oOo

COLLEGE FOUNDATION, INC.

June 30, 2011 and 2010

oOo

TABLE OF CONTENTS

KWH
Koonce, Wooten & Haywood, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
College Foundation, Inc.
Raleigh, North Carolina

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of financial position of College Foundation, Inc. (a nonprofit organization), as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 financial statements referred to above present fairly, in all material respects, the financial position of College Foundation, Inc., as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2011, on our consideration of College Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Raleigh
4060 Barrett Drive
Post Office Box 17806
Raleigh, North Carolina 27619

919 782 9265
919 783 8937 FAX

Durham
3511 Shannon Road
Suite 100
Durham, North Carolina 27707

919 354 2584
919 489 8183 FAX

Pittsboro
10 Sanford Road
Post Office Box 1399
Pittsboro, North Carolina 27312

919 542 6000
919 542 5764 FAX

Our audit was conducted for the purpose of forming an opinion on the financial statements of College Foundation, Inc. as a whole. The accompanying schedules of expenditures of federal awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and are not a required part of the financial statements. Other accompanying schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Koonce, Wooten & Haywood, L.L.P.

Raleigh, North Carolina
September 23, 2011

STATEMENTS OF FINANCIAL POSITION

COLLEGE FOUNDATION, INC.
Statements of Financial Position
June 30, 2011 and 2010

ASSETS

	2011	
	Unrestricted	Temporarily Restricted
Cash and Cash Equivalents (Notes 1F and 23)	$ 24,054,520	$
Cash Reserve (Notes 1F, 7 and 23)		
Accounts Receivable:		
Trustee and Agency Funds (Notes 1A and 22)	6,456,749	
U.S. Department of Education (Note 3)		
N.C. Sales and Use Tax (Note 1K)	185,870	
Other	77,169	
Accrued Interest Receivable	7,753	
Student Loans:		
Foundation--Owner and Holder (Notes 1A, 2 and 8)	328,764	
Prepaid Expenses	1,849,435	
Single Premium Income Annuity (Note 18)	12,275	
Deferred Compensation (Note 15)	27,928	
Investments in N.C. College Savings and Investment Program (Notes 1G and 2M)	156,038	36,997
Unamortized Lease Commission (Notes 1I and 13)	130,846	
Property and Equipment (Notes 1H and 5)	19,521,679	
Total Assets	$ 52,809,026	$ 36,997

LIABILITIES AND NET ASSETS

	2011	
	Unrestricted	Temporarily Restricted
LIABILITIES:		
Accounts Payable:		
Trustee and Agency Funds (Notes 1A and 22)	$ 7,871	$
U.S. Department of Education (Note 3)	352	
Current Expenses	1,811,401	
Other	162,171	
College Funds Installment Payment Plan (Note 2J)	1,137,718	
Deferred Service Fee Revenue	1,936,563	
Accrued Postretirement Benefit Obligation (Note 16)	5,995,061	
Deferred Compensation Payable (Note 15)	111,598	
Accrued Salary and Annual Leave	153,293	
Contingency for Uninsured Loans (Notes 1J and 4B)	6,800,000	
Total Liabilities	18,116,028	
NET ASSETS (Note 11)	34,692,998	36,997
Total Liabilities and Net Assets	$ 52,809,026	$ 36,997

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

Permanently Restricted	Total	2010 Unrestricted	2010 Temporarily Restricted	2010 Permanently Restricted	2010 Total
$ 144,071	$ 24,198,591	$ 19,355,637	$	$ 83,265	$ 19,438,902
		5,000,000			5,000,000
	6,456,749	6,017,670			6,017,670
		78			78
	185,870	170,813			170,813
	77,169	36,231			36,231
	7,753	7,349			7,349
404,107	732,871	317,633		461,486	779,119
	1,849,435	1,646,804			1,646,804
	12,275	12,810			12,810
	27,928	11,195			11,195
	193,035	81,691	36,997		118,688
	130,846	158,105			158,105
	19,521,679	20,315,765			20,315,765
$ 548,178	$ 53,394,201	$ 53,131,781	$ 36,997	$ 544,751	$ 53,713,529

Permanently Restricted	Total	2010 Unrestricted	2010 Temporarily Restricted	2010 Permanently Restricted	2010 Total
$	$ 7,871	$ 5,988	$	$	$ 5,988
	352				
	1,811,401	1,976,482			1,976,482
	162,171	207,335			207,335
	1,137,718	1,806,933			1,806,933
	1,936,563	543,376			543,376
	5,995,061	5,546,640			5,546,640
	111,598	107,815			107,815
	153,293	146,017			146,017
	6,800,000	9,000,000			9,000,000
	18,116,028	19,340,586			19,340,586
548,178	35,278,173	33,791,195	36,997	544,751	34,372,943
$ 548,178	$ 53,394,201	$ 53,131,781	$ 36,997	$ 544,751	$ 53,713,529

STATEMENTS OF ACTIVITIES

COLLEGE FOUNDATION, INC.
Statements of Activities
For The Years Ended June 30, 2011 and 2010

	2011	
	Unrestricted	Temporarily Restricted
CHANGES IN NET ASSETS:		
Revenues:		
Service Fees (Notes 1A and 2)	$ 27,937,116	$
Interest Income (Note 2M, 3, 11, and 12)	30,671	
Reduction in Contingency for Uninsured Loans (Notes 1J and 4B)	2,200,000	
U.S. Department of Education Payments to Loan Servicers for Job Retention Program (Note 11)		69,518
Rental Income (Note 14)	154,894	
Miscellaneous	2,724	
Net Assets Released from Restrictions	69,518	(69,518)
Total Revenues	30,394,923	
Total Expenses (Note 20)	29,783,081	
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	611,842	
NONOPERATING:		
Pension-Related Changes other than Net Periodic Post Retirement Benefits Cost (Note 16)	289,961	
CHANGES IN NET ASSETS	901,803	
NET ASSETS--Beginning of Year	33,791,195	36,997
NET ASSETS--End of Year	$ 34,692,998	$ 36,997

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

		2010			
Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$	$ 27,937,116	$ 31,967,518	$	$	$ 31,967,518
3,427	34,098	19,202		4,352	23,554
	2,200,000				
	69,518				
	154,894	207,598			207,598
	2,724	3,129			3,129
		130	(130)		
3,427	30,398,350	32,197,577	(130)	4,352	32,201,799
	29,783,081	32,846,638			32,846,638
3,427	615,269	(649,061)	(130)	4,352	(644,839)
	289,961	(898,981)			(898,981)
3,427	905,230	(1,548,042)	(130)	4,352	(1,543,820)
544,751	34,372,943	35,339,237	37,127	540,399	35,916,763
$ 548,178	$ 35,278,173	$ 33,791,195	$ 36,997	$ 544,751	$ 34,372,943

COLLEGE FOUNDATION, INC.
Statements of Cash Flows
For The Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	$ 905,230	$ (1,543,820)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	2,700,078	2,961,901
Amortization of Lease Commission	27,259	26,169
Changes In:		
Accounts Receivable	(494,996)	1,935,735
Accrued Interest Receivable	(404)	5,043
Student Loans	46,248	56,065
Prepaid Expenses	(202,631)	(317,651)
Accounts Payable	(208,010)	154,534
College Funds Installment Payment Plan	(669,215)	529,317
Deferred Service Fee Revenue	1,393,187	543,376
Accrued Postretirement Benefit Obligation	448,421	1,506,814
Deferred Compensation Payable	(12,950)	(12,681)
Accrued Salary and Annual Leave	7,276	16,667
Contingency for Uninsured Loans	(2,200,000)	1,200,000
Net Cash Provided by Operating Activities	1,739,493	7,061,469
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Reserve Deposit	5,000,000	(5,000,000)
Cash Value of Single Premium Income Annuity	535	513
Purchase of Investments in N.C. College Savings and Investment Program	(74,347)	(57,265)
Proceeds from Sale of Property and Equipment	2,935	18,489
Purchase of Property and Equipment	(1,908,927)	(944,029)
Net Cash Provided (Used) by Investing Activities	3,020,196	(5,982,292)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,759,689	1,079,177
CASH AND CASH EQUIVALENTS--Beginning of Year	19,438,902	18,359,725
CASH AND CASH EQUIVALENTS--End of Year	$ 24,198,591	$ 19,438,902

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

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

COLLEGE FOUNDATION, INC.
Schedules of Expenditures of Federal Awards
For the Years Ended June 30, 2011 and 2010

Program Title	Federal CFDA Number	2011	
		Interest	Special Allowance
U. S. Department of Education Direct Programs			
Office of Student Financial Assistance Programs: Federal Family Education Loan Program (FFELP) (Financial Statement Notes 2A and 3)	84.032	$ 31,699,977	$ 757,659
Less amounts received by the Foundation as an agent for other funds providers		31,695,939	757,002
Net FFELP	84.032	4,038	657
Office of Postsecondary Education: Payments to Loan Servicers for Job Retention (ref Section 458(a)(7) of the Higher Education Act of 1965, as amended (HEA), as added by the SAFRA Act, Title II of the Health Care and Education Reconciliation Act of 2010)--Net Award (Financial Statement Note 11)			
TOTALS		$ 4,038	$ 657

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

		2010			
Total Awards	Total Expenditures	Interest	Special Allowance	Total Awards	Total Expenditures
$ 32,457,636	$	$ 50,000,129	$ 985,923	$ 50,986,052	$
32,452,941		49,989,723	985,139	50,974,862	
4,695	4,695	10,406	784	11,190	11,190
69,518	69,518				
$ 74,213	$ 74,213	$ 10,406	$ 784	$ 11,190	$ 11,190

DETAILED SCHEDULE OF FINANCIAL POSITION

COLLEGE FOUNDATION, INC.
Detailed Schedule of Financial Position
June 30, 2011

ASSETS

	Unrestricted Operating Fund	Unrestricted Special Scholarship Fund
Cash and Cash Equivalents (Notes 1F and 23)	$ 20,164,132	$ 2,971,427
Accounts Receivable:		
Trustee and Agency Funds (Notes 1A and 22)	6,455,403	
Interfund Receivables (Payables)	8,537	570,644
N.C. Sales and Use Tax (Note 1K)	185,870	
Other	64,121	
Accrued Interest Receivable		
Student Loans:		
Foundation--Owner and Holder (Notes 1A, 2, and 8)		
Prepaid Expenses	1,849,435	
Single Premium Income Annuity (Note 18)	12,275	
Deferred Compensation (Note 15)	27,928	
Investments in N.C. College Savings and Investment Program (Notes 1G and 2M)		156,038
Unamortized Lease Commission (Notes 1I and 13)	130,846	
Property and Equipment (Notes 1H and 5)	19,521,679	
Total Assets	$ 48,420,226	$ 3,698,109

LIABILITIES AND NET ASSETS

	Unrestricted Operating Fund	Unrestricted Special Scholarship Fund
LIABILITIES:		
Accounts Payable:		
Trustee and Agency Funds (Notes 1A and 22)	$ 7,871	$
U.S. Department of Education (Note 3)		
Current Expenses	1,811,401	
Other	63,022	
College Funds Installment Payment Plan (Note 2J)	1,137,718	
Deferred Service Fee Revenue	1,936,563	
Accrued Postretirement Benefit Obligation (Note 16)	5,995,061	
Deferred Compensation Payable (Note 15)	111,598	
Accrued Salary and Annual Leave	153,293	
Contingency for Uninsured Loans (Notes 1J and 4B)	6,800,000	
Total Liabilities	18,016,527	
NET ASSETS (Note 11)	30,403,699	3,698,109
Total Liabilities and Net Assets	$ 48,420,226	$ 3,698,109

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

		Temporarily Restricted	Permanently Restricted	
Special Nonassigned Loan Fund	Total Unrestricted	Special Scholarship Fund	Special Nonassigned Loan Fund	Total
$ 918,961	$ 24,054,520	$	$ 144,071	$ 24,198,591
1,346	6,456,749			6,456,749
(579,181)				
	185,870			185,870
13,048	77,169			77,169
7,753	7,753			7,753
328,764	328,764		404,107	732,871
	1,849,435			1,849,435
	12,275			12,275
	27,928			27,928
	156,038	36,997		193,035
	130,846			130,846
	19,521,679			19,521,679
$ 690,691	$ 52,809,026	$ 36,997	$ 548,178	$ 53,394,201
$	$ 7,871	$	$	$ 7,871
352	352			352
	1,811,401			1,811,401
99,149	162,171			162,171
	1,137,718			1,137,718
	1,936,563			1,936,563
	5,995,061			5,995,061
	111,598			111,598
	153,293			153,293
	6,800,000			6,800,000
99,501	18,116,028			18,116,028
591,190	34,692,998	36,997	548,178	35,278,173
$ 690,691	$ 52,809,026	$ 36,997	$ 548,178	$ 53,394,201

DETAILED SCHEDULE OF ACTIVITIES

COLLEGE FOUNDATION, INC.
Detailed Schedule of Activities
For The Year Ended June 30, 2011

	Operating Fund	Special Scholarship Fund	Unrestricted Special Nonassigned Loan Fund
OPERATING:			
Revenues:			
Service Fees (Notes 1A and 2):			
Trust, Bond and Escheat Loan Programs (N.C. SEAA)	$ 15,031,094	$	$
General Loan Program (N.C. Banks)	46,918		
Special Loan Program (Special Investors)	48,763		
N.C. College Savings and Investment Program (N.C. SEAA)	3,508,690		
College Foundation of North Carolina (N.C. SEAA)	7,365,795		
Management and Computer Services (N.C. SEAA)	719,644		
N.C. Student Incentive Grant Program (N.C. SEAA)	188,785		
UNC Need-based Grant Program (N.C. SEAA)	253,551		
N. C. Community College Grant Program (N.C. SEAA)	27,819		
EXTRA Education Loan Program (N.C. SEAA)	574,075		
EXTRA MBA Loan Program (N.C. SEAA)	40,054		
Carolina Computing Initiative Program (N.C. SEAA)	7,701		
College Funds Installment Payment Plan	53,216		
Education Lottery Scholarship Program (N.C. SEAA)	53,278		
Victor E. Bell, Jr. Scholarship Program	5,296		
Other Program Services	24,320		
Total Service Fees	27,948,999		
Interest Income:			
U.S. Department of Education Interest Benefits (Note 3)			4,038
U.S. Department of Education Special Allowance (Note 3)			657
Borrower Interest Returned to U. S. Department of Education (Note 3)			(8,988)
Cash and Cash Equivalents (Note 12)		9,899	
Borrowers (Note 11)			22,718
Investments in N.C. College Savings and Investment Program (Note 2M)		2,347	
Notes Receivable		11,702	
Total Interest Income		23,948	18,425
Reduction in Contingency for Uninsured Loans (Notes 1J and 4B)	2,200,000		
U.S. Department of Education Payments to Loan Servicers for Job Retention Program (Note 11)			
Rental Income (Note 14)	154,894		
Miscellaneous	2,724		
Net Assets Released from Restrictions	69,518		
Total Revenues	30,376,135	23,948	18,425

(Continued)

		Temporarily Restricted			Permanently Restricted	
Eliminations	Total Unrestricted	Operating Fund	Special Scholarship Fund	Total Temporarily Restricted	Special Nonassigned Loan Fund	Total
$	$ 15,031,094	$	$	$	$	$ 15,031,094
	46,918					46,918
6,587	42,176					42,176
	3,508,690					3,508,690
	7,365,795					7,365,795
	719,644					719,644
	188,785					188,785
	253,551					253,551
	27,819					27,819
	574,075					574,075
	40,054					40,054
	7,701					7,701
	53,216					53,216
	53,278					53,278
5,296						
	24,320					24,320
11,883	27,937,116					27,937,116
	4,038					4,038
	657					657
	(8,988)					(8,988)
	9,899					9,899
	22,718				3,427	26,145
	2,347					2,347
11,702						
11,702	30,671				3,427	34,098
	2,200,000					2,200,000
		69,518		69,518		69,518
	154,894					154,894
	2,724					2,724
	69,518	(69,518)		(69,518)		
23,585	30,394,923				3,427	30,398,350

DETAILED SCHEDULE OF ACTIVITIES

COLLEGE FOUNDATION, INC.
Detailed Schedule of Activities
For The Year Ended June 30, 2011

	Operating Fund	Special Scholarship Fund	Unrestricted Special Nonassigned Loan Fund
Expenses:			
Staff Salaries--Full-time or Half-time	$ 11,066,529	$	$
Part-time Assistance	860,911		
Payroll Taxes	836,262		
Staff Insurance Benefits	1,790,730		
Staff Retirement Benefits (Note 15)	408,121		
Net Periodic Postretirement Benefits (Note 16)	765,001		
Deferred Compensation Benefits (Note 15)	2,050		
Staff Training and Development	26,609		
Membership Fees and Other Expenses for Staff Benefit	39,625		
Staff Travel, Transportation and Subsistence	32,848		
Office Materials and Supplies	274,870		
Mail Delivery and Handling	1,419,096		
Telephone and Electronic Communications	441,674		
Heat, Lights and Water	177,038		
Building Operation	215,991		
Equipment Maintenance	616,968		
Software Maintenance and License Fees	1,712,287		
Legal Fees	12,209		
External Accounting and Auditing Fees	188,719		
Consultants' Fees	140,468		
Computerized Services	1,458,435		
Other Contracted Operational Services	1,478,047		
Property Protection and Liability Insurance (Notes 17 and 18)	217,986		
Disaster Recovery Program	136,231		
Marketing and Advertising (Note 19)	2,793,591		
Miscellaneous Expenses	46,204		22,748
Interest Expense			11,702
Service Fees		5,296	6,587
Depreciation (Note 1H)	2,601,833		
Total Expenses (Note 20)	29,760,333	5,296	41,037
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	615,802	18,652	(22,612)
NONOPERATING:			
Pension-Related Changes other than Net Periodic Post Retirement Benefits Cost (Note 16)	289,961		
CHANGES IN NET ASSETS	905,763	18,652	(22,612)
NET ASSETS--Beginning of Year	29,497,936	3,679,457	613,802
NET ASSETS--End of Year	$ 30,403,699	$ 3,698,109	$ 591,190

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

		Temporarily Restricted			Permanently Restricted	
Eliminations	Total Unrestricted	Operating Fund	Special Scholarship Fund	Total Temporarily Restricted	Special Nonassigned Loan Fund	Total
$	$ 11,066,529	$	$	$	$	$ 11,066,529
	860,911					860,911
	836,262					836,262
	1,790,730					1,790,730
	408,121					408,121
	765,001					765,001
	2,050					2,050
	26,609					26,609
	39,625					39,625
	32,848					32,848
	274,870					274,870
	1,419,096					1,419,096
	441,674					441,674
	177,038					177,038
	215,991					215,991
	616,968					616,968
	1,712,287					1,712,287
	12,209					12,209
	188,719					188,719
	140,468					140,468
	1,458,435					1,458,435
	1,478,047					1,478,047
	217,986					217,986
	136,231					136,231
	2,793,591					2,793,591
	68,952					68,952
11,702						
11,883						
	2,601,833					2,601,833
23,585	29,783,081					29,783,081
	611,842				3,427	615,269
	289,961					289,961
	901,803				3,427	905,230
	33,791,195		36,997	36,997	544,751	34,372,943
$ 0	$ 34,692,998	0	$ 36,997	36,997	$ 548,178	$ 35,278,173

DETAILED SCHEDULE OF CASH FLOWS

COLLEGE FOUNDATION, INC.
Detailed Schedule of Cash Flows
For The Year Ended June 30, 2011

	Operating Fund	Special Scholarship Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	$ 905,763	$ 18,652
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	2,700,078	
Amortization of Lease Commission	27,259	
Changes In:		
Accounts Receivable	405,751	(7,097)
Accrued Interest Receivable		
Student Loans		
Prepaid Expenses	(202,631)	
Accounts Payable	(151,256)	
College Funds Installment Payment Plan	(669,215)	
Deferred Service Fee Revenue	1,393,187	
Accrued Postretirement Benefit Cost	448,421	
Deferred Compensation Payable	(12,950)	
Accrued Salary and Annual Leave	7,276	
Contingency for Uninsured Loans	(2,200,000)	
Net Cash Provided (Used) by Operating Activities	2,651,683	11,555
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Reserve Deposit	2,039,264	2,960,736
Cash Value of Single Premium Income Annuity	535	
Purchase of Investments in N.C. College Savings and Investment Program		(74,347)
Proceeds from Sale of Property and Equipment	2,935	
Purchase of Property and Equipment	(1,908,927)	
Net Cash Provided by Investing Activities	133,807	2,886,389
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,785,490	2,897,944
CASH AND CASH EQUIVALENTS--Beginning of Year	17,378,642	73,483
CASH AND CASH EQUIVALENTS--End of Year	$ 20,164,132	$ 2,971,427

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

Special Nonassigned Loan Fund	Total
$ (19,185)	$ 905,230
	2,700,078
	27,259
(893,650)	(494,996)
(404)	(404)
46,248	46,248
	(202,631)
(56,754)	(208,010)
	(669,215)
	1,393,187
	448,421
	(12,950)
	7,276
	(2,200,000)
(923,745)	1,739,493
	5,000,000
	535
	(74,347)
	2,935
	(1,908,927)
	3,020,196
(923,745)	4,759,689
1,986,777	19,438,902
$ 1,063,032	$ 24,198,591

SCHEDULE OF TRUSTEE AND AGENCY FUNDS
June 30, 2011

COLLEGE FOUNDATION, INC.
Schedule of Trustee and Agency Funds
June 30, 2011

ASSETS

		N.C. SEAA Loan Fund		Bank Assigned Loan Fund		Special Assigned Loan Fund		Moore County Trusts		Byrum-Mansfield Memorial Fund
Cash and Cash Equivalents (Notes 1F and 23)	$	3,545,631	$		$	10,756	$	675,213	$	520,499
Accounts Receivable:										
Trustee and Agency Funds (Notes 1A and 22)		17,249,320								3,183
U.S. Department of Education (Note 3)				20,709		2,067				
Interfund Receivables (Payables)		1,000,000								
College Foundation, Inc.		947		14						
Other				78						
Accrued Interest Receivable		68,567,417		91,171		33,309		24,161		
Student Loans:										
Foundation--Agent or Trustee (Notes 1A, 2 and 8)		3,377,947,909		10,092,501		2,944,725		743,943		
Total Assets	$	3,468,311,224	$	10,204,473	$	2,990,857	$	1,443,317	$	523,682

LIABILITIES

		N.C. SEAA Loan Fund		Bank Assigned Loan Fund		Special Assigned Loan Fund		Moore County Trusts		Byrum-Mansfield Memorial Fund
Accounts Payable:										
Bank Overdraft	$		$	7,304	$		$		$	
U.S. Department of Education (Note 3)		17,248,575						2,989		
Trustee and Agency Funds (Notes 1A and 22)		3,451,061,303		10,192,205		2,987,646		1,436,519		520,446
College Foundation, Inc.		1,346		4,964		3,211		3,809		3,236
Other										
Total Liabilities	$	3,468,311,224	$	10,204,473	$	2,990,857	$	1,443,317	$	523,682

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

N.C. Student Incentive Grant Program	N.C. College Savings and Investment Program	UNC Need-based Grant Program	N.C. Community College Grant Program	N.C. Education Lottery Scholarship Program	Education Access Rewards North Carolina Scholars Fund Program	Total
$ 5,650	$ 770,575	$ 1,005,304	$ 451,671	$ 12,898	$	$ 6,998,197
				2,825		17,255,328
						22,776
		(1,000,000)				
						961
						78
						68,716,058
						3,391,729,078
$ 5,650	$ 770,575	$ 5,304	$ 451,671	$ 15,723	$ 0	$ 3,484,722,476

$	$	$	$	$	$	$ 7,304
						17,251,564
350	394,059	420	438,245			3,467,031,193
	14,872					31,438
5,300	361,644	4,884	13,426	15,723		400,977
$ 5,650	$ 770,575	$ 5,304	$ 451,671	$ 15,723	$ 0	$ 3,484,722,476

SCHEDULE OF TRUSTEE AND AGENCY FUNDS
June 30, 2010

COLLEGE FOUNDATION, INC.
Schedule of Trustee and Agency Funds
June 30, 2010

ASSETS

		N.C. SEAA Loan Fund		Bank Assigned Loan Fund		Special Assigned Loan Fund		Moore County Trusts		Byrum-Mansfield Memorial Fund
Cash and Cash Equivalents (Notes 1F and 23)	$	34,683,681	$	62,694	$	24,239	$	702,654	$	502,116
Accounts Receivable:										
U.S. Department of Education (Note 3)				21,347		3,600				
Interfund Receivables (Payables)		1,550						(1,550)		
Accrued Interest Receivable		89,930,135		94,685		38,271		21,797		17
Student Loans:										
Foundation--Agent or Trustee (Notes 1A, 2 and 8)		4,490,671,085		11,830,346		3,348,688		716,222		8,161
Total Assets	$	4,615,286,451	$	12,009,072	$	3,414,798	$	1,439,123	$	510,294

LIABILITIES

		N.C. SEAA Loan Fund		Bank Assigned Loan Fund		Special Assigned Loan Fund		Moore County Trusts		Byrum-Mansfield Memorial Fund
Accounts Payable:										
U.S. Department of Education (Note 3)	$	21,653,952	$		$		$	2,300	$	
Trustee and Agency Funds (Notes 1A and 22)		4,593,627,371		12,007,032		3,411,575		1,433,223		510,253
College Foundation, Inc.		3,317		2,040		3,223		3,600		41
Other		1,811								
Total Liabilities	$	4,615,286,451	$	12,009,072	$	3,414,798	$	1,439,123	$	510,294

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

	N.C. Student Incentive Grant Program	N.C. College Savings and Investment Program	UNC Need-based Grant Program	N.C. Community College Grant Program	N.C. Education Lottery Scholarship Program	Education Access Rewards North Carolina Scholars Fund Program	Total
	$ 4,950	$ 647,518	$ 35,581	$ 857,712	$ 15,001	$ 54,000	$ 37,590,146
							24,947
							90,084,905
							4,506,574,502
	$ 4,950	$ 647,518	$ 35,581	$ 857,712	$ 15,001	$ 54,000	$ 4,634,274,500
	$	$	$	$	$	$	$ 21,656,252
		602,053	25,624	841,037	1,579	4,000	4,612,463,747
		1,743					13,964
	4,950	43,722	9,957	16,675	13,422	50,000	140,537
	$ 4,950	$ 647,518	$ 35,581	$ 857,712	$ 15,001	$ 54,000	$ 4,634,274,500

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies

A. Organization:

College Foundation, Inc. (the Foundation) was chartered in 1955 under the N. C. Nonprofit Corporation Act for the purpose of providing financial assistance to students at institutions of higher education. The Foundation's charter specifies that the Governor of the State of North Carolina shall appoint the nine-member Board of Trustees, five of whom must be representatives of the banking industry. The Foundation continues to operate exclusively for the stated, charitable purpose. The Foundation is an eligible lender under Section 435(d)(1)(D) of Part B, Title IV, of the Higher Education Act of 1965, as amended; and has served as the central loan originator and continues to serve as the servicer for North Carolina's Federal Family Education Loan Program funded and/or sponsored by the N.C. State Education Assistance Authority and by direct and special investment from financial institutions and other organizations. The Foundation acts as agent for the N.C. State Education Assistance Authority, North Carolina banks, and other funds providers in administering their student loan, grant, and scholarship programs for which it receives service fees (assets and liabilities attributable to these organizations are reflected in Schedules 5 and 6). The Foundation also administers for the N.C. State Education Assistance Authority two other major programs: (1) the North Carolina College Savings and Investment Program which was launched December 3, 2001, and replaces the state's previous college savings program known as College Vision Fund, which began in May 1998, and (2) the information dissemination program known as College Foundation of North Carolina, which began in May 2000. The Internal Revenue Service recognized the Foundation as exempt in 1956. Under a 1998 ruling, the Foundation was declared a supporting organization on the basis of its administration of the state's student financial assistance programs and its governance structure under the charter and commenced operations as a public charity July 1, 1998.

B. Accrual Basis:

The accompanying financial statements have been prepared on the accrual basis of accounting using separate self-balancing fund groups to report assets, liabilities, revenues, expenses, net assets, and cash flows.

C. Basis of Presentation:

The Foundation is required to classify resources for accounting and reporting purposes into three net asset categories according to externally imposed restrictions. Accordingly, net assets of the Foundation and changes therein may be classified and reported as follows:

Unrestricted Net Assets--Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets--Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets--Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use the income earned for unrestricted purposes. However, capitalized interest on student loans funded through certain permanently restricted contributions is also permanently restricted.

D. Restricted and Unrestricted Revenue:

The Foundation is required to report contributions of cash and other assets received as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (Continued)

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

E. Accounting Estimates:

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

F. Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand, checking accounts, sweep accounts, and other short-term investments consistent with the Investment Policy approved by the Board of Trustees. The carrying amount reflected in the Foundation's financial statements approximates fair value due to the short-term nature of these investments. The Foundation, in accordance with its bylaws, maintains these balances at financial institutions insured by the Federal Deposit Insurance Corporation, authorized to do business in North Carolina, and designated as depositories by the Board of Trustees. Excess cash in the Operating Fund may be needed to cover operating expenses for a period following the end of each calendar quarter, prior to the receipt of the Foundation's administrative fee from each program funding source.

See Note 7 for details regarding the cash reserve maintained by the Foundation as a condition of the Loan and Security Agreement with RBC Bank (USA) at June 30, 2010.

G. N.C. College Savings and Investment Program Accounts:

At June 30, 2011, funds in these accounts were invested in the Federally-Insured Deposit Account investment option offered by the State Employees' Credit Union. This investment option is a fixed price fund with the price per unit set at $1.00 and unlimited insurance coverage by the National Credit Union Administration.

At June 30, 2010, funds in these accounts were invested in the Dependable Income Fund investment option, which holds an equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund is a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Reports* for fiscal years ending June 30.

N.C. College Savings and Investment Program accounts are subject to withdrawal restrictions under Section 529 of the Internal Revenue Code. See Note 2M for beneficiary information.

H. Property and Equipment:

Property and equipment are stated at cost or contributed value, less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the property.

A capitalization threshold of $1,500 is utilized; therefore, any property and equipment items costing less than this amount are charged to operating expense as incurred.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (Concluded)

I. Lease Commission:

The lease commission is being amortized using the straight-line method over the life of the Yonkers Road lease.

J. Contingency for Uninsured Loans:

A reserve for denied claims was created to cover possible losses from uncollectible loans that were improperly originated or serviced by the Foundation. As authorized by the Board of Trustees, during the year ended June 30, 1984, the reserve was set at an amount equal to 1/10 of 1% of the total outstanding loans. On October 3, 1990, the Board authorized an increase in the reserve to 2/10 of 1%. On March 25, 1992, the Board authorized a further increase to 1/2 of 1%. On October 1, 1997, the Board authorized the deferral of any further increases in the reserve until a re-evaluation of the reserve level was completed. This study took into consideration the Foundation’s improved operating efficiencies which resulted in low numbers of denied claims and loans to be written off. The results of the study were presented to the Audit Committee and, on May 4, 1999, the Board of Trustees approved a change in the basis for determining the amount in the reserve and renaming of the account as "Contingency for Uninsured Loans" to broaden its scope while preserving the original purpose. As specified by the Board, the reserve is adjusted at the end of each calendar quarter to assure adequate coverage after taking into account any charge-offs for the period.

The 1992 Amendments to the Higher Education Act, P.L. 102-325, enacted July 23, 1992, authorized the Secretary of the U.S. Department of Education to publish regulations applicable to third party servicers to establish minimum standards for sound management and accountability under Part B of the Act; the regulations, published April 29, 1994, include financial responsibility standards for, and the assessment of liabilities for program violations against, such servicers.

K. Income, Sales and Use, Excise, and Property Taxes:

The Foundation is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code and was classified by the IRS as a private operating foundation until 1998 when, under a new IRS ruling, the Foundation was declared a supporting organization; it commenced operation as a public charity July 1, 1998. The Foundation is exempt from excise taxes under Section 4942(j)(3) of the Code. Under Sections 105-125 and 105-130.11(3) of North Carolina General Statutes, the Foundation is exempt for franchise and income tax purposes. Contributions to the Foundation are deductible under IRS rules.

The Foundation is eligible for a refund of North Carolina Sales and Use Tax paid on purchases of tangible personal property for use in its nonprofit work pursuant to a determination made by the North Carolina Department of Revenue under the guidelines of the Sales and Use Tax Technical Bulletins, Section 17 (originally qualified under Sales and Use Tax Regulation 7). Expenses shown on the statements of activities are net of applicable Sales and Use Tax paid for which an application for refund will be filed.

The Foundation's request for property tax exemption for 2100 Yonkers Road was approved under North Carolina General Statutes Section 105-278.7 on June 24, 1988; however, effective for tax year 2006, the property tax exemption was lost since the property was no longer considered used for charitable purposes.

On January 22, 2004, the Foundation's request for property tax exemption for the Highwoods Campus was approved under North Carolina General Statutes Section 105-278.7.

L. Subsequent Events:

Subsequent events have been evaluated through September 23, 2011, which is the date the financial statements were issued.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

2. Programs Administered by the Foundation

A. North Carolina's Federal Family Education Loan Program:

This Program covers loans made under Part B, Title IV, of the Higher Education Act of 1965, as amended. The Foundation has originated (including disbursement of the loans) and serviced loans under the Act since its enactment. From time to time, amendments to the Act have changed the names and terms of the loans. Loans originated and serviced by the Foundation have included interest-subsidized, nonsubsidized, and unsubsidized Federal Stafford Loans (including Federal Insured Student Loans/FISL), as well as Federal Supplemental Loans for Students (SLS), Federal PLUS Loans, and Federal Consolidation Loans. These loans are eligible for State and Federal (re)insurance. The Foundation originated the first PLUS Loans to parents during the year which ended June 30, 1983; and, for this initial period, PLUS Loans were made only to parents of eligible undergraduate dependent students. Beginning July 1, 1983, PLUS Loans were also available to independent undergraduate and graduate/professional students. Effective October 16, 1986, PLUS Loans to students were redesignated by law as Supplemental Loans for Students, and PLUS Loans were made available to parents of dependent students at either the undergraduate or graduate level; effective for award years beginning after June 30, 1993, graduate students were deemed independent for student aid purposes and could no longer benefit from PLUS Loans. The Higher Education Act was subsequently amended to replace Supplemental Loans with the unsubsidized Federal Stafford Loans, effective with periods of enrollment beginning after June 30, 1994. The Foundation began originating Federal Consolidation Loans on September 10, 1998. On February 8, 2006, the Higher Education Act was amended yet again to allow graduate/professional students to borrow PLUS Loans in an amount up to their cost of attendance minus other estimated financial assistance. This change was effective for loans certified on or after July 1, 2006. On September 18, 2008, the Foundation suspended its Consolidation Loan program. As of July 1, 2010, no new loans could be originated under the Federal Family Education Loan Program. In the case of a majority of the loans serviced by the Foundation under this Program, the Foundation is acting as agent for the N.C. State Education Assistance Authority.

B. Carolina Computing Initiative (CCI) Loans:

This program began in Fall 1998 to assist UNC-Chapel Hill (UNC-CH) students in financing a computer purchase through UNC-CH Student Stores. UNC-CH and the N.C. State Education Assistance Authority set both the rules and the interest rate for the CCI Loans.

On February 1, 2010, the Foundation suspended the origination of loans under the CCI Loan Program due to market conditions which significantly affected the Authority’s ability to raise capital.

C. N.C. Student Incentive Grant Program:

The Foundation administered this program as agent for the N.C. State Education Assistance Authority. In 1975, the program was authorized, under Part A, Title IV, of the Higher Education Act of 1965, as amended, to make incentive grants available to states to assist states in providing grant assistance to eligible students; in 1998, Congress changed the name of the subpart to “Leveraging Educational Assistance Partnership (LEAP) Program.” Student awards were a combination of federal and state funds. Federal funding for the LEAP Program as well as the matching state funds were eliminated for the 2011-12 academic year.

D. UNC Need-based Grant Program:

The Foundation administers this program as agent for the N.C. State Education Assistance Authority. The program was first funded by the N.C. General Assembly in July 1999 and provides need-based grants to in-State students attending constituent institutions of The University of North Carolina. Awards criteria for this program are set by the N.C. State Education Assistance Authority.

2. Programs Administered by the Foundation (Continued)

E. N.C. Community College Grant Program:

The Foundation acts as agent for the N.C. State Education Assistance Authority which has a contract with the State Board of Community Colleges to administer this program established by the N.C. General Assembly in July 1999. This program provides need-based grants from State funds to students enrolled at the State's community colleges. The Foundation determines eligibility of students, obtains certifications from the colleges, and makes the disbursements to the colleges. Rosters are provided to the Community College System Office.

F. North Carolina College Savings and Investment Program:

The Foundation acts as agent for the N.C. State Education Assistance Authority in the administration of the State's college savings and investment program which is designed to meet the requirements of a "qualified tuition program" under Section 529 of the Internal Revenue Code. The first parental savings account under the predecessor program, called College Vision Fund, was established May 28, 1998. Funds invested in the College Vision Fund program were managed by the Office of the State Treasurer. On December 3, 2001, College Vision Fund contributions of $9,541,641 were rolled over into the new North Carolina College Savings and Investment Program as provided in the Program Rules of the N.C. State Education Assistance Authority.

As of December 3, 2001, investment options made available through direct enrollment with the Foundation under the new program were:

1. Aggressive Stock Fund, managed by NCM Capital Management Group, Inc.;
2. Balanced Fund, managed by Wachovia Bank, N.A., through its affiliate Evergreen Investment Management Co., LLC;
3. College*Horizon*Funds, managed by J. & W. Seligman & Co., Incorporated; and
4. Dependable Income Fund, managed by the Office of the State Treasurer.

On September 3, 2002, an additional investment option, the Protected Stock Fund, was made available under the program. This option was offered through a type of insurance contract known as a funding agreement. These agreements were issued by Metropolitan Life Insurance Company (MetLife) to the Foundation.

As of December 3, 2001, the Seligman College*Horizon*Funds investment option, which was managed by J. & W. Seligman & Co., Incorporated, was also made available to participants who choose to work with a financial advisor that is compensated through sales and asset-based charges applicable to the investment of account assets in, or their allocation to, the investment option (Advisor-sold Enrollment). As of April 7, 2003, the following three additional investment options were made available through Advisor-sold Enrollment:

1. Seligman Aggressive Allocation, managed by J. & W. Seligman & Co., Incorporated;
2. Seligman Income Option, managed by J. & W. Seligman & Co., Incorporated; and
3. MetLife Protected Stock Fund, offered through a type of insurance contract known as a funding agreement issued by MetLife to the Foundation.

On December 1, 2003, an additional investment option, the Seligman Balanced Allocation, was made available through Advisor-sold Enrollment. However, on December 15, 2004, the N.C. State Education Assistance Authority and the Foundation discontinued the establishment of accounts through Advisor-sold Enrollment, and on March 1, 2005, any assets in Accounts established through Advisor-sold Enrollment were transferred to the corresponding investment options made available through direct enrollment. As of March 30, 2006, the Foundation contracted with The Vanguard Group, Inc. to add seven custom individual portfolios and three age-based investment options to the program, beginning April 3, 2006.

2. Programs Administered by the Foundation (Continued)

In January of 2006, the Foundation notified both PFPC, Inc. and State Street Banking and Trust Company that it would be terminating its contracts with each entity, and would no longer utilize their record keeping, disbursement, transfer agent, and custodial services, effective as of April 3, 2006. On March 27, 2006, the Foundation contracted with Upromise Investments, Inc. and Upromise Investment Advisors, LLC (collectively "Upromise") to provide these services as well as some administrative services for the program, beginning April 3, 2006. Upromise subcontracted with Mellon Authority, N.A. to provide custodial services for the Foundation.

In August of 2007, the management of the Foundation decided to terminate its contract with Upromise. Upromise was notified on August 29, 2007. As of February 28, 2008, the Foundation contracted with Upromise for the orderly transition of record keeping and administrative services as well as for the continuation of the Upromise Rewards service, with automatic sweep functionality, and for initiation of the Ugift service, an online gift service from Upromise allowing Participants to invite family and friends to contribute to the accounts of their designated Beneficiaries. Record keeping and other administrative services were assumed by the Foundation as of March 3, 2008. The Foundation contracted with State Street Bank and Trust Company to provide custodial services as of March 3, 2008. The Foundation does not provide financial or investment advice to prospects or Participants.

In addition to the record keeping and custodial changes, the Program's investment options underwent some additional changes during the same time period. As of February 27, 2008, the MetLife Protected Stock Fund was closed to new contributions as a result of MetLife's decision not to extend the funding agreements with the Foundation. Also, the Foundation terminated its March 30, 2006 agreement with Vanguard and executed a new agreement with Vanguard as of March 3, 2008 for the creation of the eight individual V Fund investment options and three age-based investment options, which are not managed by Vanguard, but feature underlying funds managed by Vanguard. Accounts with funds in the existing Vanguard investment options were migrated to the new V Fund investment options as of March 3, 2008.

After review and consultation, in April 2009 the N.C. State Education Assistance Authority and the Foundation terminated the contracts with Wachovia Bank, N.A. and RiverSource Investments, LLC (which previously acquired J. & W. Seligman & Co.). The effective termination date of each contract was July 1, 2009. Participants were notified in mid-May 2009 of the termination, and given the option of reallocating assets invested in the Balanced Fund (managed by Wachovia) and the College*Horizon*Funds (managed by RiverSource) to other investment options, or having the Foundation automatically reallocate their assets from the Balanced Fund to the V Fund 3 and from the College*Horizon*Funds to the Age-Based V Fund, Moderate Track.

In March of 2010, the Foundation notified Upromise that it did not intend to renew the Upromise Rewards Service. Upromise discontinued the automatic sweep functionality in April of 2011.

On April 12, 2010, the Foundation entered into a contract with the State Employees' Credit Union to add the Federally-Insured Deposit Account investment option, which launched on the same date. Additionally, on April 12, 2010, the name of the Aggressive Stock Fund was changed to the Active Core Equity Fund.

On December 31, 2010, the contract with the manager of the Active Core Equity Fund investment option, NCM Capital Management Group, Inc., expired after the N.C. State Education Assistance Authority and the Foundation declined to renew. Participants were notified that, as of December 30, 2010, assets

2. Programs Administered by the Foundation (Continued)

allocated to the Active Core Equity Fund would be invested in the Vanguard Total Stock Market Index Fund until January 31, 2011. Participants were given the option of reallocating assets in the Active Core Equity Fund to other investment options prior to January 24, 2011, or having the Foundation automatically reallocate their assets to V Fund 6 as of February 1, 2011.

G. College Foundation of North Carolina:

In May 2000, the N.C. State Education Assistance Authority and the Foundation developed an information dissemination program known as "College Foundation of North Carolina" (CFNC) that provides North Carolinians with a comprehensive website (www.CFNC.org) as well as other resources. In order to administer the program, the Foundation increased staffing in the call center and added additional regional representatives across the state. In 2001, the Foundation, the Authority, and Pathways of North Carolina (which is a partnership funded by the General Assembly and administered by The University of North Carolina), formed an alliance to coordinate information dissemination efforts to increase access to higher education in North Carolina and provide information on planning, applying, and paying for college.

H. EXTRA Education Loans:

This program began in July 2001 to assist borrowers attending eligible schools in North Carolina with qualified higher education expenses not covered under North Carolina's Federal Family Education Loan Program. The N.C. State Education Assistance Authority sets both the rules and the interest rate for the EXTRA Education Loans.

On February 1, 2010, the Foundation suspended the origination of loans under the EXTRA Education Loan Program due to market conditions which significantly affected the Authority’s ability to raise capital.

I. EXTRA MBA Loans:

This program began in March 2003 to assist borrowers enrolled in the Kenan-Flagler Business School MBA or MAC Program at UNC-Chapel Hill unable to secure loans under North Carolina's Federal Family Education Loan Program or the EXTRA Education Loan Program. The N.C. State Education Assistance Authority sets both the rules and the interest rate for the EXTRA MBA Loans.

On February 1, 2010, the Foundation suspended the origination of loans under the EXTRA MBA Loan Program due to market conditions which significantly affected the Authority’s ability to raise capital.

J. College Funds Installment Payment Plan:

In April 2005, the Foundation launched the College Funds Installment (CFI) Payment Plan for North Carolina Independent Colleges and Universities to make flexible payment options available to students and families. The CFI Payment Plan enables the payer to divide expenses into interest-free monthly payments which the Foundation, acting as agent, collects and forwards to the school. The Plan became available to public and proprietary North Carolina colleges and universities in 2006.

K. Education Lottery Scholarship Program:

This program was created by the N.C. General Assembly in 2005 to provide scholarships to needy North Carolina resident students attending eligible colleges and universities located in the State of North Carolina. Annual funding is contingent upon appropriations made available to the N.C. State Education Assistance Authority from proceeds of the North Carolina State Lottery. The Foundation administers this program as agent for the N.C. State Education Assistance Authority. Rules for administration of the program were adopted by the Board of Directors of the N.C. State Education Assistance Authority in July 2006.

2. Programs Administered by the Foundation (Concluded)

L. Education Access Rewards North Carolina (EARN) Scholars Fund Program:

This program was created by the N.C. General Assembly in 2007 to provide need-based grants to North Carolina resident students to enable them to obtain an education beyond the high school level without incurring student loans during the first two years of their postsecondary education. The Foundation administered this program as agent for the N.C. State Education Assistance Authority. Rules for administration of the program were adopted by the Board of Directors of the N.C. State Education Assistance Authority in December 2007.

On August 10, 2009, legislation was enacted which reduced the amount of individual grants for the 2009-2010 academic year and repealed the program effective July 1, 2010.

M. Victor E. Bell, Jr. Scholarship Program:

This program was established by the Foundation's Board of Trustees to encourage and assist high potential North Carolina students with limited financial resources to pursue higher education. Initially awarded to seventh grade students and renewable through four years of college as long as annual eligibility requirements are met, the program encourages students with academic ability and promise to maintain their scholastic standing and achieve a college degree. Individual awards are $2,000 per year, up to a maximum of $20,000 per recipient. The award for each recipient is contributed annually to an account in North Carolina's National College Savings Program with the Foundation as the account owner and the individual as the beneficiary. The first award recipients were selected in November 2007.

N. Other Programs:

From time to time the Foundation administers other programs of student financial assistance, including the Knights of Pythias Scholarships, Syringomyelia Scholarships and the Bryan Foundation Scholarships.

3. Accounts Receivable--U.S. Department of Education

The U.S. Department of Education pays an interest subsidy on eligible loans and special allowance to lenders holding loans made under the Federal Family Education Loan Program, which includes North Carolina's Program administered by College Foundation, Inc. Interest paid depends on the date the initial disbursement of the loan was made and applies only to interest-subsidized Federal Stafford Loans (including FISL), a Federal Consolidation Loan which consolidated only subsidized Federal Stafford Loans, and the subsidized portion of Federal Consolidation Loans. The subsidy applies to (1) the period from the date each disbursement is made until the student has ceased enrollment for at least a half-time academic workload, (2) the allowable six-to-nine month grace period prior to the beginning of the repayment period, and (3) any authorized deferment periods. For eligible loans, special allowance is applicable throughout the life of the loans based upon the average of the rates paid on 91-day Treasury bills auctioned for the quarter or the average of the rates of the quotes of 3-month commercial paper rates in effect for each of the days in the quarter, depending upon when the applicable loan was first disbursed, plus an add-on factor as specified by statute (special allowance support level). For eligible loans first disbursed prior to April 1, 2006, special allowance is paid if the special allowance support level exceeds the applicable interest rate on a loan. Both the interest subsidy and special allowance are based on the average daily principal balances of loans outstanding. Beginning with eligible loans first disbursed on or after April 1, 2006, lenders are required to remit excess borrower interest to the U.S. Department of Education when the applicable interest rate on a loan for any given quarter exceeds the special allowance support level. During the year ended June 30, 2011, the return of

3. Accounts Receivable--U.S. Department of Education (Continued)

excess borrower interest totaled $104,755,953, which included $8,988 related to loans owned by the Foundation and $104,746,965 related to loans owned by other funds providers. During the year ended June 30, 2010, the return of excess borrower interest totaled $128,794,177, which included $9,986 related to loans owned by the Foundation and $128,784,191 related to loans owned by other funds providers.

The College Cost Reduction and Access Act (CCRAA) signed on September 27, 2007 provided that “eligible not-for-profit holders” would receive a higher special allowance support level (0.15%) than for-profit holders for loans first disbursed on or after October 1, 2007. The Foundation submitted documentation to the U.S. Department of Education on January 4, 2008 to support a request for the “eligible not-for-profit holder” designation. Approval of the request was received on March 31, 2008.

Beginning with loans first disbursed on or after October 1, 2007, 1% of the principal amount of the disbursement was paid by the lender/holder as a deduction from the amount of interest subsidy and special allowance due to the lender/holder for the quarter in which loan funds were disbursed. This loan fee was 0.5% for loans first disbursed between October 1, 1993 and September 30, 2007. In addition, federal statute required the payment of certain loan origination fees as a credit against the quarterly interest and special allowance billing to the U.S. Department of Education. Effective for loans first disbursed between July 1, 2009 and June 30, 2010, the origination fee was 0.5% (1% for loans first disbursed between July 1, 2008 and June 30, 2009; 1.5% for loans first disbursed between July 1, 2007 and June 30, 2008; 2% for loans first disbursed between July 1, 2006 and June 30, 2007) of the loan principal amount for Federal Stafford Loans and 3% of the loan principal amount for Federal PLUS Loans. Prior to July 1, 2006, the origination fee was 3% of the loan principal amount for Federal Stafford Loans and Federal PLUS Loans. Prior to July 1, 1994, the origination fee was 5% of the loan principal amount for interest-subsidized Federal Stafford Loans, Federal Supplemental Loans for Students (SLS), and Federal PLUS Loans; on unsubsidized Federal Stafford Loans, there was a combination origination fee/insurance fee of 6.5% from October 1, 1992 to July 1, 1994. If a sequester order under the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly called "Gramm-Rudman-Hollings"), as amended, was in effect when the first disbursement of a loan was made, the origination fee was increased by 0.5%.

4. Loan Insurance and Defaults

A. Loan Insurance and Reinsurance:

The majority of all loans originated by the Foundation are insured by the N.C. State Education Assistance Authority as to principal and interest. The insurance percentage varies between 97% and 100% based upon the date the loan was made. Under its contract of reinsurance with the U.S. Department of Education, the N.C. State Education Assistance Authority is reimbursed for its payments of default claims according to a scale specified in federal statute. The “trigger rate” which results in reimbursement at less than the maximum rate is determined by comparing the total amount which the guarantee agency paid to lenders during the federal fiscal year for claims for defaults/nonpayment, death, disability, bankruptcy, etc., to the amount under guarantee by the agency and in repayment at the end of the preceding federal fiscal year (this trigger rate should not be confused with “cohort default rates” which are calculated differently and used for different purposes). The N.C. State Education Assistance Authority has always qualified for the maximum reinsurance rate because of the low default rate under North Carolina's Federal Family Education Loan Program.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

4. Loan Insurance and Defaults (Continued)

Although the insurance premium (renamed Federal default fee for loans guaranteed on or after July 1, 2006) was set at different rates in the past, it was waived by the N.C. State Education Assistance Authority beginning with 1997-98 fiscal year loans. When in effect, the premiums were deducted by the Foundation from each loan disbursement and remitted to the guarantee agency, the N.C. State Education Assistance Authority, which deposited them into the Reserve Trust Fund from which claims were paid at that time. In addition, the N.C. State Education Assistance Authority has provided a separate trust fund which may be used to reimburse lenders for losses on defaulted loans and other types of non-reinsured claims under certain circumstances.

The U.S. Department of Education insured student loans disbursed from the Foundation's Special Loan Fund from 1971 to 1979, and United Student Aid Funds (USA Funds) guaranteed a small number made from the Special Loan Fund between 1982 and 1987. There are no outstanding balances on these loans.

As of June 30, 2011, outstanding balances (including Trustee and Agency Funds) on loans originated by the Foundation under the Higher Education Act were as follows:

	Made Before October 1, 1993	Made October 1, 1993 through June 30, 2006	Made After June 30, 2006	Total
N.C. SEAA--Lender of Last Resort	$ 12,479	$ 170,485	$	$ 182,964
N.C. SEAA--Trust, Bond, and Escheat	1,822,881	1,110,891,536	2,042,091,957	3,154,806,374
Banks--Assigned Loans	6,022,538	4,069,963		10,092,501
Special Loan Fund	563,498	2,393,686	712,740	3,669,924
Totals	$ 8,421,396	$ 1,117,525,670	$ 2,042,804,697	$ 3,168,751,763

Comparative data (including Trustee and Agency Funds) as of June 30, 2010, were as follows:

	Made Before October 1, 1993	Made October 1, 1993 through June 30, 2006	Made After June 30, 2006	Total
N.C. SEAA--Lender of Last Resort	$ 15,753	$ 203,844	$	$ 219,597
N.C. SEAA--Trust, Bond, and Escheat	1,931,845	1,235,104,932	3,024,262,722	4,261,299,499
Banks--Assigned Loans	7,006,293	4,824,053		11,830,346
Special Loan Fund	580,066	2,788,223	747,379	4,115,668
Totals	$ 9,533,957	$ 1,242,921,052	$ 3,025,010,101	$ 4,277,465,110

B. Contingency for Uninsured Loans:

A reserve for denied claims exists to cover possible losses from uncollectible loans that were improperly originated or serviced by the Foundation. At June 30, 2011 and 2010, the contingency totaled $6,800,000 and $9,000,000, respectively.

C. Analysis of Outstanding Loans by School Type:

Since 1987, the U.S. Department of Education has been analyzing by school the number of borrowers with loans maturing in a given federal fiscal year and defaulting (with the claims having been paid by the guarantee agency) before the end of the succeeding federal fiscal year. (Beginning with federal fiscal year 2009, the default period was extended one additional year such that the default occurs and the claim is paid before the end of the second federal fiscal year following the year in which the borrower enters repayment.) This analysis results in a calculated "cohort default rate" for the school, and those with rates above specified levels may lose their eligibility to participate in loan programs under Parts B and D, Title IV, of the Higher

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

4. Loan Insurance and Defaults (Concluded)

Education Act. Prior to the July 1, 2010 discontinuation of the origination of Federal Family Education Loan Program loans, the emphasis on cohort default rates and the reduction in the federal reimbursement scale for default claims made it desirable to monitor the outstanding loan balances by school type since, historically, defaults tended to be higher among borrowers who attended certain types of schools.

As of June 30, 2011, outstanding balances (including Trustee and Agency Funds but excluding Federal Consolidation Loans) on loans originated by the Foundation under the Higher Education Act were as follows:

School--Type	Number of Loans	Outstanding Balance
4-Year Public--In State	396,907	$ 1,416,389,720
2-Year Public--In State	43,074	95,591,820
4-Year Private--In State	138,409	550,723,733
2-Year Private--In State	4,430	12,094,585
Proprietary--In State	27,125	72,371,721
2/4-Year Public--Out of State	1,551	9,723,771
2/4-Year Private--Out of State	4,117	26,549,972
Proprietary--Out of State	1,080	5,277,893
Out of Country	395	3,819,784
Totals	617,088	$ 2,192,542,999

Comparative data (including Trustee and Agency Funds but excluding Federal Consolidation Loans) as of June 30, 2010, were as follows:

School--Type	Number of Loans	Outstanding Balance
4-Year Public--In State	528,133	$ 2,011,222,015
2-Year Public--In State	60,916	143,714,193
4-Year Private--In State	199,452	880,846,662
2-Year Private--In State	6,246	16,745,468
Proprietary--In State	36,253	95,776,725
2/4-Year Public--Out of State	2,525	16,936,136
2/4-Year Private--Out of State	7,530	51,038,238
Proprietary--Out of State	1,624	7,733,368
Out of Country	552	5,446,026
Totals	843,231	$ 3,229,458,831

5. Property and Equipment

Property and equipment held by the Foundation at June 30, 2011, were categorized as follows:

	June 30, 2010	Additions	Disposals	June 30, 2011
Highwoods Office Park Land (1)	$ 1,302,882	$	$	$ 1,302,882
Highwoods Boulevard Building (2)	9,291,532			9,291,532
Poplarwood Court Building (3)	2,992,578			2,992,578
Yonkers Road Land (4)	961,308			961,308
Yonkers Road Building (5)	3,862,067			3,862,067
Computer equipment	14,411,060	1,768,996	(275,795)	15,904,261
Computer software	10,643,774	119,498		10,763,272
Office furniture and equipment	1,453,355	20,433	(22,530)	1,451,258
Total	$ 44,918,556	$ 1,908,927	$ (298,325)	46,529,158
Less accumulated depreciation				27,007,479
Net property and equipment				$ 19,521,679

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

5. Property and Equipment (Continued)

Comparative data as of June 30, 2010, were as follows:

	June 30, 2009	Additions	Disposals	June 30, 2010
Highwoods Office Park Land (1)	$ 1,302,882	$	$	$ 1,302,882
Highwoods Boulevard Building (2)	9,291,532			9,291,532
Poplarwood Court Building (3)	2,992,578			2,992,578
Yonkers Road Land (4)	961,308			961,308
Yonkers Road Building (5)	3,862,067			3,862,067
Computer equipment	13,718,005	727,942	(34,887)	14,411,060
Computer software	10,511,462	132,312		10,643,774
Office furniture and equipment	1,371,050	83,775	(1,470)	1,453,355
Total	$ 44,010,884	$ 944,029	$ (36,357)	44,918,556
Less accumulated depreciation				24,602,791
Net property and equipment				$ 20,315,765

(1) Land related to Highwoods Boulevard Building consists of 2.81 acres purchased May 31, 2002, on which the office building is located plus 1.45 acres which contains only parking and landscaping. Land related to Poplarwood Court Building consists of 1.45 acres purchased May 31, 2002, on which the office building is located.
(2) Building is 61,888 square feet, occupied by the Foundation on October 24, 2003.
(3) Building is 18,660 square feet, occupied by the Foundation on October 24, 2003.
(4) Land consists of 3.0 acres purchased June 15, 1987, on which the office building is located plus 2.0 acres purchased November 29, 1988, in an adjacent lot which also fronts on Yonkers Road.
(5) Building is 43,433 square feet, two-story brick, completed during 1987-88, which is currently being held for leasing (see Note 14). The total amount of accumulated depreciation on this building is $1,514,364.

6. Funding Agreements

A. Education Loan Funding:

Education institutions, financial institutions and other organizations previously provided funds for Federal Stafford Loans (including FISL) to students under a Special Loan Fund Investment Agreement. Originally, all amounts funded by Special Loan Fund participants were represented by notes payable; however, effective September 1984, after a ruling by the U.S. Department of Education, loans made from funds of education institutions were assigned to those institutions, making them the "owners and holders" of the loans they funded. This resulted in two categories of Special Loan Fund loans: (1) assigned loans for which the Foundation served as agent and (2) nonassigned loans which were represented by notes payable to the funds providers. Under these Investment Agreements, principal collected from the borrowers was either processed and recycled into new student loans or, upon request, returned to the funds provider. Interest was paid quarterly and was based on the applicable interest rate for the funded student loans plus any special allowance, less any excess interest, if applicable, and borrower benefits and adjusted for the Foundation's administrative fee and any amount not outstanding in loans. All notes under the Special Loan Fund Investment Agreements have been paid in full.

In July 1991, the Foundation entered into the first Special Fund Purchase Agreement which provided for a Special Loan Fund participant, other than an education institution, to become the "holder" of the Federal Stafford Loans after their origination by the Foundation. Under the Servicing Agreement also executed by such participants, the Foundation, as agent for the funds providers, collects the loans and promptly remits to the Special Loan Fund participant all principal and interest payments collected from borrowers. The Foundation submits the quarterly billing for interest and special allowance to the U.S. Department of Education on behalf of the participant.

6. Funding Agreements (Continued)

The Foundation either deducts its servicing fee from the interest subsidy and special allowance or submits a billing to the funds providers for the servicing fee due for the quarter.

B. Interfund Borrowings:

In the event interfund borrowings occur, interest accrues based on the rate which would otherwise have been earned on the idle funds; the amount borrowed must be repaid under the terms approved by the Board of Trustees when the interfund borrowing was authorized.

7. Lines of Credit

On September 15, 2004, the Foundation opened an unsecured line of credit for up to $40,000,000, subject to certain covenants specified in the Loan Agreement. This line was to be used to provide funds for education loans or grant awards in the event that the N.C. State Education Assistance Authority was unable to remit amounts requested on a timely basis. The Foundation entered into an agreement with the N.C. State Education Assistance Authority to reimburse principal, interest and fees associated with the expanded line of credit. The $40,000,000 line of credit to provide overdraft protection was reduced to $5,000,000 on September 15, 2008, and the maturity date extended through September 15, 2010. On October 1, 2008, this line of credit was temporarily increased to $40,000,000 with an option for the bank to permanently reduce the line to $5,000,000 prior to maturity on September 15, 2010. The bank exercised its option to reduce the line of credit on December 12, 2008. The line of credit was not renewed at maturity.

Interest accrued on the line of credit at a variable rate based on the 30-day LIBOR rate plus 1%, adjusted monthly. In addition, the Foundation paid an unused fee of 0.125% per annum on the average daily amount of the unused commitment. No disbursements were made from the line of credit. During the years ended June 30, 2011 and 2010, unused fees of $1,337 and $6,250, respectively, were incurred by the Foundation and reimbursed by the N.C. State Education Assistance Authority.

On August 3, 2009, the Foundation and the N.C. State Education Assistance Authority entered into a Loan and Security Agreement with RBC Bank (USA). Under the terms of the Agreement, RBC provided a $50,000,000 revolving credit facility to the Authority which could be used to cover disbursements of eligible student and parent loans prior to inclusion in the Loan Participation Purchase Program established by the U.S. Department of Education under the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Although the Authority was responsible for payment of all principal, interest and related fees, and for providing collateral in the form of education loans, the Foundation acted as agent for the Authority under the Agreement with respect to administrative functions. The Foundation also agreed to establish and maintain a noninterest bearing deposit account with RBC in the amount of at least $5,000,000 for the life of the facility. The maturity date for the facility was August 1, 2010.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

8. Analysis By Loan Type and Funding

As of June 30, 2011, outstanding balances (including Trustee and Agency Funds) on loans were as follows:

	Loans to Students	PLUS Loans to Parents	Consolidation Loans	Total
Made Under the Higher Education Act				
Loans Owned by the Foundation:				
Unrestricted Special Nonassigned Fund	$ 222,681	$	$	$ 222,681
Permanently Restricted Special Nonassigned Fund	404,107			404,107
Total Owned by the Foundation Under the Higher Education Act	626,788			626,788
Trustee and Agency Funds:				
N.C. SEAA Funded Loans:				
N.C. SEAA Trust Funds	1,332,005,620	113,896,063	2,651,934	1,448,533,617
N.C. SEAA Escheat Funds	9,060,830			9,060,830
N.C. SEAA Bond Funds	676,096,902	47,721,159	973,556,830	1,697,374,891
Total N.C. SEAA Loans	2,017,163,352	161,617,222	976,208,764	3,154,989,338
Assigned Loans:				
Bank Assigned Loans	9,861,080	231,421		10,092,501
Special Assigned Loans	2,302,193			2,302,193
Total Assigned Loans	12,163,273	231,421		12,394,694
Nonassigned Special:				
Moore County Trusts	740,943			740,943
Byrum-Mansfield				
Total Nonassigned Special	740,943			740,943
Total Trustee and Agency Funds Under the Higher Education Act	2,030,067,568	161,848,643	976,208,764	3,168,124,975
Other (Non-Federal)				
Not Originated by the Foundation:				
Moore County Trusts	3,000			3,000
Originated by the Foundation:				
Special Assigned Loans	642,532			642,532
Loans Owned by the Foundation	62,997		43,086	106,083
Computer Loans	161,332			161,332
EXTRA Education Loans	207,836,774			207,836,774
EXTRA MBA Loans	14,960,465			14,960,465
Total Other (Non-Federal)	223,667,100		43,086	223,710,186
Total Serviced by the Foundation	$ 2,254,361,456	$ 161,848,643	$ 976,251,850	$ 3,392,461,949

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

8. Analysis By Loan Type and Funding (Continued)

Comparative data (including Trustee and Agency Funds) as of June 30, 2010, were as follows:

	Loans to Students	PLUS Loans to Parents	Consolidation Loans	Total
Made Under the Higher Education Act				
Loans Owned by the Foundation:				
Unrestricted Special Nonassigned Fund	$ 228,083	$ 643	$	$ 228,726
Permanently Restricted Special Nonassigned Fund	461,486			461,486
Total Owned by the Foundation Under the Higher Education Act	689,569	643		690,212
Trustee and Agency Funds:				
N.C. SEAA Funded Loans:				
N.C. SEAA Trust Funds	2,201,328,847	198,508,118	1,464,386	2,401,301,351
N.C. SEAA Escheat Funds	10,679,964			10,679,964
N.C. SEAA Bond Funds	743,164,260	59,831,628	1,046,541,893	1,849,537,781
Total N.C. SEAA Loans	2,955,173,071	258,339,746	1,048,006,279	4,261,519,096
Assigned Loans:				
Bank Assigned Loans	11,552,245	278,101		11,830,346
Special Assigned Loans	2,704,073			2,704,073
Total Assigned Loans	14,256,318	278,101		14,534,419
Nonassigned Special:				
Moore County Trusts	713,222			713,222
Byrum-Mansfield	8,161			8,161
Total Nonassigned Special	721,383			721,383
Total Trustee and Agency Funds Under the Higher Education Act	2,970,150,772	258,617,847	1,048,006,279	4,276,774,898
Other (Non-Federal)				
Not Originated by the Foundation:				
Moore County Trusts	3,000			3,000
Originated by the Foundation:				
Special Assigned Loans	644,615			644,615
Loans Owned by the Foundation	44,234		44,673	88,907
Computer Loans	375,085			375,085
EXTRA Education Loans	213,376,181			213,376,181
EXTRA MBA Loans	15,400,723			15,400,723
Total Other (Non-Federal)	229,843,838		44,673	229,888,511
Total Serviced by the Foundation	$ 3,200,684,179	$ 258,618,490	$ 1,048,050,952	$ 4,507,353,621

9. Analysis of Loan Status and Delinquency

As of June 30, 2011, outstanding balances (including Trustee and Agency Funds) on loans originated by the Foundation under the Higher Education Act were as follows:

	Loans to Students	PLUS Loans to Parents	Consolidation Loans	Total
Loans in Repayment:				
Current	$ 805,181,142	$ 120,242,351	$ 674,674,804	$ 1,600,098,297
Delinquent:				
One Payment Delinquent	84,564,284	9,284,849	46,438,292	140,287,425
Two Payments Delinquent	43,800,579	3,190,754	18,636,432	65,627,765
More Than Two Payments Delinquent	101,941,135	3,026,499	27,961,692	132,929,326
Total Delinquent	230,305,998	15,502,102	93,036,416	338,844,516
Total in Repayment	1,035,487,140	135,744,453	767,711,220	1,938,942,813
Loans in Deferment	294,030,980	11,450,831	111,433,384	416,915,195
Loans in Forbearance	245,251,111	14,449,903	96,164,672	355,865,686
Total Mature	1,574,769,231	161,645,187	975,309,276	2,711,723,694
Loans Not Yet Mature:				
In School	288,373,548			288,373,548
In Grace/Interim	162,813,056			162,813,056
Total Not Yet Mature	451,186,604			451,186,604
Claims Pending	4,738,521	203,456	899,488	5,841,465
Total Outstanding Loans Under the Higher Education Act	$ 2,030,694,356	$ 161,848,643	$ 976,208,764	$ 3,168,751,763

Comparative data (including Trustee and Agency Funds) as of June 30, 2010, were as follows:

	Loans to Students	PLUS Loans to Parents	Consolidation Loans	Total
	Loans to Students	PLUS Loans to Parents	Consolidation Loans	Total
Loans in Repayment:				
Current	$ 733,364,095	$ 197,120,621	$ 716,755,244	$ 1,647,239,960
Delinquent:				
One Payment Delinquent	78,455,809	13,935,255	56,177,896	148,568,960
Two Payments Delinquent	38,758,049	3,920,484	19,652,038	62,330,571
More Than Two Payments Delinquent	88,625,910	3,816,334	30,379,200	122,821,444
Total Delinquent	205,839,768	21,672,073	106,209,134	333,720,975
Total in Repayment	939,203,863	218,792,694	822,964,378	1,980,960,935
Loans in Deferment	343,314,514	22,680,748	133,601,355	499,596,617
Loans in Forbearance	194,022,290	16,812,000	90,342,462	301,176,752
Total Mature	1,476,540,667	258,285,442	1,046,908,195	2,781,734,304
Loans Not Yet Mature:				
In School	1,137,737,854			1,137,737,854
In Grace/Interim	355,181,507	151,052		355,332,559
Total Not Yet Mature	1,492,919,361	151,052		1,493,070,413
Claims Pending	1,380,313	181,996	1,098,084	2,660,393
Total Outstanding Loans Under the Higher Education Act	$ 2,970,840,341	$ 258,618,490	$ 1,048,006,279	$ 4,277,465,110

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

10. Vehicle Leases

In May 2007, the Foundation entered into operating leases for seven new vehicles with single lease payments of $14,500 each paid at delivery. These leases expired May 2010. In August 2007, the Foundation entered into operating leases for two new vehicles with single lease payments of $13,600 each paid at delivery. These leases also expired May 2010. During the year ended June 30, 2010, expenses under these leases in the amount of $40,081 were included in operating expense.

In June 2010, the Foundation entered into operating leases for eight used vehicles with monthly payments of $601 each. The initial payment was due July 2010. The leases expired June 2011. During the year ended June 30, 2011, expenses including taxes and licenses under these leases in the amount of $60,776 were included in operating expense. The Foundation is currently leasing these vehicles on a month-to-month basis until new lease agreements are finalized.

11. Net Assets

Permanently restricted net assets at June 30, 2011 and 2010, were available for the following purposes:

	2011	2010
Loans to Students Attending:		
Mars Hill College	$ 182,726	$ 181,584
Gardner-Webb University	182,726	181,584
Lenoir Rhyne College	182,726	181,583
	$ 548,178	$ 544,751

These funds were provided through contributions from the Broyhill Family Foundation, which requires student loan interest on these loans that is capitalized to be subject to the same permanent restrictions.

At June 30, 2011 and 2010, temporarily restricted net assets of $36,997 were available to provide scholarships under the Victor E. Bell, Jr. Scholarship Program. These funds were provided through contributions from the Smith Richardson Foundation and the Kiwanis Club of Raleigh.

In October 2010, the Foundation received $80,455 from the U.S. Department of Education under the Payments to Loan Servicers for Job Retention Program to preserve jobs that would have otherwise been lost due to the termination of new student loan originations in the Federal Family Education Loan Program. During the year ended June 30, 2011, expenses of $69,518 were incurred for this purpose and $10,937 in unexpended funds were returned to the Department.

At June 30, 2011 and 2010, total net assets of the Foundation equaled $35,278,173 and $34,372,943, respectively, of which $30,403,699 and $29,497,936, respectively, was attributable to the Operating Fund. On May 9, 2007, the Board of Trustees authorized the Officers of the Foundation to utilize monies in the Special Scholarship Fund to annually fund scholarships under the Victor E. Bell, Jr. Scholarship Program. As of June 30, 2011 and 2010, the officers had designated net assets in the amount of $156,038 and $81,691, respectively.

12. Investment Expenses

During the years ended June 30, 2011 and 2010, investment expenses of $239 and $2,300, respectively, were netted against the Foundation’s interest income earned on cash and cash equivalents and investments in N.C. College Savings and Investment Program accounts.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

13. Unamortized Lease Commission

Unamortized lease commission at June 30, 2011 and 2010, was as follows:

	2011	2010
Lease Commission	$ 261,691	$ 261,691
Less Accumulated Amortization	130,845	103,586
Unamortized Lease Commission	$ 130,846	$ 158,105

For the years ended June 30, 2011 and 2010, amortization expense was $27,259 and $26,169, respectively. Future amortization expense is as follows:

Fiscal Year Ending June 30	
2012	$ 26,169
2013	26,169
2014	26,169
2015	26,169
2016	26,170
Future Amortization Expense	$ 130,846

14. Rental Income

The Foundation leases the Yonkers Road building to a tenant under a noncancelable operating lease which commenced on July 15, 2006, and expires June 30, 2016. During the year ended June 30, 2011, rental expenses of $277,484, including $98,245 in depreciation expense, were netted against rental income of $432,378. During the year ended June 30, 2010, rental expenses of $218,421, including $98,245 in depreciation expense, were netted against rental income of $426,019.

Future minimum rentals under this lease at June 30, 2011, not including a five-year renewal option, are:

Fiscal Year Ending June 30	
2012	$ 438,737
2013	445,492
2014	452,247
2015	459,003
2016	465,760
Future Minimum Rents	$ 2,261,239

15. Staff Retirement Benefits

The Foundation established a contributory pension plan, effective July 1, 1968, funded through individual annuity contracts with Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF). The plan rules have been modified from time to time. Since November 16, 1977, employees may elect to make their contributions to this plan through salary reduction. Since July 1, 1989, for employees who have attained age 21 and have completed two years of employment, participation is mandatory at a level of at least 2 percent of salary; employees may choose to participate at a higher level. The Foundation makes matching contributions based on a scale, effective July 1, 1991, of 2 to 6 percent related to the amount the employee contributes. Total pension plan expense for the years ended June 30, 2011 and 2010, was $408,121 and $405,335, respectively. Total employee contributions to this plan through salary reduction for the two referenced periods amounted to $800,523 and $843,725, respectively.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

15. Staff Retirement Benefits (Continued)

On January 1, 2010, the Foundation established a deferred compensation plan in accordance with the requirements under the Internal Revenue Code Section 457(b). An eligible participant is any employee whose compensation is among the top 5% of all employees and who is either an Officer of the Foundation or holds the title of General Counsel. Contributions are deferred from the participant’s salary and held by TIAA-CREF. Participants are fully vested in the plan upon entry. At June 30, 2011 and 2010, the assets and liabilities related to the plan totaled $27,928 and $11,195, respectively.

On September 23, 1992, the Board of Trustees passed a resolution that the Foundation should maintain the Key Employee Insurance policy in the amount of $150,000 on Duffy L. Paul, President Emeritus, following his retirement. The Foundation continued as owner of the policy until his death in March 2008. At that time, arrangements were made to begin annual distributions over a period of ten years to his designated beneficiary as provided in a special agreement authorized by the Board.

Future distributions under this deferred compensation arrangement are as follows:

Fiscal Year Ending June 30		
2012	$	13,219
2013		13,505
2014		13,791
2015		14,084
2016		14,383
Thereafter		14,688
	$	83,670

16. Postretirement Benefits

In addition to providing pension benefits, the Foundation reimburses retired employees age 60 or above with at least ten years of full-time service for a portion of their medical and dental insurance premiums. The amount paid is dependent upon length of service and cannot exceed the current monthly amount for premiums for full-time staff. Reimbursements paid to retirees during the years ended June 30, 2011 and 2010, totaled $26,618 and $15,395, respectively. There are no plan assets set aside related to these benefits. Amounts are funded with Operating Fund cash as needed. The Foundation is required to accrue the liability that arises from the underfunded status of this defined benefit postretirement plan.

The postretirement benefit plan is viewed as a deferred compensation arrangement whereby the employer promises to exchange future benefits for employees' current services. Because the obligation to provide benefits arises as employees render the services necessary to earn the benefits pursuant to the terms of the plan, the costs of providing benefits are recognized over those employee service periods. All required calculations were prepared by Stanley Benefit Services, actuaries, using pertinent data for the Foundation’s staff.

16. Postretirement Benefits (Continued)

The following table sets forth the plan's funded status reconciled with the amount shown in the Foundation's statements of financial position at June 30, 2011 and 2010:

	2011	2010
Accumulated postretirement benefit obligation:		
Retirees	$ (267,621)	$ (256,512)
Fully eligible active plan participants	(903,527)	(676,692)
Other active plan participants	(4,823,913)	(4,613,436)
Accumulated postretirement benefit obligation	$ (5,995,061)	$ (5,546,640)
Net periodic postretirement benefit cost includes the following components:		
Service cost	$ 446,582	$ 332,067
Interest cost	266,880	240,435
Amortization of prior service cost	50,726	50,726
Amortization of net loss	813	
Net periodic postretirement benefit cost	$ 765,001	$ 623,228

Benefits expected to be paid in the future are as follows:

2012	$ 63,563
2013	74,889
2014	89,672
2015	105,471
2016	124,112
2017-2021	881,222

For measurement purposes, a 8.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2010-2011, gradually decreasing to 5% over the next seven years. A weighted average discount rate of 5.5% was used to determine the accumulated postretirement benefit obligation as of June 30, 2011.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) and a non-taxable federal subsidy of certain prescription drug claims to sponsors of retiree health care benefit plans. The Foundation has not determined if the prescription drug benefits provided under its postretirement health care plan are at least actuarially equivalent to the prescription drug benefits offered under Medicare Part D and has not applied for the subsidy under the Act.

17. Property Protection and Liability Insurance

In addition to insurance covering property and equipment, the Foundation maintains a second IBM iSeries computer at a remote location in order to minimize the suspension of business and to continue operations in the event of a disaster. The Foundation also maintains Employee Dishonesty coverage and Errors and Omissions coverage on its employees, both in the amount of $1,000,000, as well as Employed Lawyers Professional Liability coverage in the amount of $10,000,000. The Foundation, as administrator of the North Carolina College Savings and Investment Program, by contract requires each Investment Manager, State Employees' Credit Union, MetLife, and Vanguard to maintain commercially reasonable insurance.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2011 and 2010

18. Executives and Trustees' Liability and Life Insurance

The Foundation maintains a liability policy on its officers and trustees in the amount of $10,000,000.

The Foundation is also owner and beneficiary of life insurance policies, totaling $300,000, on three executives. The original policy covering two executives was used to purchase a Single Premium Income Annuity which funds the premiums on a term life insurance policy for these executives; the other executive is covered under a newer, separate term life insurance policy. The cash value of the annuity as of June 30, 2011 and 2010, totaled $12,275 and $12,810, respectively.

19. Marketing and Advertising

The Foundation uses marketing and advertising to promote the various programs it services. The costs of marketing and advertising are expensed as incurred. During the years ended June 30, 2011 and 2010, marketing and advertising costs totaled $2,793,591 and $3,167,183, respectively.

20. Functional Expenses

Expenses as listed on the Schedules of Activities can be classified into the following functional expense categories:

	2011	2010
Program Services	$ 28,233,842	$ 31,609,000
Management and General	1,549,239	1,237,638
	$ 29,783,081	$ 32,846,638

Program service expenses include costs directly related to the administration of the Federal Family Education Loan Program and other student financial assistance programs. Management and general expenses are not directly identifiable with a student financial assistance program activity but are indispensable to the conduct of that activity and to the Foundation's existence.

21. Special Scholarship Fund

On March 27, 1985, the Board of Trustees passed a resolution which established the Special Scholarship Fund in honor of and named for Victor E. Bell, Jr., for his many years of service to the Foundation as Chairman of the Board. The Board then authorized the transfer of $1,000,000 to the Special Scholarship Fund from the Operating Fund and the Direct and Special Loan Funds. The resolution also specified that all unrestricted contributions after March 27, 1985, be recorded in the Special Scholarship Fund.

22. Trustee and Agency Funds

The Foundation serves as the court-appointed trustee for certain funds that were made available for Federal Stafford Loans under the Foundation's Special Loan Fund Program. Principal collected from borrowers was previously processed and recycled into new student loans. Interest is paid quarterly and is based on the applicable interest rate for the funded student loans plus any special allowance, less any excess interest, if applicable, and borrower benefits and adjusted for the Foundation's service fees and any amount not outstanding in loans. The Foundation also serves as the court-appointed trustee for some education loans that were not made under the Higher Education Act and were originated by other administrators; as these funds are collected, they are placed into the Special Loan Fund.

22. Trustee and Agency Funds (Continued)

Since July 1985, the Foundation has served as agent for banks participating under the conditions of the Master Purchase Agreement or the Amended and Restated Master Purchase and Sale Agreement which provide for the education loans to be "assigned" to the funding bank, making it the legal "holder" of the funded loans. Under the terms of the Servicing Agreements for the assigned loans, the Foundation promptly remits to the banks all principal and interest payments collected from borrowers. Upon the receipt of the interest subsidy and special allowance payments from the U.S. Department of Education each quarter, the Foundation deducts its administrative fee provided for in the Servicing Agreements and immediately remits the remainder to each bank or submits a billing to the bank for servicing fees; these computations are based on the average daily balance of each bank's outstanding loans.

In addition to serving as agent for the Special Loan Fund participants and banks with respect to assigned loans, the Foundation services Federal Stafford Loans (subsidized and unsubsidized), Federal PLUS Loans, and Federal Consolidation Loans funded and/or sponsored by the N.C. State Education Assistance Authority. As principal and interest on these loans are collected from the borrowers, the funds are remitted promptly to the N.C. State Education Assistance Authority or its designated trustee. The Foundation submits a billing quarterly to the N.C. State Education Assistance Authority or its designated trustee for the service fees on these loans.

On May 7, 2008, President Bush signed the Ensuring Continued Access to Student Loans Act (ECASLA), which provided the Secretary of Education the authority to purchase and/or buy participation interests in eligible Federal Family Education Loan Program (FFELP) loans. Federal regulations were published on July 1, 2008 by the U.S. Department of Education which established the terms and conditions for the Loan Participation Purchase Program (“Participation Program”), pursuant to ECASLA, for the 2008-2009 academic year. Under the Participation Program, the Department provided short-term liquidity to lenders by purchasing participation interests in eligible FFELP loans on which it received a yield equal to the commercial paper rate for the preceding quarter plus 0.5% on the principal amount of participation interests outstanding. On October 7, 2008, legislation was enacted extending ECASLA for one year. Due to the economic climate, the N.C. State Education Assistance Authority elected to participate in the Participation Program for the 2009-2010 academic year. An Adoption Agreement was signed on July 28, 2009 by the Department of Education; the State Education Assistance Authority, as Sponsor; College Foundation, Inc., as Eligible Lender Trustee; and The Bank of New York Mellon Trust Company, National Association, as Custodian. Under this Agreement, the N.C. State Education Assistance Authority sold participation interests in eligible FFELP loans to the Department for which title was transferred simultaneously by the Authority to the Foundation, as Eligible Lender Trustee, and then to The Bank of New York Mellon Trust Company, National Association, as Custodian, for the benefit of the Department. The Foundation submitted the first Participation Purchase Request on August 4, 2009 and serviced the loans as long as there were participation interests outstanding. Under the terms of the Participation Program, academic year 2009-2010 loans funded under the Participation Program were required to be repurchased by the Authority or sold to the Department by September 30, 2010 or October 15, 2010, respectively. On July 6, 2010, the Department of Education; the State Education Assistance Authority, as Seller; and College Foundation, Inc., as the Eligible Lender Trustee entered into a Master Loan Sale Agreement which allowed the Authority to sell all outstanding loans previously funded through the Participation Program. The sale was completed on September 13, 2010.

22. Trustee and Agency Funds (Concluded)

Also pursuant to ECASLA, the Department is financing eligible FFELP loans through a conduit vehicle established to provide funding for lenders (the “Conduit Program”). Loans eligible for the Conduit Program must have been first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed not later than September 30, 2009, and meet certain other requirements. The Conduit Program, which was launched on May 11, 2009, has a term of approximately five years, provided that certain extreme events do not occur and cause a premature termination (such as a liquidity event with respect to the conduit vehicle). Funding for the Conduit Program is provided by the capital markets at a cost based on market rates, with the lender being advanced 97 percent of the outstanding principal of pledged FFELP loans plus accrued, unpaid interest to be capitalized, minus certain costs. The N.C. State Education Assistance Authority elected to participate in the Conduit Program as a way to refinance existing debt. A Funding Note Purchase Agreement dated January 14, 2010 (amended and restated as of July 1, 2010) was executed by Straight-A Funding, LLC, as Conduit Lender; the State Education Assistance Authority, as Funding Note Issuer, Master Servicer and Sponsor; College Foundation, Inc., as Eligible Lender Trustee; The Bank of New York Mellon, as Conduit Administrator, Securities Intermediary and Conduit Lender Eligible Lender Trustee; and BMO Capital Markets Corp., as Manager. Under this Agreement, the N.C. State Education Assistance Authority issued a Funding Note, pursuant to which it promised to repay the outstanding balance by a date certain. Eligible FFELP loans serve as security for this repayment. Title to these FFELP loans was transferred by the Authority to the Foundation, as Eligible Lender Trustee, on the date the loans were pledged to the Conduit Lender. The first Advance under the Conduit Program was completed on February 9, 2010 and the second Advance on May 20, 2010. The Foundation will continue to service pledged loans unless and until the N.C. State Education Assistance Authority sells these loans, either voluntarily or involuntarily (e.g., as the result of an event of default or breach of contract).

The assets and liabilities attributable to these Trustee and Agency Funds are reflected in Schedules 5 and 6.

23. Concentration of Credit Risk

The Foundation maintains cash balances at financial institutions located in Raleigh, North Carolina. At June 30, 2011, balances are insured by the Federal Deposit Insurance Corporation up to $250,000 with the exception of two checking accounts which are eligible for unlimited insurance coverage through December 31, 2012. At June 30, 2010, three checking accounts were eligible for unlimited insurance coverage and the Foundation maintained an uninsured sweep account.

At June 30, 2011 and 2010, the Foundation's uninsured cash balances totaled $5,366,306 and $21,296,175, respectively. This amount is derived per a review of bank account balances and not the Foundation's "book" balances as of June 30, 2011 and 2010. At June 30, 2010, the bank account balances and, consequently, the uninsured cash balances were greater than the Foundation's "book" balances due to disbursements made by the Foundation but not yet reflected by the banks.

24. Impact of Changes in Federal Laws

On March 30, 2010, President Obama signed into law H.R. 4872, the *Health Care and Education Affordability Reconciliation Act of 2010*, which included the *Student Aid and Fiscal Responsibility Act* ("SAFRA"). Effective July 1, 2010, this legislation eliminates the authority to provide new loans under the FFEL Program and requires that all new federal loans be made through the Federal Direct Loan Program. However, if a first disbursement has been made on a FFEL Program loan prior to July 1, 2010, subsequent disbursements of that loan may still be made under the FFEL Program. The new legislation does not alter or affect the terms and conditions of existing FFEL Program loans. The legislation also contains a provision which requires the Secretary of Education to establish performance-based contracts with eligible not-for-profit servicers to service loans originated under the Federal Direct Loan Program. The Foundation has been determined to be eligible and technically qualified to service federal assets. In May 2011, a Memorandum of Understanding was executed with the U.S. Department of Education. The Foundation's target date to begin servicing federal assets has been tentatively set for October 1, 2012.

COLLEGE FOUNDATION, INC.
Notes to Schedules of Expenditures of Federal Awards
June 30, 2011 and 2010

1. Basis of Accounting and Presentation

The accompanying schedules of expenditures of federal awards (the Schedules) include the federal award/expenditure activity of College Foundation, Inc. under programs of the federal government for the year ended June 30, 2011 and are presented on the accrual basis of accounting. The information in the Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedules present only a selected portion of the operations of College Foundation, Inc., they are not intended to and do not present the financial position, changes in net assets, or cash flows of College Foundation, Inc.

2. Federal Family Education Loan Program

At June 30, 2011 and 2010, the balance of Federal Family Education Loan Program (FFELP) loans funded by the Foundation totaled $626,788 and $690,212, respectively. As of July 1, 2010, no new loans could be originated under the FFEL Program. During the year ended June 30, 2010, $334 in FFELP loans funded by the Foundation was disbursed to students through institutions of higher education. Transactions relating to this program are included in the Foundation's basic financial statements.

3. Ensuring Continued Access to Student Loans Act Conduit Program

At June 30, 2011 and 2010, the balance of FFELP loans pledged to the Conduit Lender for which the Foundation acts as Subservicer on behalf of the N.C. State Education Assistance Authority (Master Servicer) totaled $1,405,567,952 and $1,556,214,023, respectively. These loans are included in the N.C. SEAA Loan Fund on the Schedules of Trustee and Agency Funds.

COMPLIANCE AND INTERNAL CONTROL REPORTS

Board of Trustees
College Foundation, Inc.
Raleigh, North Carolina

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of College Foundation, Inc. (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered College Foundation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of College Foundation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of College Foundation, Inc.'s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting, that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether College Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of College Foundation, Inc. in a separate letter dated September 23, 2011.

This report is intended solely for the information and use of management, the audit committee, others within the entity, the Board of Trustees, and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Koonce, Wooten & Haywood, L.L.P.

Raleigh, North Carolina
September 23, 2011

KWH Koonce, Wooten & Haywood, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
College Foundation, Inc.
Raleigh, North Carolina

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited College Foundation, Inc.'s compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on College Foundation, Inc.'s major federal program for the year ended June 30, 2011. College Foundation, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of College Foundation, Inc.'s management. Our responsibility is to express an opinion on College Foundation, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about College Foundation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of College Foundation, Inc.'s compliance with those requirements.

In our opinion, College Foundation, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Raleigh
4060 Barrett Drive
Post Office Box 17806
Raleigh, North Carolina 27619

919 782 9265
919 783 8937 FAX

Durham
3511 Shannon Road
Suite 100
Durham, North Carolina 27707

919 354 2584
919 489 8183 FAX

Pittsboro
10 Sanford Road
Post Office Box 1399
Pittsboro, North Carolina 27312

919 542 6000
919 542 5764 FAX

<u>Internal Control Over Compliance</u>

Management of College Foundation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the federal program. In planning and performing our audit, we considered College Foundation, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on its major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of College Foundation, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, others within the entity, the Board of Trustees, and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Koonce, Wooten & Haywood, L.L.P.

Raleigh, North Carolina
September 23, 2011

COLLEGE FOUNDATION, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

• Material weakness identified?	☐ Yes	☒ No
• Significant deficiency identified that is not considered to be material weakness?	☐ Yes	☒ None Reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over major programs:

• Material weakness identified?	☐ Yes	☒ No
• Significant deficiency identified that is not considered to be material weakness?	☐ Yes	☒ None Reported

Type of auditors' report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	☐ Yes	☒ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.032	Federal Family Education Loan Program

Dollar threshold used to distinguish between Type A and Type B programs:		$975,814
Auditee qualified as low-risk auditee?	☒ Yes	☐ No

Section II – Financial Statement Findings

There were no findings relating to the financial statements required to be reported in accordance with generally accepted government auditing standards (GAGAS).

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs for the Federal award required to be reported under OMB Circular A-133.