

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2010 and 2009

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, 2010 and 2009, 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 audits.

We conducted our audits 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 audits provide 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, 2010 and 2009, and the consolidated changes in net assets and 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 30, 2011

Member of The Leading Edge Alliance

COLLEGE ACCESS FOUNDATION OF CALIFORNIA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009
(in thousands)

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 4,573	\$ 3,866
Investments	395,148	275,631
Net receivables from unsettled trades	22,129	114,842
Interest and dividends receivable	51	43
Student loans receivable, net	5,572	6,437
Other assets	409	673
Restricted assets	-	227
	\$ 427,882	\$ 401,719
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 853	\$ 2,174
Grants payable, net	14,534	14,021
Deferred federal excise taxes	882	-
Bond payable	-	6,590
	16,269	22,785
Total liabilities	16,269	22,785
Net assets-unrestricted	411,613	378,934
Total liabilities and net assets	\$ 427,882	\$ 401,719

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, 2010 and 2009
(in thousands)

	<u>2010</u>	<u>2009</u>
Revenues:		
Investment income, net	\$ 50,879	\$ 83,010
Less excise and income tax expense	<u>1,534</u>	<u>126</u>
Net investment income	49,345	82,884
Student loan related revenue	735	858
Other income	<u>86</u>	<u>181</u>
Total revenues	<u>50,166</u>	<u>83,923</u>
Expenses:		
Program expenses:		
Grants awarded	14,280	11,856
Student loan related expenses	643	1,524
Grant-making expenses	<u>1,324</u>	<u>1,299</u>
Total program expenses	16,247	14,679
Management and general expenses	<u>1,457</u>	<u>1,453</u>
Total expenses	<u>17,704</u>	<u>16,132</u>
Change in net assets before gain on defeasance of CalEdge bond	32,462	67,791
Gain on defeasance of CalEdge bond	<u>217</u>	<u>-</u>
Change in net assets	32,679	67,791
Net assets, beginning of year	<u>378,934</u>	<u>311,143</u>
Net assets, end of year	<u>\$ 411,613</u>	<u>\$ 378,934</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, 2010 and 2009
(in thousands)

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 32,679	\$ 67,791
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of fixed assets	78	59
Net realized and unrealized gain on investments	(55,860)	(79,650)
Provision for loan losses	59	(213)
Discount for grants payable	304	(189)
Net gain on defeasance of bonds	(217)	-
Deferred federal excise tax	882	-
Changes in operating assets and liabilities:		
Net (increase) decrease in interest and dividends receivable	(8)	257
Net decrease in student loan receivable	806	987
Net decrease in restricted assets	227	31
Net decrease in other assets	183	2,005
Net (decrease) increase in accounts payable and accrued liabilities	(1,210)	155
Net increase (decrease) in grants payable	209	(900)
Net cash used in operating activities	(21,868)	(9,667)
Cash flows from investing activities:		
Proceeds from sale of investments	337,858	326,995
Purchases of investments	(401,514)	(204,673)
Net receivables from unsettled trades	92,713	(114,842)
Purchases of property and equipment	(79)	(18)
Net cash provided by investing activities	28,978	7,462
Cash flows from financing activities-Repayment of bond payable	(6,403)	(1,020)
Net cash used in financing activities	(6,403)	(1,020)
Net increase (decrease) in cash and cash equivalents	707	(3,225)
Cash and cash equivalents, beginning of year	3,866	7,091
Cash and cash equivalents, end of year	\$ 4,573	\$ 3,866
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 183	\$ 408
Cash paid for excise and income taxes	\$ 175	\$ 150

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 \$420 million, the Foundation is one of the largest independent college scholarship providers in California. Since its founding, the Foundation has awarded approximately \$64 million in grants to over 100 organizations, which in turn have awarded over 20,000 scholarships to low-income California students.

The Foundation 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. Through August 2010, prior to the defeasance of the remaining student loan revenue bonds, the CalEdge trust estate (CalEdge) was also consolidated with the Foundation. For more information on the defeasance, see Note 6C. 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 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 on the accrual basis of accounting and are presented on the basis of unrestricted, temporarily restricted, or permanently restricted net assets. At December 31, 2010 and 2009, the Foundation had no temporarily or permanently restricted net assets. However, at December 31, 2009, there were restricted assets related to the CalEdge bond indenture agreement. See Note 6C for further information.

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 and its subsidiary.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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

Receivables from unsettled trades are amounts due from pending investment redemption requests made before December 31, 2010 and 2009. These trades were settled in January 2011 and January 2010, respectively.

Fair Value Measurements

The Foundation is subject to the provisions of Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements*. ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received by selling the investment in an orderly transaction between market participants at the measurement date (i.e. the exit price). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-12, *Investment in Certain Entities that Calculate Net Asset Value Per Share*, also known as the practical expedient, the net asset value (NAV) per share or its equivalent is used to estimate the fair value of investments 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. Management elected to adopt the practical expedient for all investments.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

ASC 820-10 also establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories. The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

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 the form of partnerships and limited liability companies (LLC's).

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

In January 2010, the FASB issued and the Foundation adopted ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 to require additional disclosures. 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; this is effective January 2011. The adoption of this guidance did not have a material impact on the Foundation's Consolidated Financial Statements.

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 hedges, domestic and international equity funds, multi-strategy hedge funds, multi-strategy endowment pools, 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.

Grants

Unconditional grants are recognized as grant expense and a liability when the Foundation's Board of Directors (the Board) approves the grants. 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. Grant refunds are recorded as a reduction of grant expense at the time the Foundation becomes aware the grant will be refunded.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

The Foundation is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and Section 23701(d) of the Revenue and Taxation Code of the State of California. For the 2010 fiscal year, the Foundation is classified as a private foundation within the meaning of Section 509(a) of the Code. As such, the Foundation is still exempt from federal income taxes under Section 501(c)(3) of the Code and is exempt from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code. However, the Foundation is subject to federal excise taxes as well as federal and state unrelated business income tax.

As a 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.

The Foundation recognizes and measures its unrecognized tax benefits in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which requires the Foundation to determine whether tax positions of the Foundation are “more-likely-than-not” to be sustained upon examination by the applicable taxing authority based on technical merits of the positions. As of December 31, 2010, the Foundation has analyzed the inventory of tax positions taken with respect to applicable income tax issues for all open tax years dating back to 2007 and has concluded that no reserve for uncertain tax positions is required.

The Foundation’s federal and state tax returns for 2007, 2008, and 2009 are open and subject to examination. The Foundation recognizes interest and penalties accrued related to unrecognized tax benefits in “Management and general expenses” on the Consolidated Statements of Activities. No interest or penalties have been accrued as of December 31, 2010 or 2009.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Consolidated Statements 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

For comparative purposes, certain amounts in the prior year's consolidated financial statements have been reclassified to conform with the current year presentation.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

Student loans receivable 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 values 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.

The allowance for loan losses is maintained at a level to provide for probable losses inherent in the consumer education loan (CEL) portfolio as of the reporting date and is established through a provision charged to student loan program expenses. Management considers historical portfolio data, student loan default rates published in market reports and general economic conditions to estimate the allowance for loan losses.

Student loan related revenue includes collections on previously written off loans and interest income. 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.

Student loan related expenses primarily consist of third-party costs directly attributable to the management of CalEdge trust assets and liabilities. Such expenses included 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.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Significant Accounting Policies Associated with Student Loans, continued

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 zero and approximately \$92,000, respectively, at December 31, 2010 and 2009, and is included in "Other assets" on the Consolidated Statements of Financial Position. The zero balance at December 31, 2010 is due to the defeasance of the bond for which financing costs had been incurred.

Recent Accounting Pronouncements

In July 2010, the FASB issued ASU 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, an update to ASC 310, *Receivables*. This ASU expands existing disclosures about the credit quality of financing receivables and their allowance for credit losses. The ASU affects all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value.

Entities will be required to provide disclosures on a disaggregated basis. The ASU defines two levels of disaggregation—portfolio segment and class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Classes of financing receivables generally are a disaggregation of portfolio segment. Management is evaluating what the effect of this ASU will be on the Foundation's 2011 Consolidated Financial Statements.

3. Investments

On April 5, 2005, the Board 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 on a quarterly basis.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investments, continued

The Foundation's investments at December 31, 2010 and 2009:

	2010	2009
	<i>(in thousands)</i>	
Multi-strategy endowment pool	\$ 336,807	\$ -
Multi-strategy hedge funds	30,244	27,629
Fixed income and bond funds	11,542	166,466
Diversified inflation hedges	8,604	5,192
Private equity funds	7,951	3,914
U.S. equities	-	36,567
Commingled funds-domestic equity	-	6,238
Commingled funds-international equity	-	27,817
Guaranteed investment contracts	-	1,808
	<u>\$ 395,148</u>	<u>\$ 275,631</u>

As of December 31, 2009, the Foundation held guaranteed investment contracts associated with CalEdge. These guaranteed investment contracts were eliminated during the defeasance of the student loan revenue bonds, and, consequently, have a zero balance at December 31, 2010. See Note 6C for further information on CalEdge and the defeasance.

Investment income for the years ended December 31, 2010 and 2009:

	2010	2009
	<i>(in thousands)</i>	
Interest, dividends and other	\$ (1,520)	\$ 4,621
Realized gains (losses), net	21,253	(10,360)
Unrealized gains, net	34,607	90,010
Investment management fees	(3,461)	(1,261)
	<u>\$ 50,879</u>	<u>\$ 83,010</u>

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Value of Financial Instruments

The following tables summarize the valuation of the Foundation's assets and liabilities measured on a recurring basis as of December 31, 2010 and 2009.

Fair value measurements at December 31, 2010 (in thousands):

	December 31, 2010			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash equivalents	\$ 2,400	\$ -	\$ -	\$ 2,400
Net receivables from unsettled trades	-	22,129	-	22,129
Investments:				
Fixed income and bond funds	-	11,542	-	11,542
Diversified inflation hedges	-	-	8,604	8,604
Multi-strategy endowment pool	-	-	336,807	336,807
Multi-strategy hedge funds	-	-	30,244	30,244
Private equity funds	-	-	7,951	7,951
Total investments	-	11,542	383,606	395,148
Other assets-cash surrender value life insurance	-	163	-	163
Total	\$ 2,400	\$ 33,834	\$ 383,606	\$ 419,840
Liabilities-Accounts payable and accrued liabilities-deferred compensation				
	\$ -	\$ 187	\$ -	\$ 187
Total	\$ -	\$ 187	\$ -	\$ 187

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Value of Financial Instruments, continued

Fair value measurements at December 31, 2009 (in thousands):

	December 31, 2009			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash equivalents	\$ 1,839	\$ -	\$ -	\$ 1,839
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 hedges	-	-	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 value life insurance	-	325	-	325
Total	<u>\$ 38,633</u>	<u>\$ 315,688</u>	<u>\$ 38,543</u>	<u>\$ 392,864</u>
Liabilities-Accounts payable and accrued liabilities-deferred compensation				
	\$ -	\$ 347	\$ -	\$ 347
Total	<u>\$ -</u>	<u>\$ 347</u>	<u>\$ -</u>	<u>\$ 347</u>

Cash surrender value life insurance and deferred compensation have recurring fair value measurements related to the Foundation's deferred compensation plan (see Note 7) and are included in the Consolidated Statements of Financial Position and Consolidated Statements of Cash Flows under "Other assets" and "Accounts payable and accrued liabilities," respectively. 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. Remaining assets included in the fair value table are discussed in the following pages.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Value of Financial Instruments, continued

The tables below summarize changes in assets and liabilities 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. Gains and losses are included in "Investment income, net" on the Consolidated Statements of Activities and in "Net realized and unrealized gain on investments" in the Consolidated Statements of Cash Flows. Additionally, there were no significant transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during 2010 and 2009.

Financial assets valued using Level 3 inputs for the years ended December 31, 2010 and 2009 (in thousands):

	Guaranteed Investment Contracts	Diversified Inflation Hedges	Multi-Strategy Hedge Funds	Multi-Strategy Endowment Pool	Private Equity Funds	2010 Total
Balance, beginning of year	\$ 1,808	\$ 5,192	\$ 27,629	\$ -	\$ 3,914	\$ 38,543
Purchases (sales), net	(1,808)	2,492	-	286,341	2,914	289,939
Realized and unrealized gains, net	-	920	2,615	50,466	1,123	55,124
Balance, end of year	<u>\$ -</u>	<u>\$ 8,604</u>	<u>\$ 30,244</u>	<u>\$ 336,807</u>	<u>\$ 7,951</u>	<u>\$ 383,606</u>
Net change in unrealized gains relating to instruments still held at December 31, 2010	<u>\$ -</u>	<u>\$ 881</u>	<u>\$ 2,615</u>	<u>\$ 38,088</u>	<u>\$ 709</u>	<u>\$ 42,293</u>
	Guaranteed Investment Contracts	Diversified Inflation Hedges	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 losses, 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>

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Value of Financial Instruments, continued

As delineated in Note 2, the Foundation uses the NAV to estimate the fair value of 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 class as of December 31, 2010:

	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	\$ 11,542	1	NA	\$ -	NA	10 days	Redemptions only on last business day of any month
Private equity funds	Venture and buyout U.S. and international	7,951	6	9-14 years	17,210	5-10 years	NA	NA*
Diversified inflation hedges	Natural resources and real estate	8,604	4	4-14 years	8,660	1-6 years	NA	NA*
Multi-strategy endowment pool	Multi-strategy ^(a)	336,807	2	NA	-	NA	120 days	Full fund redemptions permitted annually, subject to 1 year lock-up per contribution and 10% holdback. The Foundation has a standing redemption request of 6% annually, which is not subject to any additional restrictions
Multi-strategy hedge funds	Multi-strategy ^(b)	30,244	1	NA	-	NA	65 days	9 months remaining in lock-up period. The Foundation has the option to notify manager of continuing another 36-month lock-up or transferring to a Class I shareholder who would be subject to higher management fees and quarterly redemptions. The fund has a 10% holdback until the next quarter's net asset determination after the period of redemption**
Total		<u>\$ 395,148</u>			<u>\$ 25,870</u>			

* Private equity fund structures with no ability to redeem.

** Subsequent to December 31, 2010, the Foundation notified the fund manager to redeem the entire investment balance.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Fair Value of Financial Instruments, continued

(a) This class includes investments in equities, long/short equities, real assets, commodities/resources, credit/special situations, absolute return, fixed income and hedges/opportunistic. Equity investment strategies are public and private US/developed and international/emerging markets long-only and long-biased. The focus strategies for long/short equity investments are long/short and short-biased hedge funds. Real asset investment strategies are real estate, power, infrastructure, and non-resource real assets. Commodities/resources investment strategies are focused on liquid commodities and private natural resources. Credit/special situations investment strategies are primarily non-investment grade and distressed credit. The strategies for absolute return investments are multi-strategy, event-driven and other miscellaneous hedge funds. Fixed income investment strategies are US Treasuries/TIPS, other sovereign debt and investment grade credit. Finally, the strategies for hedges/opportunistic investments are currency, gold and other.

(b) This class includes investments in equities, long/short equities, credit/special situations and absolute return. Equity investment strategies are public US/developed and international/emerging markets long-only and long-biased investments. The focus strategies for long/short equity investments are long/short and short-biased hedge funds. Credit/special situations investment strategies are primarily non-investment grade and distressed credit. The strategies for absolute return investments are multi-strategy, event-driven and other miscellaneous hedge fund investments.

5. Grants Payable

Future minimum unconditional grants payable as of December 31, 2010 are scheduled as follows (in thousands):

2011	\$ 9,213
2012	3,611
2013	1,571
2014	482
	<hr/>
Total unconditional grants payable	14,877
Less discounts to net present value	(343)
	<hr/>
Net unconditional grants payable	<u>\$ 14,534</u>

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2010 and 2009:

	2010	2009
	<i>(in thousands)</i>	
CEL loans receivable	\$ 5,824	\$ 6,597
FFELP student loans receivable	-	8
	<u>5,824</u>	<u>6,605</u>
Allowance for loan losses	(252)	(168)
	<u>5,572</u>	<u>6,437</u>
Student loans receivable, net	<u>\$ 5,572</u>	<u>\$ 6,437</u>

CEL Program

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

The Foundation maintains third-party servicing agreements with one corporation acting as an agent to perform loan servicing, billing, accounting, reporting, and loan administrative duties. Under the terms of the servicing agreements, the service provider is held liable for losses resulting from their own negligent loan servicing.

FFELP Program

FFELP student loans receivable were comprised of federally guaranteed student loans with DOE specified interest rate formulas and repayment terms. During 2010, the remaining balance of FFELP student loans was deemed uncollectible and was written off.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Items Associated with Student Loans, continued

B. Allowance for Loan Losses

The table below summarizes the changes in the allowance for loan loss reserve for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands)</i>	
Balance at the beginning of the year	\$ 168	\$ 524
Provision for possible losses	59	(213)
Charges to allowance	(205)	(420)
Recoveries	230	277
Balance at end of the year	<u>\$ 252</u>	<u>\$ 168</u>

C. Defeasance of Bonds Payable

The Foundation had student loan revenue bonds payable outstanding totaling \$6,590,000 as of December 31, 2009. The bonds payable were due to California Educational Facilities Authority (CEFA) and were related to the CalEdge trust estate. The CEFA bonds payable were issued in connection with tax-exempt financing payable at a fixed rate of 5.55%. Payments of principal and interest were paid semi-annually based on a cash flow analysis performed by ALL Student Loan Corporation (ALL), a third party program administrator. Payments received on student loans associated with CalEdge were deposited with a trustee to fund these principal and interest payments.

The Foundation was subject to certain collateral ratio requirements, as set forth in the bond agreements. At December 31, 2009, the collateral held in trust balance was approximately \$227,000 and is included in the Consolidated Statements of Financial Position as "Restricted assets." At December 31, 2010, there was no longer a collateral ratio requirement, as the bond was defeased, as noted below.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Items Associated with Student Loans, continued

C. Defeasance of Bonds Payable, continued

In 2010, the Foundation completed a series of transactions to defease and retire the student loan revenue bonds. The Foundation purchased substantially all of the bonds outstanding from one party. In this transaction, the outstanding bonds, with a par value of \$5,830,000 were purchased for \$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 were 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 CalEdge has been eliminated and will no longer be reported as a part of the Consolidated Financial Statements of the Foundation.

The table below includes assets, liabilities, and net assets attributable to the trust associated with CalEdge as of December 31, 2010 and 2009, respectively.

	2010	2009
	<i>(in thousands)</i>	
Assets	\$ -	\$ 8,694
Liabilities	\$ -	\$ 7,562
Net Assets	-	1,132
	\$ -	\$ 8,694

Changes in net assets for the years ended December 31, 2010 and 2009 were \$156,000 and \$392,000, respectively. In addition, during the year ended December 31, 2010, a \$217,000 gain on defeasance of the CalEdge bond has been recorded by the Foundation.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Items Associated with Student Loans, continued

D. 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. In January 2010, the DOE notified CEFI of a \$706,000 interest assessment on the restitution already paid for special allowance overbilling. 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.

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 12% of an employee's salary. The Foundation's plan expense was \$156,000 and \$140,000, respectively, for the years ended December 31, 2010 and 2009.

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. The CEFI 403(b) plans were terminated in 2010.

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. 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.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Employee Benefits, continued

The cash surrender value of this life insurance policy was \$163,000 and \$325,000 at December 31, 2010 and 2009, respectively. These amounts are included in "Other assets" on the Consolidated Statements of Financial Position. The deferred compensation liability was \$187,000 and \$348,000 at December 31, 2010 and 2009, respectively. These amounts are included in "Accounts payable and accrued liabilities" on the Consolidated Statements of Financial Position. Deferred compensation expense was \$16,000 and \$54,000 for the years ended December 31, 2010 and 2009, 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, 2010 and 2009.

	2010	2009
	<i>(in thousands)</i>	
Reconciliation of DCP cost:		
Accrued DCP cost at beginning of year	\$ (347)	\$ (442)
Net periodic DCP (expense) credit	(17)	(54)
Benefits paid	177	149
Accrued DCP cost at end of year	(187)	(347)
Cash surrender value of insurance policy	163	325
Underfunded status	\$ (24)	\$ (22)

8. Excise and Income Taxes

Excise Taxes

In accordance with the applicable provisions of the Code, the Foundation is required to distribute 5 percent of the average fair market value of its investment assets annually. However, the Foundation may incrementally achieve the 5 percent threshold during its first five years as a private foundation, starting with a 0 percent minimum distribution in its first tax year followed by an additional 1 percent minimum for each of the subsequent five years until the 5 percent threshold is reached in year six.

Additionally, the Foundation is subject to an excise tax of 2% (1% if minimum payout requirements prescribed by the Code are met) on its net investment income, excluding unrealized gains, and is subject to corporate income tax rates on unrelated business income. As a newly classified private foundation in 2010, the Foundation's excise tax rate is 2%.

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Excise and Income Taxes, continued

Excise Taxes, continued

Deferred federal excise taxes arise primarily from unrealized gains on investments and have been accrued based on a 2% rate. Current federal excise taxes payable and federal and state unrelated business income taxes payable are included in "Accounts payable and accrued liabilities" on the Consolidated Statements of Financial Position.

The provision for federal excise taxes and unrelated business income taxes for the year ended December 31, 2010 (in thousands):

Current	\$ 652
Deferred	882
	<u> </u>
Total	<u><u>\$ 1,534</u></u>

Income Taxes

CEFI realized a pre-tax loss of \$(11,000) in 2010 and \$(322,000) in 2009. There was current income tax expense of \$126,000 recognized in the Consolidated Statements of Activities related to prior year tax true-ups.

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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands)</i>	
Deferred tax assets:		
Accrued liabilities	\$ 75	\$ 164
Tax loss carryforwards	7,354	6,836
Tax credit carryforwards	-	21
Charitable carryforwards	128	155
	<u> </u>	<u> </u>
Net deferred tax assets	7,557	7,176
Valuation allowance	(7,557)	(7,176)
	<u> </u>	<u> </u>
Net deferred taxes	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Excise and Income Taxes, continued

Income Taxes, continued

Based on the available objective evidence at December 31, 2010, 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, 2010 and 2009. The valuation allowance increased by \$381,000 and increased by \$42,000 for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010, CEFI had federal and state net operating loss carryforwards of approximately \$18,583,000 and \$17,759,000, respectively, and \$17,300,000 and \$16,500,000 as of December 31, 2009, 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 Code Section 382. The annual limitation may result in the expiration of net operating losses before utilization.

9. Commitments, Contingencies, and Concentrations of Risk

Premises and Equipment Lease Commitments

Future minimum lease commitments under the noncancelable operating lease are (in thousands):

2011	\$	191
2012		180
2013		221
2014		227
2015		234
Thereafter		781
Total	\$	<u>1,834</u>

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Premises and Equipment Lease Commitments, continued

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 was originally set to expire in February 2012. During 2010, the Foundation renegotiated terms of the lease, which effectively extended the lease through February 2019. This amendment became effective in January 2011. Simultaneously with entering into the lease in 2006, the Foundation sublet its previous original office space for the remainder of the original term, through July 2010. Total rental expense for the years ended December 31, 2010 and 2009 was \$296,000 and \$344,000, respectively. Total sublease income for the years ended December 31, 2010 and 2009 was \$69,000 and \$129,000, 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. At times, such amounts may exceed Federal Deposit Insurance Corporation (FDIC) limits.

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 statement

Continued

COLLEGE ACCESS FOUNDATION OF CALIFORNIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Concentrations of Risk, continued

As of December 31, 2010 and 2009, 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.

In 2009, guaranteed investment contracts were held at one financial institution and were insured by FDIC. At December 31, 2009, the Foundation held guaranteed investment contracts in excess of the FDIC's limits. These guaranteed investment contracts were eliminated during the defeasance of the student loan revenue bonds; consequently, there was no credit risk associated with these investment contracts at December 31, 2010. For further information on the defeasance, see Note 6C.

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 30, 2011, the date which these financial statements were issued. Other than subsequent events described in Notes 4 and 9, management concluded that no other material subsequent events have occurred since December 31, 2010 that required recognition or disclosure in the Consolidated Financial Statements.