

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2009 and 2008

COLLEGE ACCESS 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 (the Foundation) as of December 31, 2009 and 2008, 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, 2009 and 2008, 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, Done.

San Francisco, California
September 29, 2010

Member of The Leading Edge Alliance

COLLEGE ACCESS FOUNDATION OF CALIFORNIA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

(in thousands)

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 3,866	\$ 7,091
Investments	275,631	318,304
Net receivables from unsettled trades	114,842	-
Interest and dividends receivable	43	301
Student loans receivable, net	6,437	7,210
Restricted assets	227	258
Other assets	673	2,719
Total assets	\$ 401,719	\$ 335,883
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,174	\$ 2,020
Grants payable, net	14,021	15,110
Bond payable	6,590	7,610
Total liabilities	22,785	24,740
Net assets—unrestricted	378,934	311,143
Total liabilities and net assets	\$ 401,719	\$ 335,883

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

COLLEGE ACCESS FOUNDATION OF CALIFORNIA
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
for the years ended December 31, 2009 and 2008
(in thousands)

	<u>2009</u>	<u>2008</u>
Revenues:		
Investment income (loss), net	\$ 83,010	\$ (135,057)
Student loan related revenues:		
Interest	581	679
Arbitrage refund	-	1,749
Other	277	847
Net student loan related revenues	858	3,275
Other income (loss)	181	(71)
Total revenues (loss)	<u>84,049</u>	<u>(131,853)</u>
Expenses:		
Program expenses:		
Grants awarded	11,856	17,610
Student loan related expenses	1,650	1,298
Grant-making expenses	1,299	1,203
Total program expenses	14,805	20,111
Management and general expenses	1,453	2,002
Total expenses	<u>16,258</u>	<u>22,113</u>
Change in net assets	67,791	(153,966)
Net assets, beginning of year	<u>311,143</u>	<u>465,109</u>
Net assets, end of year	<u>\$ 378,934</u>	<u>\$ 311,143</u>

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

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2009 and 2008

(in thousands)

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 67,791	\$(153,966)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of fixed assets	59	76
Net realized and unrealized (gain) loss on investments	(79,650)	142,021
Change in provision for loan losses	(210)	335
Discount for grants payable	(189)	(291)
Changes in operating assets and liabilities:		
Net decrease in interest and dividends receivable	257	278
Net decrease in student loan receivable	984	1,050
Net decrease in restricted assets	31	47
Net decrease (increase) in other assets	2,005	(545)
Net increase (decrease) in accounts payable and accrued liabilities	155	(1,204)
Net (decrease) increase in grants payable	(900)	7,986
	<u>(9,667)</u>	<u>(4,213)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	326,995	131,540
Purchases of investments	(204,673)	(120,290)
Net receivables from unsettled trades	(114,842)	-
Purchases of property and equipment	(18)	(25)
	<u>7,462</u>	<u>11,225</u>
Net cash provided by investing activities		
Cash flows from financing activities—Repayment of bond payable	<u>(1,020)</u>	<u>(1,825)</u>
Net cash used in financing activities	<u>(1,020)</u>	<u>(1,825)</u>
Net (decrease) increase in cash and cash equivalents	(3,225)	5,187
Cash and cash equivalents, beginning of year	<u>7,091</u>	<u>1,904</u>
Cash and cash equivalents, end of year	<u>\$ 3,866</u>	<u>\$ 7,091</u>
Supplemental disclosure of cash flow information—Interest paid	<u>\$ 408</u>	<u>\$ 469</u>

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

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization and Business**

College Access Foundation of California (the Foundation) was founded in 2005 to help low-income and under-represented students in California reach and succeed in college. The Foundation awards grants to community-based college advising and academic preparation programs, which use the funds to offer college scholarships to the students they serve. The Foundation recognizes that financial aid is crucial for low-income students but believes that financial aid is more effective when coupled with the advice and support that grantee programs offer.

With an investment portfolio of almost \$400 million, the Foundation is one of the largest independent college scholarship providers in California. Since its founding, the Foundation has awarded approximately \$50 million in grants to over 100 organizations, which in turn have awarded nearly 20,000 scholarships to low-income California students.

The Foundation, including the CalEdge trust estate (CalEdge) for remaining outstanding student loan revenue bonds, and its wholly-owned subsidiary, CEFI Corporation (CEFI), are the surviving entities after a series of corporate restructurings that began in 2004 and were completed in 2006. The Foundation was funded through the dividends received from the net proceeds of the sale of a portfolio of student loans. Certain loans were not able to be sold, as well as related bonds payable, and are still part of the Foundation and CEFI.

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 generally accepted accounting principles for not-for-profit organizations, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. At December 31, 2009 and 2008, there were no donor-imposed restrictions. Therefore, 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, CalEdge, and CEFI. 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.

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

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

Financial Accounting Standards Board Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) for Generally Accepted Accounting Principles (GAAP). The Codification reorganized a large number of pronouncements issued by various standard setters into roughly 90 accounting topics and displays them using a consistent structure. The FASB ASC was established as the single source of authoritative nongovernmental U.S. GAAP. The Codification is effective for interim or annual financial periods ending after September 15, 2009 and, therefore, was adopted by the Foundation for the fiscal year ended December 31, 2009. The adoption was not intended to, and will not, change GAAP and did not have a material impact on the Foundation's financial position, statements of activities and changes in net assets and cash flows. The Codification will affect the way authoritative accounting pronouncements are referenced in the consolidated financial statements.

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.

Investments

Net realized and unrealized gains or losses on investments 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.

Net Receivables from Unsettled Trades

Net receivables from unsettled trades are amounts due from pending redemption requests made before December 31, 2009 that related to certain alternative investments. The Foundation was in the process of transferring the management of its investment portfolio from multiple investment vehicles and funds to a single diversified fund manager. These trades settled in January 2010.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Foundation uses various valuation approaches as provided for under GAAP. FASB established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Continued

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

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

Fair Value Measurements, continued

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1—quoted prices in active markets for identical investments. The type of investments in Level 1 include listed equities held in the name of the Foundation, and exclude listed equities and other securities held indirectly through commingled funds.

Level 2—pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3—pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. Investments that are included in this category are generally privately held or are in partnership format.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

In September 2009, new guidance was issued relating to investments in certain entities that calculate net asset value (NAV) per share. This standard permits, as a practical expedient, a reporting entity to measure the fair value of an investment, within its scope, on the basis of the NAV per share of the investment if the NAV of the investment is calculated in a manner consistent with the measurement principles of accounting for investment companies as of the reporting entity's measurement date. The standard also requires disclosures by major category of investment about the attributes of investments. Management has elected to adopt the practical expedient for all of its investments in fixed income and bond funds, private equity funds, diversified inflation hedge funds, commingled equity funds, and multi-strategy hedge funds.

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, multi-strategy alternatives, and private equity funds that may not be immediately liquid nor have readily determinable fair values. These investments are valued at amounts reported to the Foundation by, and in accordance with guidelines established by, the general partners of such entities. 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.

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

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 December 31, 2009, there were no outstanding conditional grants payable. As of December 31, 2008, the Foundation had \$250,000 in outstanding conditional grants payable, which was recognized as grant expense in 2009 as the conditions on these grants were met.

Income Taxes

The Foundation has maintained its Internal Revenue Code (IRC) Section 501(c)(3) organization status as a public charity. Beginning in 2010, the Foundation's tax status will change to a private foundation.

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.

Effective January 1, 2009, the Foundation adopted the provisions of a new accounting standard for the accounting of uncertainties in income taxes. The accounting standard prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. It provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of the accounting standard and in subsequent periods. In addition, the accounting standard provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. There was no financial statement impact upon implementation of the accounting standard.

The Foundation's federal and state tax returns are generally subject to examination by the IRS and State of California for three years and four years after they were filed, respectively. The Foundation recognizes interest and penalties accrued related to unrecognized tax benefits in management and general expenses on the statement of activities. No interest or penalties have been accrued as of December 31, 2009.

Continued

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

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

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Directly identifiable expenses, such as grants awarded, certain grant-making expenses, bond interest expense and service fees, and other costs, are charged to program and management and general expenses. Expenses related to more than one function are charged to programs and management and general expenses on the basis of periodic time studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

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.

Reclassifications

Certain amounts in the summarized financial data, particularly for investments, for 2008 have been reclassified to conform to the 2009 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

Significant Accounting Policies Associated with Student Loans

As outlined in Note 1, between 2004 and 2006, 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 remaining 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 any uninsured loans. 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 certain consumer education loan (CEL) programs.

Continued

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

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 Federal Family Education Loan Program (FFELP) loans, the Foundation also considers the incidence of student loan claims rejected for payment by guarantors.

The Foundation and ALL Student Loan Corporation (ALL), a third party program administrator, periodically assess the recoverability of the CEL portfolio and calculate an allowance to provide for probable net losses on the remaining CEL loans. As of December 31, 2009 and 2008, the Foundation held approximately \$6,597,000 and \$7,597,000, respectively, of CEL loans.

In 2009 and 2008, the Foundation received approximately \$277,000 and \$315,000, respectively, of previously written off loans, which is included in other student loan related revenue.

C. Student Loan Income

Interest income on student loans includes borrower interest, government interest, and special allowance payments. 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.

D. 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 was approximately \$92,000 and \$174,000, respectively, at December 31, 2009 and 2008, and is included in other assets on the consolidated statements of financial position.

E. Student Loan Related Expenses

Student loan related expenses primarily consist of third-party costs directly attributable to the management of CalEdge 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.

Recent Accounting Pronouncements

In 2010, accounting standards were amended to improve the disclosures about fair value measurement of investments. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation. Management is currently evaluating the impact of these standards.

Continued

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

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

Recent Accounting Pronouncements, continued

In 2010, accounting standards were amended to improve the disclosures about subsequent events in the financial statements of conduit debt obligors. The standard requires entities to disclose that subsequent events were evaluated through the date the financial statements are issued, rather than the date they are available to be issued. The effective of this standard is for periods ending after June 15, 2010. However, the Foundation has elected early adoption and now discloses the issuance date for subsequent events. The adoption of this new guidance did not have an impact on the consolidated financial statements.

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, 2009 and 2008 were as follows:

	2009	2008
	<i>(in thousands)</i>	
U.S. equities	\$ 36,567	\$ 43,146
International equities	-	52,795
Fixed income and bond funds	166,466	79,604
Commingled funds—domestic equity	6,238	3,879
Commingled funds—international equity	27,817	18,362
Guaranteed investment contracts (CalEdge Program)	1,808	1,880
Diversified inflation hedge fund	5,192	25,890
International equity funds	-	12,270
Multi-strategy hedge funds	27,629	78,732
Private equity funds	3,914	1,746
Total investments	\$ 275,631	\$ 318,304

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.

Continued

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

3. **Investments, continued**

Investment income for the years ended December 31, 2009 and 2008 was as follows:

	2009	2008
	<i>(in thousands)</i>	
Interest and dividends	\$ 4,621	\$ 8,351
Realized (losses) gains, net	(10,360)	13,847
Unrealized gains (losses), net	90,010	(155,868)
Investment management fees	(1,261)	(1,387)
Total investment income (loss), net	\$ 83,010	\$ (135,057)

4. **Fair Value of Financial Instruments**

The following tables summarize the valuation of the Foundation's investments measured on a recurring basis (see Note 2) as of December 31, 2009 and 2008. 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)

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 3,866	\$ -	\$ -	\$ 3,866
Restricted assets	227	-	-	227
Net receivables from unsettled trades	-	114,842	-	114,842
Investments:				
U.S. equities	36,567	-	-	36,567
Fixed income and bond funds	-	166,466	-	166,466
Commingled funds—domestic equity	-	6,238	-	6,238
Commingled funds—international equity	-	27,817	-	27,817
Guaranteed investment contracts	-	-	1,808	1,808
Diversified inflation hedge fund	-	-	5,192	5,192
Multi-strategy hedge funds	-	-	27,629	27,629
Private equity funds	-	-	3,914	3,914
Total investments	36,567	200,521	38,543	275,631
Other assets—cash surrender life insurance	-	325	-	325
Total	\$ 40,660	\$ 315,688	\$ 38,543	\$ 394,891
Liabilities—Accounts payable and accrued liabilities—deferred compensation				
	\$ -	\$ 347	\$ -	\$ 347
Total	\$ -	\$ 347	\$ -	\$ 347

Continued

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

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

	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 7,091	\$ -	\$ -	\$ 7,091
Restricted assets	258	-	-	258
Investments:				
U.S. equities	43,146	-	-	43,146
International equities	52,795	-	-	52,795
Fixed income and bond funds	35,322	44,282	-	79,604
Commingled funds—domestic equity	-	3,879	-	3,879
Commingled funds—international equity	-	18,362	-	18,362
Guaranteed investment contracts	-	-	1,880	1,880
Diversified inflation hedge fund	-	-	25,890	25,890
International equity funds	-	-	12,270	12,270
Multi-strategy hedge funds	-	-	78,732	78,732
Private equity funds	-	-	1,746	1,746
Total investments	131,263	66,523	120,518	318,304
Other assets—cash surrender life insurance	-	430	-	430
Total	<u>\$ 138,612</u>	<u>\$ 66,953</u>	<u>\$ 120,518</u>	<u>\$ 326,083</u>
Liabilities—Accounts payable and accrued liabilities—deferred compensation				
Total	<u>\$ -</u>	<u>\$ 442</u>	<u>\$ -</u>	<u>\$ 442</u>

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.

Continued

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

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

The tables below summarize changes in investments measured at fair value for which the Foundation has used Level 3 inputs to determine fair value. The tables reflect gains and losses for the full years for all financial assets and liabilities classified as Level 3.

Financial assets valued using Level 3 inputs for the years ended December 31, 2009 and 2008
(in thousands)

	Guaranteed Investment Contracts	Diversified Inflation Hedge Funds	International Equity Funds	Multi-Strategy Hedge Funds	Private Equity Funds	2009 Total
Balance, beginning of year	\$ 1,880	\$ 25,890	\$ 12,270	\$ 78,732	\$ 1,746	\$ 120,518
Purchases (sales), net	(72)	(27,705)	(16,637)	(60,000)	1,879	(102,535)
Realized and unrealized gains, net	-	7,007	4,367	8,897	289	20,560
Balance, end of year	<u>\$ 1,808</u>	<u>\$ 5,192</u>	<u>\$ -</u>	<u>\$ 27,629</u>	<u>\$ 3,914</u>	<u>\$ 38,543</u>
Net change in unrealized gains (losses) relating to instruments still held at December 31, 2009	<u>\$ -</u>	<u>\$ (184)</u>	<u>\$ -</u>	<u>\$ 4,798</u>	<u>\$ 289</u>	<u>\$ 4,903</u>

	Guaranteed Investment Contracts	Diversified Inflation Hedge Funds	International Equity Funds	Multi-Strategy Hedge Funds	Private Equity Funds	2008 Total
Balance, beginning of year	\$ 2,233	\$ 63,980	\$ 27,354	\$ 71,377	\$ 630	\$ 165,574
Purchases (sales), net	(353)	(15,281)	(665)	25,616	1,660	10,977
Realized and unrealized losses, net	-	(22,809)	(14,419)	(18,261)	(544)	(56,033)
Balance, end of year	<u>\$ 1,880</u>	<u>\$ 25,890</u>	<u>\$ 12,270</u>	<u>\$ 78,732</u>	<u>\$ 1,746</u>	<u>\$ 120,518</u>
Net change in unrealized gains (losses) relating to instruments still held at December 31, 2008	<u>\$ -</u>	<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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

The Foundation uses the NAV to determine the fair value of all the underlying investments which a) do not have readily determinable fair values and b) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists investments in other investment companies (in partnership or trust format) by major category as of December 31, 2009:

	Strategy	NAV in Funds	Number of Funds	Remaining Life	Unfunded Commitments	Timing to Drawdown Commitments	Redemption Notice Period	Redemption Restrictions
Assets:								
Fixed income and bond funds	Short-term fixed income	\$ 166,466	1	NA	\$ -	NA	10 days	None
Private equity funds	Venture and buyout U.S. and international	3,914	4	11-15 years	20,538	2-6 years	NA	NA*
Diversified inflation hedge funds	Natural resources and real estate	5,192	4	3-10 years	11,465	2-4 years	NA	NA*
Commingled funds—domestic equity	U.S. diversified	6,238	1	NA	-	NA	30-60 days	None
Commingled funds—international equity	International diversified	27,817	1	NA	-	NA	5 days	None
Multi-strategy hedge funds	Multi-strategy	<u>27,629</u>	1	2 years	<u>-</u>	NA	65 days	36 month lock-up
Total		<u>\$ 237,256</u>			<u>\$ 32,003</u>			

*Private equity fund structures with no ability to redeem.

Continued

COLLEGE ACCESS 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, 2009 and 2008:

	2009	2008
	<i>(in thousands)</i>	
Payable in less than one year	\$ 9,794	\$ 9,123
Payable in one to five years	4,874	6,444
Total unconditional grants payable	14,668	15,567
Less discounts to net present value	(647)	(457)
Net unconditional grants payable	\$ 14,021	\$ 15,110

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 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, 2009 and 2008:

	2009	2008
	<i>(in thousands)</i>	
CEL loans receivable	\$ 6,597	\$ 7,597
FFELP student loans receivable	8	137
	6,605	7,734
Allowance for loan losses	(168)	(524)
Student loans receivable, net	\$ 6,437	\$ 7,210

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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

A. Student Loans Receivable, continued

CEL Program

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

Combined FFELP and CEL Programs

At December 31, 2009, 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, 2009 and 2008, 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 years ended December 31, 2009 and 2008:

	2009	2008
	<i>(in thousands)</i>	
Balance at the beginning of the year	\$ 524	\$ 569
Provision for possible losses	(213)	250
Charges to allowance	(183)	(403)
Recoveries	40	108
	\$ 168	\$ 524

C. Bond Payable

The Foundation has one bond payable outstanding totaling \$6,590,000 as of December 31, 2009 and \$7,610,000 as of December 31, 2008. This bond payable is due to California Educational Facilities Authority (CEFA) and is related to the CalEdge program.

The CEFA bond payable was issued in connection with a tax-exempt financing and is payable at a fixed rate of 5.55%. The bond matures in 2028. Payments of principal and interest are paid semi-annually based on a cash flow analysis performed by ALL. Principal and interest paid totaled \$1,020,000 and \$394,000, respectively, for the year ended December 31, 2009 and \$1,825,000 and \$467,000, respectively, for the year ended December 31, 2008.

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

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

C. Bond 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, 2009 and 2008.

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 \$227,000 and \$258,000 at December 31, 2009 and 2008, respectively.

E. Arbitrage Refund and Interest Assessment

CEFI has been involved in a series of events and transactions since 2007, resulting from errors in the special allowance payments (SAP) to the DOE, calculated by one of the student loan service providers. These events resulted in reduced income for prior years and CEFI filed for an arbitrage refund of \$1,749,000 with the Internal Revenue Service (IRS) in 2008. The IRS agreed with CEFI's analysis and refunded the \$1,749,000 to CEFI in January 2009. This amount was reflected as arbitrage refund income in 2008 and was carried in other assets as of December 31, 2008.

Subsequent to year-end, the Foundation was notified of an interest assessment by the DOE related to the errors in SAP payments (see Note 10).

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. The Foundation matches up to 12% of an employee's salary. The Foundation's plan expense was \$140,000 for the year ended December 31, 2009 and \$103,000 for the year ended December 31, 2008.

Prior to the corporate restructuring, 401(k) and 403(b) retirement plans had been established for CEFI employees. In December 2006, CEFI management took action to terminate its 401(k) retirement plans. The termination of the 401(k) retirement plans was effective in fiscal year 2009. The remaining CEFI 403(b) retirement plans continued to retain employee balances through December 31, 2009, however, no contributions were made to the plans.

Continued

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

7. **Employee Benefits, continued**

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 \$325,000 and \$430,000 at December 31, 2009 and 2008, respectively. These amounts are included in other assets on the consolidated statements of financial position. The deferred compensation liability was \$348,000 and \$442,000 at December 31, 2009 and 2008, respectively. Deferred compensation expense was \$54,000 and there was a credit of \$(176,000) for the years ended December 31, 2009 and 2008, respectively. The following table sets forth the DCP status, along with amounts recognized in the Foundation's consolidated statements of financial position for the years ended December 31, 2009 and 2008.

	2009	2008
	<i>(in thousands)</i>	
Reconciliation of DCP cost:		
Accrued DCP cost at beginning of year	\$ (442)	\$ (823)
Net periodic DCP (expense) credit	(54)	176
Benefits paid	149	205
Accrued DCP cost at end of year	(347)	(442)
Cash surrender value of insurance policy	325	430
Underfunded status	\$ (22)	\$ (12)

8. **Income Taxes**

CEFI realized a pre-tax loss of \$(322,000) in 2009. Although CEFI realized pretax income of \$2,263,000 in 2008, there was no current income tax expense because of CEFI's operating loss carryforward in both 2009 and 2008.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA
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, 2009 and 2008, are as follows:

	2009	2008
	<i>(in thousands)</i>	
Deferred tax assets:		
Accrued liabilities	\$ 164	\$ 278
Tax loss carryforwards	6,836	6,752
Tax credit carryforwards	21	23
Other	155	80
Net deferred tax assets	7,176	7,133
Valuation allowance	(7,176)	(7,133)
Net deferred taxes	\$ -	\$ -

Based on the available objective evidence at December 31, 2009, 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, 2009 and 2008. The valuation allowance increased by \$42,000 and decreased by \$943,000 for the years ended December 31, 2009 and 2008, respectively.

As of December 31, 2009, CEFI had federal and state net operating loss carryforwards of approximately \$17,300,000 and \$16,500,000, respectively, and \$17,300,000 and \$15,100,000 as of December 31, 2008, respectively. If not utilized, the net operating loss carryforwards will expire starting in 2025 and 2017, respectively.

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

Continued

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

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, 2009 (in thousands):

2010	\$ 301
2011	244
2012	<u>41</u>
Total	<u>\$ 586</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):

2010	<u>\$ 66</u>
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Total rental expense for the years ended December 31, 2009 and 2008 was \$344,000 and \$361,000, 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.

Concentrations of Risk

Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, net receivables from unsettled trades, investments, guaranteed investment contracts, and student loan receivables. The Foundation maintains cash and cash equivalents with two major financial institutions. As of December 31, 2009 and 2008, the Foundation was in excess of the federal depository insurance limit of \$250,000.

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

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

Concentrations of Risk, continued

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, 2009 and 2008, the Foundation held investments in excess of the 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 Federal Deposit Insurance Corporation (FDIC). At December 31, 2009 and 2008, 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. **Subsequent Events**

The Foundation evaluated subsequent events for recognition and disclosure through September 29, 2010, the date which these financial statements were issued. The following were subsequent events that were deemed to require disclosure:

- In January 2010, the DOE notified CEFI of a \$706,000 interest assessment on the restitution already paid for special allowance overbilling (see Note 6). CEFI paid the assessment in February 2010 and then received confirmation from the DOE that the matter was closed. The amount was accrued as a liability as of December 31, 2009.
- On January 1, 2010, the income tax status categorization of the Foundation as a private foundation under IRS Code Section 501(c)(3) became effective.

Continued

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

10. **Subsequent Events, continued**

- During 2010, the Foundation embarked on a series of transactions to defease and retire the bonds associated with the CalEdge program (see Note 6C). In July 2010, the Foundation purchased substantially all of the bonds outstanding from one party. In this transaction, the Foundation purchased the outstanding bonds with a par value of \$5,830,000 for approximately \$5,637,000. On August 30, 2010, these bonds were transferred to the trustee and retired. The remaining \$205,000 of outstanding bonds were defeased on August 30, 2010, and will be redeemed and retired on September 30, 2010. Ownership of the student loan receivable portfolio associated with these bonds has been transferred from the trust to the Foundation. As a result of these transactions, the trust associated with the CalEdge program has been eliminated and will no longer be reported as a part of the consolidated financial statements of the Foundation. At December 31, 2009, approximately \$8,700,000 of assets, \$7,600,000 of liabilities, \$1,100,000 of net assets, and a change in net assets of \$392,000 were reported in the consolidated financial statements associated with the CalEdge program.

Management concluded that no other material subsequent events have occurred since December 31, 2009 that required recognition or disclosure in the consolidated financial statements.