$ -	\$ -	\$ -	

GOVERNOR'S SCHOLARSHIP PROGRAMS, GENERAL FUND

SCHEDULE OF EXPENDITURES - FUND BASIS

JUNE 30, 2011

PERSONNEL EXPENDITURES

Salaries and Wages	\$	61,937
Staff Benefits		<u>21,649</u>

Total Personnel Expenditures	\$	<u><u>83,586</u></u>
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OPERATING EXPENDITURES

Consultants/Professional Services- External	\$	375,236
Consultants/Professional Services- Internal		5,102
Facilities Operation		2,818
Communications		1,931
General Expenses		1,416
Information Technology		<u>343</u>

Total Operating Expenditures	\$	<u><u>386,846</u></u>
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