

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

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**CONSOLIDATED FINANCIAL STATEMENTS**  
for the years ended December 31, 2008 and 2007

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
College Access Foundation of California

We have audited the accompanying consolidated statements of financial position of College Access Foundation of California, formerly The Education Financing Foundation of California, (the Foundation) as of December 31, 2008 and 2007, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of internal control over financial reporting. Our audit included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation at December 31, 2008 and 2007, and the consolidated changes in net assets and its cash flows for the years then ended, in conformity with accounting principles accepted in the United States of America.

*Burr Pilger & Mayer LLP*

San Francisco, California  
August 24, 2009

*Member of The Leading Edge Alliance*

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

as of December 31, 2008 and 2007

(in thousands)

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 7,091	\$ 1,904
Interest and dividends receivable	301	579
Investments	318,304	471,575
Student loans receivable, net	7,210	8,595
Restricted assets	258	305
Other assets	<u>2,719</u>	<u>2,225</u>
Total assets	<u>\$ 335,883</u>	<u>\$ 485,183</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,020	\$ 3,224
Grants payable, net	15,110	7,415
Note payable	<u>7,610</u>	<u>9,435</u>
Total liabilities	24,740	20,074
Net assets—unrestricted	<u>311,143</u>	<u>465,109</u>
Total liabilities and net assets	<u>\$ 335,883</u>	<u>\$ 485,183</u>

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

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

for the years ended December 31, 2008 and 2007

(in thousands)

	<u>2008</u>	<u>2007</u>
Revenues:		
Investment (loss) income, net	\$ (135,057)	\$ 47,564
Student loan related revenues (repayment):		
Interest	679	799
Special allowance payment repayment, net	-	(3,920)
Arbitrage refund	1,749	591
Other	<u>847</u>	<u>513</u>
Net student loan related revenues (repayment)	3,275	(2,017)
Other (loss) income	<u>(71)</u>	<u>123</u>
Total (loss) revenues	(131,853)	45,670
Expenses:		
Program expenses:		
Grants awarded	17,610	10,065
Grant-making expenses	1,203	637
Student loan related expenses	<u>1,298</u>	<u>1,420</u>
Total program expenses	20,111	12,122
Management and general expenses	<u>2,002</u>	<u>2,294</u>
Total expenses	<u>22,113</u>	<u>14,416</u>
Change in net assets	(153,966)	31,254
Net assets, beginning of year	<u>465,109</u>	<u>433,855</u>
Net assets, end of year	<u>\$ 311,143</u>	<u>\$ 465,109</u>

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

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

for the years ended December 31, 2008 and 2007

(in thousands)

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (153,966)	\$ 31,254
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation of fixed assets	76	73
Net realized and unrealized loss (gain) on investments	142,021	(36,682)
Provision for loan losses	335	254
Discount for grants payable	(291)	(166)
Changes in operating assets and liabilities:		
Net decrease (increase) in interest and dividends receivable	278	(242)
Net decrease in student loan receivable	1,050	2,892
Net decrease in restricted assets	47	52
Net decrease in other assets	(545)	(368)
Net decrease in accounts payable and accrued liabilities	(1,204)	(3,961)
Net increase in grants payable	7,986	5,004
Net cash used in operating activities	(4,213)	(1,890)
Cash flows from investing activities:		
Proceeds from sale of investments	131,540	71,635
Purchases of investments	(120,290)	(84,681)
Purchases of property and equipment	(25)	(113)
Proceeds from sale of property and equipment	-	5
Net cash provided by (used in) investing activities	11,225	(13,154)
Cash flows from financing activities—Repayment of bond payable	(1,825)	(1,710)
Net cash used in financing activities	(1,825)	(1,710)
Net increase (decrease) in cash and cash equivalents	5,187	(16,754)
Cash and cash equivalents, beginning of year	1,904	18,658
Cash and cash equivalents, end of year	\$ 7,091	\$ 1,904
Supplemental disclosure of cash flow information—Interest paid	\$ 469	\$ 589

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

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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1. **Organization and Business**

College Access Foundation of California helps qualified students in California with financial need attend and graduate from college. The Foundation provides grants for scholarships to community-based programs that counsel students on how to prepare for and apply for college, as well as assisting them to obtain financial aid. Foundation grantees award the scholarships to their students and, once students enroll in college, support them by connecting them to on-campus mentoring and other services to help them stay in school and graduate.

Created in 2005, College Access Foundation of California has awarded over \$39 million to over 100 organizations statewide, with more than 10,000 students receiving scholarships through the Foundation's grants.

The Foundation and its subsidiary, CEFI Corporation (CEFI), are the surviving entities after a series of corporate restructurings that are described in Note 11.

2. **Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States that require management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those and other estimates.

Under the provisions of the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Not-for-Profit Organizations* and related standards, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. At December 31, 2008 and 2007, there were no donor-imposed restrictions. Therefore, according to AICPA standards, net assets of the Foundation were unrestricted as they related to donor-imposed restrictions. However, there are restricted assets related to a bond indenture agreement disclosed in Note 6D.

The consolidated financial statements include the accounts of the Foundation and its subsidiary, CEFI Corporation, as well as the accounts of the CalEdge trust estate for the outstanding student loan revenue bond, notes, and the general operating accounts for each of the consolidated entities. All significant intercompany accounts and transactions have been eliminated. References to the Foundation in these notes to consolidated financial statements refer to or include the Foundation, its subsidiary, and their predecessors.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits in banks, money market funds, and other short-term investments with original maturities of 90 days or less. Certain cash equivalents are held in custodian accounts pending future calls for certain investments.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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2. **Summary of Significant Accounting Policies, continued**

**Investments**

The Foundation adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), effective January 1, 2008. FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. The standard provides a consistent definition of fair value which focuses on exit price which is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy is defined as follows:

- Level 1—quoted prices in active markets for identical investments
- Level 2—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3—significant unobservable inputs (including the Foundation’s own assumptions in determining the fair value of investments)

An investment’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Debt and equity securities with readily determinable fair values are carried at estimated fair value, based on quoted market prices. The Foundation invests in limited partnerships such as diversified inflation hedge funds, international equity funds, marketable alternatives, and private equity funds that may not have readily determinable fair values. Accordingly, these values are based on guidelines established by the general partners, or other governing body, of each respective investment. In addition to relying on the funds’ financial reports, the Foundation uses alternate methods to confirm values and supplement the valuation process such as reviewing funds’ audited financial statements, comparing investment manager statements to reports received from the Foundation’s investment consultant, reviewing investment manager valuation policies on a regular basis to determine reasonableness and consistency with industry practices, monitoring news reported in the public domain in connection to investment manager valuation or operational issues and scheduling conference calls and meetings with investment managers as needed. Management believes these methods provide a basis for the fair value. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and the differences could be material to the change in net assets of the Foundation.

Net realized and unrealized gains or losses are reflected as increases or decreases in unrestricted net assets. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses are calculated based on purchase prices. Dividend income is recorded on ex-dividend dates. Interest income from investments is recorded on an accrual basis.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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2. **Summary of Significant Accounting Policies, continued**

**Grants**

Unconditional grants are recognized as grant expense and a liability when the Foundation approves the grant. Unconditional grants that are expected to be paid in less than one year are measured at net settlement value. Unconditional grants that are expected to be paid in more than one year are measured at the present value of the estimated future cash flows. Conditional grants, which depend on the occurrence of a specified future and uncertain event to bind the Foundation, are recognized when the conditions on which they depend are substantially met. As of both December 31, 2008 and 2007, the Foundation had \$250,000 in outstanding conditional grants payable that have not yet been recorded in the consolidated financial statements. The conditions on these grants relate to matching requirements by the grantee.

**Income Taxes**

The Foundation has maintained its IRS Code Section 501(c)(3) organization status.

As a recently created for-profit Delaware corporation, CEFI uses the liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

On July 13, 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax returns to determine whether the tax position is "more likely than not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than not threshold would be recorded as a tax expense in the current year.

On December 30, 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3, deferring the effective date of FIN 48 for certain nonpublic enterprises for annual financial statements for fiscal years beginning after December 15, 2008.

The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for the accounting year of adoption. Management is assessing the impact of implementing FIN 48 on the Foundation's consolidated financial statements in 2009.

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**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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2. **Summary of Significant Accounting Policies, continued**

**Functional Expenses**

Certain expenses are allocated among program and management and general expenses, based on allocation methods and estimates made by the Foundation's management. Expenses related to CEFI and CalEdge are 100% related to the student loan program. Expenses for the Foundation are allocated based on direct costing using the Foundation's departmental expense collecting system or allocation based on methods and estimates made by the Foundation's management. Direct costing deals primarily with salaries and benefits, travel and professional fees. A small part of these are allocated to management and general expenses based on an estimate of time spent on various activities. Costs that cannot be specifically identified as program related are charged to the management and general function. The costs of the Foundation's various activities have been summarized on a functional basis in Note 5.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Significant Accounting Policies Associated with Student Loans**

As outlined in Notes 11 and 12, there was a corporate restructuring, sale of assets, and a wind-down of operations associated with student loans. Listed below are the significant accounting policies associated with the student loan assets, liabilities, and operations.

**A. Student Loans Receivable**

Student loans held are carried at the principal amount outstanding net of unamortized premiums or discounts, deferred loan fees and costs and acquisition fair value adjustments, if any. Write-downs of the loans' carrying value attributable to credit quality are charged to the allowance for loan losses. Additionally, from time to time, certain student loans receivable that have previously been written off and deemed uncollectible are recovered.

**B. Allowance for Loan Losses**

The Foundation maintains an allowance for loan losses to provide for probable net losses on the uninsured portion of its federally guaranteed FFELP student loans and on the uninsured consumer education loans (CEL loans) in the CalEdge program. The allowance is maintained at a level to provide for probable losses, net of estimated recoveries, inherent in the portfolio as of the reporting date. The allowance is established through a provision charged to student loan program expenses as well as through guarantee fees associated with the certain CEL loan programs.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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2. **Summary of Significant Accounting Policies, continued**

**Significant Accounting Policies Associated with Student Loans, continued**

**B. Allowance for Loan Losses, continued**

In evaluating the adequacy of the allowance for federally guaranteed FFELP loans, the Foundation also considers the incidence of student loan claims rejected for payment by guarantors.

Substantially all of the Foundation's FFELP loans had been sold to Nelnet Corporation (Nelnet) as of December 31, 2007, leaving approximately \$0.1 million of FFELP loans that were more than 210 days delinquent remaining on the Foundation's books.

The CEL loans held in the CalEdge program were not included in the asset sale. The CEL allowance process is now administered by California Alternative Loan Marketing Association (CALMA) under the CalEdge management and administration agreement, as discussed in Note 12. The Foundation and CALMA periodically assesses the recoverability of the portfolio and calculates an allowance to provide for probable net losses on the remaining CEL loans. As of December 31, 2008 and 2007, the Foundation held approximately \$7.6 million and \$9.0 million, respectively, of CEL loans.

In 2008 and 2007, the Foundation received approximately \$0.3 million and \$0.5 million, respectively, of previously written off loans which is included in other student loan related revenue.

**C. Allowance for Investment Arbitrage Rebates**

Section 148 of the Internal Revenue Code (IRC), as amended, required that the Foundation subsidiaries calculate and remit amounts deemed by the IRC to be excess yields earned on purpose (excess loan yield) and nonpurpose investments (arbitrage rebates) acquired with proceeds of tax-exempt bond or note financings. The calculation is based on the excess of investment yield over the related bond or note cost of funds. Arbitrage rebate, if any, is paid at each five-year anniversary of the underlying bond's issuance date and at bond maturity. The CalEdge bond indenture is the only remaining bond subject to this calculation, as the Foundation defeased all other bonds in 2005.

The Foundation accrues a liability for arbitrage rebate and recognizes income or expense related to changes in this liability based on third-party calculations as of the balance sheet dates. See Note 12 for further information on current year arbitrage activity.

**D. Student Loan Income**

Interest income on student loans includes borrower interest, government interest, and special allowance payments. The Foundation did not have a special allowance payment in 2008; however, they did receive a payment in 2007. Interest income is recognized based upon the interest rate and principal amount outstanding in accordance with the terms of the applicable loan agreement until the outstanding balance is paid or charged off.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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2. **Summary of Significant Accounting Policies, continued**

**Significant Accounting Policies Associated with Student Loans, continued**

**E. Interest Expense and Financing Costs**

Interest expense is based upon contractual interest rates adjusted for the amortization of deferred financing costs. Financing costs incurred when establishing financing arrangements are capitalized and amortized over the term of the financing arrangement as a component of interest expense. The net value of financing costs is approximately \$0.1 million and \$0.4 million, respectively, at December 31, 2008 and 2007, and is included in other assets on the statement of financial position.

**F. Student Loan Related Expenses**

As indicated in Notes 11 and 12, the Foundation has restructured and sold off substantially all of its assets associated with student loans. Student loan related expenses include all other third-party costs directly attributable to the management of trust assets and liabilities. Such expenses include fees paid to the Department of Education (DOE), trustee fees, professional service provider fees, arbitrage rebate expenses, if applicable, interest paid related to the bond indenture, loan servicing fees, provisions for loan losses, and asset purchase related costs.

3. **Investments**

On April 5, 2005, the Board of Directors of the Foundation delegated authority to the Investment Committee of the Board to develop the Foundation's investment policy and objectives, and to allocate and direct the investment of Foundation funds. The Investment Committee reports to the Board of Directors on a quarterly basis.

The Foundation's investments at December 31, 2008 and 2007 were as follows:

	2008	2007
	(in thousands)	
Guaranteed investment contracts (CalEdge Program)	\$ 1,880	\$ 2,233
Fixed income and bond funds	79,604	86,074
Diversified inflation hedge fund	39,990	88,312
Domestic equity funds	47,025	118,446
International equity funds	69,327	104,502
Marketable alternatives	78,732	71,377
Private equity	1,746	631
Total investments	\$ 318,304	\$ 471,575

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

3. **Investments**, continued

The guaranteed investment contracts held by the Foundation are associated with the CalEdge student loan and bond program (see Note 6C) and mature in 2028. These guaranteed investment contracts include provisions requiring the issuer to provide collateralization in the form of U.S. government obligations. The guaranteed investment contracts held by the Foundation were issued by GE Capital Corporation.

The diversified inflation hedge funds include a wide variety of investments, such as domestic and international equities, fixed income securities, commodities futures, and real estate investments.

Investment income for the years ended December 31, 2008 and 2007 was as follows:

	2008	2007
	(in thousands)	
Interest and dividends	\$ 8,351	\$ 12,487
Realized gains, net	13,847	16,398
Unrealized (losses) gains, net	(155,868)	20,284
Investment management fees	(1,387)	(1,605)
Total investment (loss) income, net	\$ (135,057)	\$ 47,564

4. **Fair Value of Financial Instruments**

The following table summarizes the Foundation's investments by the FAS 157 value hierarchy levels (see Note 2) as of December 31, 2008. As required by FAS 157, assets and liabilities with multiple inputs are classified in their entirety based on the lowest level significant input.

**Fair Value Measurements at Reporting date using inputs categorized as:**  
(in thousands)

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 7,091	-	-	\$ 7,091
Restricted assets	258	-	-	258
Investments:				
Guaranteed investment contracts	-	\$ 1,880	-	1,880
Fixed income and bond funds	35,322	44,282	-	79,604
Diversified inflation hedge fund	14,100	-	\$ 25,890	39,990
Domestic equity funds	43,146	3,879	-	47,025
International equity funds	38,695	18,362	12,270	69,327
Marketable alternatives	-	-	78,732	78,732
Private equity	-	-	1,746	1,746
Total investments	131,263	68,403	118,638	318,304
Other assets	-	430	-	430
Total	\$ 138,612	\$ 68,833	\$ 118,638	\$ 326,083

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

4. **Fair Value of Financial Instruments, continued**

	Level 1	Level 2	Level 3	Total
Liabilities—				
Accounts payable and accrued liabilities	—	\$ 442	—	\$ 442
Total	—	\$ 442	—	\$ 442

Other assets and accounts payable and accrued liabilities have recurring fair value measurements related to the Foundation's deferred compensation plan (see Note 7). The assets of the corporate-owned life insurance policy are invested in securities with quoted prices. The deferred compensation liability is based on the gains or losses from the life insurance investments, which is valued based on quoted prices.

The table below summarizes changes in investments measured at fair value for which the Foundation has used Level 3 inputs to determine fair value. The table reflects gains and losses for the full year for all financial assets and liabilities classified as Level 3.

**Financial Assets valued using Level 3 inputs for the year ended December 31, 2008**  
(in thousands)

	Diversified Inflation Hedge Fund	International Equity Funds	Marketable Alternatives	Private Equity	Total
Balance, beginning of year	\$ 63,980	\$ 27,354	\$ 71,377	\$ 630	\$ 163,341
Purchases/(sales), net	(15,280)	(665)	25,616	1,660	11,331
Realized and unrealized losses, net	(22,810)	(14,419)	(18,261)	(544)	(56,034)
Balance, end of year	<u>\$ 25,890</u>	<u>\$ 12,270</u>	<u>\$ 78,732</u>	<u>\$ 1,746</u>	<u>\$ 118,638</u>
Net change in unrealized gains/ (losses) relating to instruments still held at December 31, 2008	<u>\$ (33,017)</u>	<u>\$ (21,429)</u>	<u>\$ (18,326)</u>	<u>\$ (544)</u>	<u>\$ (73,316)</u>

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
(formerly The Education Financing Foundation of California)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

5. **Grants Payable**

The following is a schedule of future unconditional grant payments required under current grants at December 31, 2008 and 2007:

	2008	2007
	(in thousands)	
Payable in less than one year	\$ 9,123	\$ 5,575
Payable in one to five years	6,444	1,969
Payable in more than five years	-	37
Total unconditional grants payable	15,567	7,581
Less discounts to net present value	(457)	(166)
Net unconditional grants payable	<u>\$ 15,110</u>	<u>\$ 7,415</u>

6. **Items Associated with Student Loans**

Certain assets liabilities, income and expenses are directly tied to operations that are in a wind down phase associated with student loans. The history of the restructuring, sale of assets and wind-down of such operations is outlined in Notes 11 and 12. The consolidated financial statements of the Foundation reflect the following items associated with the student loan operations.

**A. Student Loans Receivable**

The following is a schedule of student loans receivable at December 31, 2008 and 2007:

	2008	2007
	(in thousands)	
FFELP student loans receivable	\$ 137	\$ 138
CEL loans receivable	7,597	9,026
	7,734	9,164
Allowance for loan losses	(524)	(569)
Student loans receivable, net	<u>\$ 7,210</u>	<u>\$ 8,595</u>

**FFELP Program**

FFELP student loans receivable are comprised of federally guaranteed student loans with DOE-specified interest rate formulas and repayment terms. The FFELP programs are the Federal Stafford Loan (Stafford) Program, the Federal Supplemental Loans for Students (SLS) Program, the Federal Parent Loan for Undergraduate Students (PLUS) Program, and the Federal Consolidation Loan Program.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

6. **Items Associated with Student Loans, continued**

**CEL Program**

The Foundation continues to hold the CalEdge portfolio. All other CEL loans were sold on June 8, 2006 as mentioned in Note 12. The CalEdge loans have an average time to maturity of approximately 10 years.

**Combined FFELP and CEL Programs**

At December 31, 2008, the Foundation maintained third-party servicing agreements with one corporation acting as agent for the FFELP and CEL programs to perform loan servicing, billing, accounting, reporting, and loan administrative duties. Under the terms of the servicing agreements, the service providers are held liable for losses resulting from their own negligent loan servicing. At December 31, 2008 and 2007, 100% of the Foundation's loans were serviced by third-party service providers.

**B. Allowance for Loan Losses**

The table below summarizes the changes in the allowance for loan loss reserve for the year ended December 31, 2008 and 2007:

	2008	2007
	(in thousands)	
Balance at the beginning of the year	\$ 569	\$ 599
Provision for possible losses	335	254
Charges to allowance	(403)	(393)
Recoveries	108	109
Decrease in allowance estimate	(85)	-
Balance at end of the year	\$ 524	\$ 569

**C. Note Payable**

The Foundation has one note payable outstanding totaling \$7.6 million as of December 31, 2008 and \$9.4 million as of December 31, 2007. This note payable is due to California Educational Facilities Authority (CEFA) and is related to the CalEdge program (see Note 12).

The CEFA note payable was issued in connection with a tax-exempt financing and is payable at a fixed rate of 5.55%. The note matures in 2028. Payments of principal and interest are paid semi-annually based on a cash flow analysis performed by CALMA. Principal and interest paid totaled \$1.8 million and \$0.5 million, respectively, for the year ended December 31, 2008 and \$1.7 million and \$0.6 million, respectively, for the year ended December 31, 2007.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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**6. Items Associated with Student Loans, continued**

**C. Note Payable, continued**

Payments received on student loans associated with the CalEdge program are deposited with a trustee to fund principal and interest payments due. The Foundation is subject to certain collateral ratio requirements, as set forth in these agreements. The Foundation was in compliance with these collateral ratio requirements at December 31, 2008 and 2007.

**D. Restricted Assets**

In accordance with the CalEdge bond indenture agreements, a ratio of trust asset collateral to bond liability or indebtedness must meet or exceed a specified distribution threshold in order for the Foundation to have the ability to transfer funds from the indenture trust accounts to the general operating account. These amounts represent restricted assets.

Asset collateral held in trusts in excess of bond and notes liability or indebtedness, but not available for distribution due to asset collateral ratio threshold restrictions, was approximately \$0.3 million at December 31, 2008 and 2007.

**E. Excess Loan Yield Refund, Special Allowance Payment (SAP) and Interest Repayment**

In 2007, one of the third party student loan service providers, ACS, informed CEFI that an audit had revealed an error in the software system that calculated average student loan balances outstanding used by the DOE to calculate SAP and government interest payments. The error produced an overstatement of SAP and government interest for a period of approximately 10 years. ACS reported that CEFI's overpayment totaled \$6.1 million. The DOE invoiced CEFI for this amount in two separate installments, \$2.1 million in April 2007, which was accrued at December 31, 2006, and \$4.0 million in September 2007. These amounts were paid in July and November 2007, respectively. The amount totaled \$4.0 million for the year ended December 31, 2007, and is reflected as a reduction of revenues on the consolidated statement of activities. Another student loan service provider, Nelnet, provided a refund of \$0.1 million which has been netted against the special allowance payment and interest repayment. No such events were noted in 2008.

In connection with the above, arbitrage rebate and excess loan yield payments had been calculated and paid based on originally recorded SAP and interest income in previous years. Repayment of the income in 2007 reduced income amounts that the arbitrage/excess loan yield had been based on when paid.

As such, management applied for a refund of arbitrage/excess loan yield overpaid in both 2007 and 2008. In 2007, CEFI applied for a refund of overpaid arbitrage rebates in the amount of \$0.6 million which was received in 2008. This amount was reflected as arbitrage refund income for the year ended December 31, 2007 and carried in other receivables as of December 31, 2007.

In 2008 CEFI also filed for a refund of \$1.7 million with the IRS. The IRS agreed with CEFI's analysis and paid the \$1.7 million to CEFI in January 2009. This amount was reflected as arbitrage refund income in 2008 and carried in other assets as of December 31, 2008.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

**7. Employee Benefits**

The Foundation sponsors a 403(b) plan to which eligible employees may voluntarily contribute a percentage of their compensation. The Foundation then contributes a matching amount up to a certain percent of an employee's salary. In September 2008, the board increased the matching amount from 6% of an employee's salary to 12% of an employee's salary. The Foundation's plan expense was \$103 thousand for the year ended December 31, 2008 and \$59 thousand for the year ended December 31, 2007.

CEFI has a nonqualified deferred compensation plan (the DCP), established utilizing an irrevocable trust called a Rabbi Trust, to provide specified benefits to a select group of former CEFI management. Contribution, vesting, and benefit provisions are as outlined in the plans. In May 2005, CEFI funded the DCP using corporate-owned life insurance carried by Sun Life Assurance Company of Canada (U.S.), which is owned by the Rabbi Trust through Wilmington Trust Bank, the trustee of the plan.

The cash surrender value of this life insurance policy was \$0.4 million and \$0.8 million at December 31, 2008 and 2007, respectively. These amounts are included in other assets on the statement of financial position. The deferred compensation liability was \$0.4 million and \$0.8 million at December 31, 2008 and 2007, respectively. Deferred compensation expense was a credit of \$(176) thousand and \$70 thousand for the years ended December 31, 2008 and 2007, respectively. The following table sets forth the DCP status, along with amounts recognized in the Foundation's consolidated statement of financial position for the years ended December 31, 2008 and 2007.

	2008	2007
	(in thousands)	
Reconciliation of DCP cost:		
Accrued DCP cost at beginning of year	\$ (823)	\$ (964)
Net periodic DCP credit (expense)	176	(70)
Plan participant contributions	-	-
Benefits paid	205	211
Accrued DCP cost at end of year	(442)	(823)
Cash surrender value of insurance policy	430	846
(Underfunded)/overfunded status	\$ (12)	\$ 23

**8. Income Taxes**

As a result of the restructuring discussed in Note 11, CEFI, a for-profit Delaware corporation, was created. Although CEFI realized pre-tax income of \$2.2 million in 2008 and \$3.5 million in 2007, there was no current income tax expense because of CEFI's operating loss carryforward in both 2008 and 2007.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

8. **Income Taxes**, continued

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of CEFI's deferred tax liabilities and assets at December 31, 2008 and 2007, are as follows:

	2008	2007
	(in thousands)	
Deferred tax assets:		
Accrued liabilities	\$ 279	\$ 627
Tax loss carryforwards	6,752	7,216
Tax credit carryforwards	23	-
Other	80	234
Net deferred tax assets	7,134	8,077
Valuation allowance	(7,134)	(8,077)
Net deferred taxes	-	-

Based on the available objective evidence at December 31, 2008, the Foundation does not believe it is more likely than not that the net deferred tax assets will be fully realizable. Accordingly, the Foundation has provided a full valuation allowance against its net deferred tax assets at December 31, 2008 and 2007. The valuation allowance decreased by \$0.9 million and increased by \$0.8 million for the years ending December 31, 2008 and 2007, respectively.

As of December 31, 2008, CEFI had federal and state net operating loss carryforwards of approximately \$17.3 million and \$15.1 million, respectively, and \$18.6 million and \$19.4 million as of December 31, 2007, respectively. If not utilized, the net operating loss carryforwards will expire starting in 2025 and 2010, respectively.

Utilization of net operating losses may be subject to a substantial annual limitation due to the "change of ownership" provisions of the Internal Revenue Code Section 382. The annual limitation may result in the expiration of net operating losses before utilization.

CEFI's provision for income taxes differs from the federal statutory rate mainly due to state income taxes and changes to the valuation allowance.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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9. **Commitments, Contingencies, and Concentrations of Risk**

**Premises and Equipment Lease Commitments**

The following is a schedule of future minimum rental payments required under operating leases, including the Foundation's office facilities and equipment that have remaining noncancelable terms in excess of one year at December 31, 2008 (in thousands):

	(in thousands)
2009	\$ 338
2010	301
2011	244
2012	<u>40</u>
Total	<u>\$ 923</u>

In late 2006, the Foundation entered into a five year lease agreement for new office space with a commencement date of February 2007. The lease on its original office space has a termination date of July 2010. Simultaneously with its entering into the new lease, the Foundation sublet its original office space for the remainder of its term.

The total sublease income specified in the sublease agreement is as follows:

	(in thousands)
2009	\$ 114
2010	<u>66</u>
Total	<u>\$ 180</u>

Total rental expenses for the years ended December 31, 2008 and 2007 were \$0.4 million and \$0.3 million, respectively.

**Investment Commitments**

As of December 31, 2008 and 2007, the Foundation has commitments under various investment agreements to make additional capital contributions of \$26.4 million and \$21.4 million, respectively.

**Contingencies**

From time to time, the Foundation may be involved as a party to certain legal proceedings and other claims arising in the normal course of its business. While litigation and claims resolution are subject to many uncertainties and cannot be predicted with assurance, it is management's opinion that any resulting losses would not have a material effect on the Foundation's consolidated financial statements.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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9. **Commitments, Contingencies, and Concentrations of Risk**, continued

**Contingencies**, continued

The Foundation is subject to significant regulations and administrative rules imposed by various regulatory bodies. These rules and regulations are subject to legislative changes and departmental interpretation that may change over time. It is possible that future legislative changes or interpretations of administrative rules and regulations may result in changes to the Foundation's financial position.

**Concentrations of Risk**

Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, investments, guaranteed investment contracts, and student loan receivables. The Foundation maintains cash and cash equivalents with two major financial institutions. As of December 31, 2008 and 2007, the Foundation was in excess of the federal depository insurance limit of \$250,000 and \$100,000, respectively.

The Foundation's credit risk is inherent principally in its investments. Adverse economic conditions either nationwide or internationally may result in a reduction of the investments carrying amount. The maximum loss on the investments would be the carrying amount in the financial statements, less amounts insured by the Securities Investor Protection Corporation (SIPC).

As of December 31, 2008 and 2007, the Foundation held investments in excess of the Securities Investor Protection Corporation (SIPC) insurance limits. To address the risk of investments, the Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines and requires review of the investment manager's performance. Investments are managed by investment managers who have responsibility for investing the funds in various investment classes. An investment advisor is also utilized. This entire process is actively overseen by the Investment Committee of the Board of Directors.

Guaranteed investment contracts are held at one financial institution and are insured by the FDIC up to \$100,000. At December 31, 2008 and 2007, the Foundation held guaranteed investment contracts in excess of the FDIC's limits.

The Foundation's credit risk is also inherent in its student loans receivable. Adverse economic conditions either regionally or nationwide may result in an increase in student loan borrower defaults.

10. **Corporate Restructuring**

As indicated in Note 1, the Foundation and its subsidiary, CEFI Corporation (CEFI), are the surviving entities after a series of corporate restructuring beginning in 2004. In late 2004, Chela Financial Resources, Inc. (Resources) and its affiliate, Chela, Inc., were nonprofit public benefit corporations organized for the purpose of assisting students in obtaining funds for their education by way of purchasing student loans in the secondary market place, offering various education loan assistance programs and providing loan servicing.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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10. **Corporate Restructuring**, continued

Chela, Inc. was incorporated on April 23, 1979 under the Internal Revenue Code (IRC) Section 501(c)(3), 150(d) and Resources was incorporated on May 11, 1994 under IRC Section 501(c)(3). Both entities were incorporated under the laws of the State of California.

Chela, Inc., pursuant to the requirements of Internal Revenue Service (IRS) Code Section 150(d), was required to apply all of its net income to the acquisition of additional student loans authorized under the Higher Education Act. In addition, Chela, Inc. would have been required, upon dissolution, to return its net assets to the United States government.

Recognizing the problems inherent in these restrictions, Congress enacted IRC Section 150(d)(3) which specifically authorized IRC Section 150(d) corporations to undergo a “conversion” process whereby they were allowed to transfer all of their liabilities and pledged student loan assets to a wholly owned, for-profit subsidiary, sell the assets, pay down the liabilities and transfer the residual cash to the original 150(d) corporation which was transformed into a charitable foundation. This opened the possibility for the Chela, Inc. to use its assets more fully for the charitable purpose of benefiting higher education.

In late 2004, Chela, Inc.’s management embarked on a program to take advantage of the benefits of this new legislation and initiated the organizational changes and the sale of assets to Nelnet Corporation (Nelnet) and First Marblehead Bank (First Marblehead) described more fully below:

- Substantially all of Chela, Inc.’s assets and liabilities were transferred to CEFI, a newly created for-profit Delaware corporation, in exchange for CEFI’s issuance of Senior Stock to Chela, Inc.
- Resources merged with Chela, Inc., after which all of Resources’ assets liabilities, business and employees were transferred to CEFI.
- The name of Chela, Inc. was changed to The Education Financing Foundation of California.
- CEFI sold substantially all (approximately \$2.2 billion) of its FFELP and private student loans.
- Profits from these sales were paid in a dividend to the Foundation, forming the asset base that allows the Foundation to carry out its mission.
- In March 2007, the name of the Foundation was changed from The Education Financing Foundation of California to College Access Foundation of California.

Prior to the sale of assets, the primary source of revenue for Chela, Inc. was interest on student loans. After the sale of assets, the Foundation’s primary source of revenue is from interest and investment income.

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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**11. Sale of Assets**

On October 25, 2005, under the terms of the Asset Purchase Agreement (APA) with Nelnet Corporation (Nelnet), CEFI sold substantially all of its FFELP student loan assets, totaling approximately \$2.2 billion (not including loans more than 210 days delinquent), along with related origination, servicing operations, and intellectual property and trademarks. Then, on June 8, 2006, the Foundation consummated a sale of substantially all remaining consumer education loans (CEL loans) to First Marblehead Corporation for \$93 million. Concomitant with these sales, the bonds that financed each asset pool were redeemed and CEFI had no further obligations to the bondholders. The only remaining loans and debt retained by CEFI were related to the CalEdge program, more fully described below.

After the asset sale, the Foundation was left with delinquent FFELP loans that did not qualify for sale because they were more than 210 days delinquent. The APA provided that if any previously delinquent FFELP loans became less than 210 days delinquent, Nelnet would purchase these loans at par. As of December 31, 2008, the remaining balance of FFELP loans more than 210 days delinquent totaled \$0.1 million.

As mentioned above, the Foundation also retained CEL loans originated under the CalEdge program. The CalEdge program was initiated on April 1, 1998 as a joint program of Chela, Inc. and the California Educational Facility Authority (CEFA) whereby CEFA provided funding for student loans via a bond issue and Chela, Inc. originated the loans and provided program administration. As of December 31, 2008 and 2007, these loans totaled \$7.6 million and \$9.0 million, respectively. Related debt totaled \$7.6 million and \$9.4 million, respectively.

Aside from the purchase of loans and other assets as discussed above, there were a number of other contractual arrangements entered into between CEFI and Nelnet, including:

- Nelnet agreed to provide future servicing or oversight of third-party servicers for those loans retained by CEFI for a period of up to five years from the date of the agreement.
- For a period of 36 months from the date of the agreement, Nelnet could require CEFI to repurchase any of the purchased loans under a variety of specified circumstances. Generally, these circumstances relate to events or actions prior to the date Nelnet purchased the loans. Any such repurchases were to be at a comparable premium to the purchase price Nelnet had originally paid plus any incidental costs to fully compensate Nelnet. CEFI had an indemnification reserve of \$0.8 million at December 31, 2007 to cover potential purchases of this nature.

The 36 month period expired on October 25, 2008. However, just before expiration, Nelnet presented CEFI with a claim for \$4.4 million of loans that they assessed were deficient and would be denied if presented to the guarantor. Nelnet and CEFI have reached an agreement in principal to settle this issue and an agreement is being prepared. The agreement is as follows:

- Nelnet resolved \$1.3 million of loans so they would not be denied in claims and \$3 million that would be exposed to payment of \$0.2 million of interest only if presented to claim. Approximately \$0.1 million of loans were left unresolved.

Continued

**COLLEGE ACCESS FOUNDATION OF CALIFORNIA**  
**(formerly The Education Financing Foundation of California)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued**

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11. **Sale of Assets, continued**

- The Foundation agreed to pay \$0.2 million to reimburse Nelnet for premiums originally paid when it purchased the loans plus certain costs incurred to resolve the deficiencies with the loans. The Foundation also agreed to indemnify Nelnet against losses should any of the loans be presented to claims and denied. Foundation management estimated possible exposure of future obligations under the indemnification at approximately \$0.1 million, which is based on historical collection experience. The indemnification reserve totals \$0.3 at December 31, 2008.

12. **Wind-Down of CEFI**

On March 27, 2006, The Foundation entered into an Administrative Services Agreement with the California Alternative Loan Marketing Association (CALMA) whereby CALMA assumed the Foundation's administrative and program duties under the 1998 Indenture and Program Administration Agreement for the CalEdge student loan program.

After the sale of assets to Nelnet and First Marblehead, CEFI management turned its attention to winding down the CEFI business, terminating CEFI employees and transferring management of the remaining assets to the Foundation. Most of the terminations took place during the later part of 2005 and first half of 2006. Three CEFI employees were transitioned to the Foundation.

In December 2006, CEFI management took action to terminate its 401(k) retirement plans. Employees still retain balances in the 403(b) plan; therefore termination had not yet taken place as of June 2009.