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COLLEGE FOUNDATION, INC.

June 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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 December 13, 2012, 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 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.

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Our audit was conducted for the purpose of forming an opinion on the financial statements 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 also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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
December 13, 2012

STATEMENTS OF FINANCIAL POSITION

COLLEGE FOUNDATION, INC.
Statements of Financial Position
June 30, 2012 and 2011

ASSETS

	2012	
	Unrestricted	Temporarily Restricted
Cash and Cash Equivalents (Notes 1F and 24)	$ 20,215,016	$
Accounts Receivable:		
Trustee and Agency Funds (Notes 1A and 23)	7,881,694	
N.C. Sales and Use Tax (Note 1M)	101,823	
Other	172,010	
Accrued Interest Receivable	25,216	
Note Receivable (Note 4)	100,000	
Student Loans:		
Foundation--Owner and Holder (Notes 1A, 2 and 9)	1,058,835	
Prepaid Expenses	1,709,569	
Single Premium Income Annuity (Note 19)	11,192	
Deferred Compensation (Note 16)	76,368	
Investments in N.C. College Savings and Investment Program (Notes 1I and 2M)	234,040	36,997
Unamortized Lease Commission (Notes 1I and 14)	104,677	
Property and Equipment (Notes 1J and 6)	18,042,982	
Total Assets	$ 49,733,422	$ 36,997

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted
LIABILITIES:		
Accounts Payable:		
Trustee and Agency Funds (Notes 1A and 23)	$ 200,476	$
U.S. Department of Education (Note 3)	3,824	
Current Expenses	2,282,534	
Other	215,185	
College Funds Installment Payment Plan (Note 2J)	6,373	
Deferred Service Fee Revenue		
Accrued Postretirement Benefit Obligation (Note 17)	4,848,052	
Deferred Compensation Payable (Note 16)	146,819	
Accrued Salary and Annual Leave	648,993	
Contingency for Uninsured Loans (Notes 1L and 5B)	6,100,000	
Total Liabilities	14,452,256	
NET ASSETS (Note 12)	35,281,166	36,997
Total Liabilities and Net Assets	$ 49,733,422	$ 36,997

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

		2011			
Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 187,170	$ 20,402,186	$ 24,054,520	$	$ 144,071	$ 24,198,591
	7,881,694	6,456,749			6,456,749
	101,823	185,870			185,870
	172,010	77,169			77,169
	25,216	7,753			7,753
	100,000				
364,534	1,423,369	328,764		404,107	732,871
	1,709,569	1,849,435			1,849,435
	11,192	12,275			12,275
	76,368	27,928			27,928
	271,037	156,038	36,997		193,035
	104,677	130,846			130,846
	18,042,982	19,521,679			19,521,679
$ 551,704	$ 50,322,123	$ 52,809,026	$ 36,997	$ 548,178	$ 53,394,201

$	$ 200,476	$ 7,871	$	$	$ 7,871
	3,824	352			352
	2,282,534	1,811,401			1,811,401
	215,185	162,171			162,171
	6,373	1,137,718			1,137,718
		1,936,563			1,936,563
	4,848,052	5,995,061			5,995,061
	146,819	111,598			111,598
	648,993	153,293			153,293
	6,100,000	6,800,000			6,800,000
	14,452,256	18,116,028			18,116,028
551,704	35,869,867	34,692,998	36,997	548,178	35,278,173
$ 551,704	$ 50,322,123	$ 52,809,026	$ 36,997	$ 548,178	$ 53,394,201

STATEMENTS OF ACTIVITIES

COLLEGE FOUNDATION, INC.
Statements of Activities
For The Years Ended June 30, 2012 and 2011

	2012	
	Unrestricted	Temporarily Restricted
CHANGES IN NET ASSETS:		
Revenues:		
Service Fees (Notes 1A and 2)	$ 27,426,711	$
Interest Income (Note 2M, 3, 12, and 13)	30,442	
Reduction in Contingency for Uninsured Loans (Notes 1L and 5B)	700,000	
Rental Income (Note 15)	199,422	
U.S. Department of Education Payments to Loan Servicers for Job Retention Program (Note 12)		
Miscellaneous	939	
Net Assets Released from Restrictions		
Total Revenues	28,357,514	
Total Expenses (Note 21)	29,371,679	
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	(1,014,165)	
NONOPERATING:		
Pension-Related Changes other than Net Periodic Post Retirement Benefits Cost (Note 17)	1,602,333	
CHANGES IN NET ASSETS	588,168	
NET ASSETS--Beginning of Year	34,692,998	36,997
NET ASSETS--End of Year	$ 35,281,166	$ 36,997

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

		2011			
Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$	$ 27,426,711	$ 27,937,116	$	$	$ 27,937,116
3,526	33,968	30,671		3,427	34,098
	700,000	2,200,000			2,200,000
	199,422	154,894			154,894
			69,518		69,518
	939	2,724			2,724
		69,518	(69,518)		
3,526	28,361,040	30,394,923		3,427	30,398,350
	29,371,679	29,783,081			29,783,081
3,526	(1,010,639)	611,842		3,427	615,269
	1,602,333	289,961			289,961
3,526	591,694	901,803		3,427	905,230
548,178	35,278,173	33,791,195	36,997	544,751	34,372,943
$ 551,704	$ 35,869,867	$ 34,692,998	$ 36,997	$ 548,178	$ 35,278,173

COLLEGE FOUNDATION, INC.
Statements of Cash Flows
For The Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	$ 591,694	$ 905,230
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	2,619,590	2,700,078
Amortization of Lease Commission	26,169	27,259
Changes In:		
Accounts Receivable	(1,435,739)	(494,996)
Accrued Interest Receivable	(17,463)	(404)
Student Loans	(690,498)	46,248
Prepaid Expenses	139,866	(202,631)
Accounts Payable	720,224	(208,010)
College Funds Installment Payment Plan	(1,131,345)	(669,215)
Deferred Service Fee Revenue	(1,936,563)	1,393,187
Accrued Postretirement Benefit Obligation	(1,147,009)	448,421
Deferred Compensation Payable	(13,219)	(12,950)
Accrued Salary and Annual Leave	495,700	7,276
Contingency for Uninsured Loans	(700,000)	(2,200,000)
Net Cash Provided (Used) by Operating Activities	(2,478,593)	1,739,493
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Reserve Deposit		5,000,000
Cash Value of Single Premium Income Annuity	1,083	535
Note Receivable	(100,000)	
Purchase of Investments in N.C. College Savings and Investment Program	(78,002)	(74,347)
Proceeds from Sale of Property and Equipment		2,935
Purchase of Property and Equipment	(1,140,893)	(1,908,927)
Net Cash Provided (Used) by Investing Activities	(1,317,812)	3,020,196
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,796,405)	4,759,689
CASH AND CASH EQUIVALENTS--Beginning of Year	24,198,591	19,438,902
CASH AND CASH EQUIVALENTS--End of Year	$ 20,402,186	$ 24,198,591

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, 2012 and 2011

Program Title	Federal CFDA Number	2012 Interest	2012 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, 3, and 9)	84.032	$ 20,771,968	$ 1,041,883
Less amounts received by the Foundation as an agent for other funds providers		20,763,414	1,040,884
Net FFELP (SEFA Note 2)	84.032	8,554	999
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 12)			
TOTALS		$ 8,554	$ 999

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

			2011			
	Total Awards	Total Expenditures	Interest	Special Allowance	Total Awards	Total Expenditures
	$ 21,813,851	$	$ 31,699,977	$ 757,659	$ 32,457,636	$
	21,804,298		31,695,939	757,002	32,452,941	
	9,553	9,553	4,038	657	4,695	4,695
						69,518
	$ 9,553	$ 9,553	$ 4,038	$ 657	$ 4,695	$ 74,213

DETAILED SCHEDULE OF FINANCIAL POSITION

COLLEGE FOUNDATION, INC.
Detailed Schedule of Financial Position
June 30, 2012

ASSETS

	Unrestricted	
	Operating Fund	Special Scholarship Fund
Cash and Cash Equivalents (Notes 1F and 24)	$ 17,098,196	$ 2,169,402
Accounts Receivable:		
Trustee and Agency Funds (Notes 1A and 23)	7,881,577	
Interfund Receivables (Payables)	8,666	229,778
N.C. Sales and Use Tax (Note 1M)	101,823	
Other	20,830	
Accrued Interest Receivable		23,380
Note Receivable (Note 4)	100,000	
Student Loans:		
Foundation--Owner and Holder (Notes 1A, 2, and 9)		1,058,835
Prepaid Expenses	1,709,569	
Single Premium Income Annuity (Note 19)	11,192	
Deferred Compensation (Note 16)	76,368	
Investments in N.C. College Savings and Investment Program (Notes 1I and 2M)		234,040
Unamortized Lease Commission (Notes 1K and 14)	104,677	
Property and Equipment (Notes 1J and 6)	18,042,982	
Total Assets	$ 45,155,880	$ 3,715,435

LIABILITIES AND NET ASSETS

	Operating Fund	Special Scholarship Fund
LIABILITIES:		
Accounts Payable:		
Trustee and Agency Funds (Notes 1A and 23)	$ 35,293	$
U.S. Department of Education (Note 3)		3,465
Current Expenses	2,282,534	
Other	83,657	3,970
College Funds Installment Payment Plan (Note 2J)	6,373	
Accrued Postretirement Benefit Obligation (Note 17)	4,848,052	
Deferred Compensation Payable (Note 16)	146,819	
Accrued Salary and Annual Leave	648,993	
Contingency for Uninsured Loans (Notes 1L and 5B)	6,100,000	
Total Liabilities	14,151,721	7,435
NET ASSETS (Note 12)	31,004,159	3,708,000
Total Liabilities and Net Assets	$ 45,155,880	$ 3,715,435

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
$ 947,418	$ 20,215,016	$	$ 187,170	$ 20,402,186
117	7,881,694			7,881,694
(238,444)				
	101,823			101,823
151,180	172,010			172,010
1,836	25,216			25,216
	100,000			100,000
	1,058,835		364,534	1,423,369
	1,709,569			1,709,569
	11,192			11,192
	76,368			76,368
	234,040	36,997		271,037
	104,677			104,677
	18,042,982			18,042,982
$ 862,107	$ 49,733,422	$ 36,997	$ 551,704	$ 50,322,123
$ 165,183	$ 200,476	$	$	$ 200,476
359	3,824			3,824
	2,282,534			2,282,534
127,558	215,185			215,185
	6,373			6,373
	4,848,052			4,848,052
	146,819			146,819
	648,993			648,993
	6,100,000			6,100,000
293,100	14,452,256			14,452,256
569,007	35,281,166	36,997	551,704	35,869,867
$ 862,107	$ 49,733,422	$ 36,997	$ 551,704	$ 50,322,123

DETAILED SCHEDULE OF ACTIVITIES

COLLEGE FOUNDATION, INC.
Detailed Schedule of Activities
For The Year Ended June 30, 2012

	Operating Fund	Special Scholarship Fund
OPERATING:		
Revenues:		
Service Fees (Notes 1A and 2):		
Trust, Bond and Escheat Loan Programs (N.C. SEAA)	$ 14,650,480	$
General Loan Program (N.C. Banks)	44,263	
Special Loan Program (Special Investors)	48,582	
N.C. College Savings and Investment Program (N.C. SEAA)	3,407,846	
College Foundation of North Carolina (N.C. SEAA)	5,792,777	
Management and Computer Services (N.C. SEAA)	728,864	
UNC Need-based Grant Program (N.C. SEAA)	316,952	
N. C. Community College Grant Program (N.C. SEAA)	41,201	
EXTRA Education Loan Program (N.C. SEAA)	548,035	
EXTRA MBA Loan Program (N.C. SEAA)	37,912	
Carolina Computing Initiative Program (N.C. SEAA)	470	
Education Lottery Scholarship Program (N.C. SEAA)	83,827	
School Services (N.C. SEAA)	1,626,769	
N.C. Need-Based Scholarship Program (N.C. SEAA)	20,595	
College Funds Installment Payment Plan	44,524	
Victor E. Bell, Jr. Scholarship Program	9,103	
Other Program Services	44,669	
Total Service Fees	27,446,869	
Interest Income:		
U.S. Department of Education Interest Benefits (Note 3)		2,085
U.S. Department of Education Special Allowance (Note 3)		218
Borrower Interest Returned to U. S. Department of Education (Note 3)		(5,769)
Cash and Cash Equivalents (Note 13)		6,566
Borrowers (Note 12)		8,660
Investments in N.C. College Savings and Investment Program (Note 2M and 13)		4,002
Notes Receivable		9,032
Total Interest Income		24,794
Reduction in Contingency for Uninsured Loans (Notes 1L and 5B)	700,000	
Rental Income (Note 15)	199,422	
Miscellaneous	929	10
Total Revenues	28,347,220	24,804

(Continued)

Unrestricted			Temporarily Restricted	Permanently Restricted	
Special Nonassigned Loan Fund	Eliminations	Total Unrestricted	Special Scholarship Fund	Special Nonassigned Loan Fund	Total
$	$	$ 14,650,480	$	$	$ 14,650,480
		44,263			44,263
	10,516	38,066			38,066
	539	3,407,307			3,407,307
		5,792,777			5,792,777
		728,864			728,864
		316,952			316,952
		41,201			41,201
		548,035			548,035
		37,912			37,912
		470			470
		83,827			83,827
		1,626,769			1,626,769
		20,595			20,595
		44,524			44,524
	9,103				
		44,669			44,669
	20,158	27,426,711			27,426,711
6,469		8,554			8,554
781		999			999
(8,112)		(13,881)			(13,881)
		6,566			6,566
15,003		23,663		3,526	27,189
	(539)	4,541			4,541
	9,032				
14,141	8,493	30,442		3,526	33,968
		700,000			700,000
		199,422			199,422
		939			939
14,141	28,651	28,357,514		3,526	28,361,040

DETAILED SCHEDULE OF ACTIVITIES

COLLEGE FOUNDATION, INC.
Detailed Schedule of Activities
For The Year Ended June 30, 2012

	Operating Fund	Special Scholarship Fund
Expenses:		
Staff Salaries--Full-time or Half-time	$ 11,207,286	$
Part-time Assistance	947,972	
Payroll Taxes	841,464	
Staff Insurance Benefits	2,006,449	
Staff Retirement Benefits (Note 16)	397,279	
Net Periodic Postretirement Benefits (Note 17)	788,472	
Deferred Compensation Benefits (Note 16)	1,781	
Staff Training and Development	62,704	
Membership Fees and Other Expenses for Staff Benefit	46,623	
Staff Travel, Transportation and Subsistence	73,893	
Office Materials and Supplies	360,301	
Mail Delivery and Handling	1,344,628	
Telephone and Electronic Communications	355,503	
Heat, Lights and Water	177,642	
Building Operation	209,302	
Equipment Maintenance	636,373	
Software Maintenance and License Fees	1,623,061	
Legal Fees	7,814	
External Accounting and Auditing Fees	187,180	
Consultants' Fees	140,359	
Computerized Services	739,591	
Other Contracted Operational Services	1,370,381	
Property Protection and Liability Insurance (Notes 18 and 19)	217,377	
Disaster Recovery Program	134,893	
Marketing and Advertising (Note 20)	2,882,566	
Miscellaneous Expenses	66,706	467
Interest Expense		
Service Fees		14,446
Depreciation (Note 1J)	2,521,493	
Total Expenses (Note 21)	29,349,093	14,913
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	(1,001,873)	9,891
NONOPERATING:		
Pension-Related Changes other than Net Periodic Post Retirement Benefits Cost (Note 17)	1,602,333	
CHANGES IN NET ASSETS	600,460	9,891
NET ASSETS--Beginning of Year	30,403,699	3,698,109
NET ASSETS--End of Year	$ 31,004,159	$ 3,708,000

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

Unrestricted			Temporarily Restricted	Permanently Restricted	
Special Nonassigned Loan Fund	Eliminations	Total Unrestricted	Special Scholarship Fund	Special Nonassigned Loan Fund	Total
$	$	$ 11,207,286	$	$	$ 11,207,286
		947,972			947,972
		841,464			841,464
		2,006,449			2,006,449
		397,279			397,279
		788,472			788,472
		1,781			1,781
		62,704			62,704
		46,623			46,623
		73,893			73,893
		360,301			360,301
		1,344,628			1,344,628
		355,503			355,503
		177,642			177,642
		209,302			209,302
		636,373			636,373
		1,623,061			1,623,061
		7,814			7,814
		187,180			187,180
		140,359			140,359
		739,591			739,591
19,385		1,389,766			1,389,766
		217,377			217,377
		134,893			134,893
		2,882,566			2,882,566
2,734		69,907			69,907
9,032	9,032				
5,173	19,619				
		2,521,493			2,521,493
36,324	28,651	29,371,679			29,371,679
(22,183)		(1,014,165)		3,526	(1,010,639)
		1,602,333			1,602,333
(22,183)		588,168		3,526	591,694
591,190		34,692,998	36,997	548,178	35,278,173
$ 569,007	$ 0	$ 35,281,166	$ 36,997	$ 551,704	$ 35,869,867

DETAILED SCHEDULE OF CASH FLOWS

COLLEGE FOUNDATION, INC.
Detailed Schedule of Cash Flows
For The Year Ended June 30, 2012

	Operating Fund	Special Scholarship Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	$ 600,460	$ 9,891
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	2,619,590	
Amortization of Lease Commission	26,169	
Changes In:		
Accounts Receivable	(1,298,965)	340,866
Accrued Interest Receivable		(23,380)
Student Loans		(1,058,835)
Prepaid Expenses	139,866	
Accounts Payable	519,190	7,435
College Funds Installment Payment Plan	(1,131,345)	
Deferred Service Fee Revenue	(1,936,563)	
Accrued Postretirement Benefit Cost	(1,147,009)	
Deferred Compensation Payable	(13,219)	
Accrued Salary and Annual Leave	495,700	
Contingency for Uninsured Loans	(700,000)	
Net Cash Provided (Used) by Operating Activities	(1,826,126)	(724,023)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Value of Single Premium Income Annuity	1,083	
Note Receivable	(100,000)	
Purchase of Investments in N.C. College Savings and Investment Program		(78,002)
Purchase of Property and Equipment	(1,140,893)	
Net Cash Used by Investing Activities	(1,239,810)	(78,002)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,065,936)	(802,025)
CASH AND CASH EQUIVALENTS--Beginning of Year	20,164,132	2,971,427
CASH AND CASH EQUIVALENTS--End of Year	$ 17,098,196	$ 2,169,402

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

Special Nonassigned Loan Fund	Total
$ (18,657)	$ 591,694
	2,619,590
	26,169
(477,640)	(1,435,739)
5,917	(17,463)
368,337	(690,498)
	139,866
193,599	720,224
	(1,131,345)
	(1,936,563)
	(1,147,009)
	(13,219)
	495,700
	(700,000)
71,556	(2,478,593)
	1,083
	(100,000)
	(78,002)
	(1,140,893)
	(1,317,812)
71,556	(3,796,405)
1,063,032	24,198,591
$ 1,134,588	$ 20,402,186

SCHEDULE OF TRUSTEE AND AGENCY FUNDS
June 30, 2012

COLLEGE FOUNDATION, INC.
Schedule of Trustee and Agency Funds
June 30, 2012

ASSETS

	N.C. SEAA Loan Fund	Bank Assigned Loan Fund	Special Assigned Loan Fund
Cash and Cash Equivalents (Notes 1F and 24)	$ 7,969,996	$ 55,551	$
Accounts Receivable:			
Trustee and Agency Funds (Notes 1A and 23)	15,789,378		
U. S. Department of Education (Note 3)		17,456	2,224
College Foundation, Inc.	168,741		
Other	2,219,766		
Accrued Interest Receivable	55,806,329	87,051	32,769
Student Loans:			
Foundation--Agent or Trustee (Notes 1A, 2 and 9)	3,014,718,251	8,452,541	3,127,592
Total Assets	$ 3,096,672,461	$ 8,612,599	$ 3,162,585

LIABILITIES

	N.C. SEAA Loan Fund	Bank Assigned Loan Fund	Special Assigned Loan Fund
Accounts Payable:			
Bank Overdraft	$	$	$ 523,834
Trustee and Agency Funds (Notes 1A and 23)	3,080,887,624	8,596,773	2,635,671
U.S. Department of Education (Note 3)	15,783,949		
College Foundation, Inc.	338	15,826	3,080
Other	550		
Total Liabilities	$ 3,096,672,461	$ 8,612,599	$ 3,162,585

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	Total
$ 7,062	$ 514,836	$ 85,224	$ 338,564	$ 133,516	$ 9,104,749
	14,113				15,803,491
					19,680
					168,741
	3,277				2,223,043
					55,926,149
					3,026,298,384
$ 7,062	$ 532,226	$ 85,224	$ 338,564	$ 133,516	$ 3,109,544,237
$	$	$	$	$	$ 523,834
2,100	192,496	82,225	307,079	108,945	3,092,812,913
					15,783,949
	203,963				223,207
4,962	135,767	2,999	31,485	24,571	200,334
$ 7,062	$ 532,226	$ 85,224	$ 338,564	$ 133,516	$ 3,109,544,237

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
Cash and Cash Equivalents				
(Notes 1F and 24)	$ 3,545,631	$	$ 10,756	$ 675,213
Accounts Receivable:				
Trustee and Agency Funds				
(Notes 1A and 23)	17,249,320			
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 9)	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

LIABILITIES

	N.C. SEAA Loan Fund	Bank Assigned Loan Fund	Special Assigned Loan Fund	Moore County Trusts
Accounts Payable:				
Bank Overdraft	$	$ 7,304	$	$
Trustee and Agency Funds (Notes 1A and 23)				
(Notes 1A and 23)	3,451,061,303	10,192,205	2,987,646	1,436,519
U.S. Department of Education				
(Note 3)	17,248,575			2,989
College Foundation, Inc.	1,346	4,964	3,211	3,809
Other				
Total Liabilities	$ 3,468,311,224	$ 10,204,473	$ 2,990,857	$ 1,443,317

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

Byrum-Mansfield Memorial Fund	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	Total
$ 520,499	$ 5,650	$ 770,575	$ 1,005,304	$ 451,671	$ 12,898	$ 6,998,197
3,183					2,825	17,255,328
						22,776
			(1,000,000)			
						961
						78
						68,716,058
						3,391,729,078
$ 523,682	$ 5,650	$ 770,575	$ 5,304	$ 451,671	$ 15,723	$ 3,484,722,476
$	$	$	$	$	$	$ 7,304
520,446	350	394,059	420	438,245		3,467,031,193
						17,251,564
3,236		14,872				31,438
	5,300	361,644	4,884	13,426	15,723	400,977
$ 523,682	$ 5,650	$ 770,575	$ 5,304	$ 451,671	$ 15,723	$ 3,484,722,476

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

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 4 and 5). 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 replaced 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. Service fees are accrued according to program service agreements, based on direct program costs and allocation of indirect costs or flat rates.

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. See Note 12 for restrictions on the earnings of these assets.

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, 2012 and 2011

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.

G. Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management determines the allowance for doubtful accounts based upon its assessment of prior experience with parties having outstanding balances and current relationships with them. At June 30, 2012 and 2011, accounts receivable were considered fully collectible by management; therefore, no allowance for doubtful accounts was provided.

H. Note Receivable:

The note receivable is recorded based on principal outstanding. Interest is accrued quarterly based on the note's applicable rate. Principal and interest payments are invoiced by the Foundation and are considered past due eleven days after the borrower's receipt of the invoice.

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

Funds in these accounts are 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.

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.

J. 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, 2012 and 2011

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

K. Lease Commission:

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

L. 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.

M. 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 files its Form 990, Return of Organization Exempt From Income Tax, in the U.S. Federal jurisdiction. The Foundation is generally no longer subject to examination by the Internal Revenue Service for years before the fiscal year ending June 30, 2009.

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.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

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

N. Subsequent Events:

Subsequent events have been evaluated through December 13, 2012, which is the date the financial statements were issued.

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.

2. Programs Administered by the Foundation (Continued)

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.

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 and first funded by the N.C. General Assembly in July 1999. This program provides need-based grants 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.

F. North Carolina College Savings and Investment Program:

Administrative History

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.

From December 3, 2001 until January of 2006, recordkeeping, disbursement, and transfer agent services for the Program were contracted with PFPC, Inc. and custodial services with State Street Bank and Trust Company. In January of 2006, the Foundation notified both PFPC and State Street that it would be terminating its contracts with each entity and would no longer utilize their 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 recordkeeping and administrative services as well as for the continuation of the Upromise Rewards service, with automatic sweep functionality. The recordkeeping and other administrative duties previously handled by Upromise were assumed by the Foundation as of March 3, 2008 and the Foundation contracted with State Street Bank and Trust Company to provide custodial services as of the same date. In March of 2010, the Foundation notified Upromise that it did not intend to renew the Upromise Rewards Service. Upromise discontinued the automatic sweep in April of 2011.

In October of 2011, the Foundation terminated its contract with State Street and began to work directly with The Vanguard Group for financial accounting for the Vanguard Investment Options. The Foundation already worked directly with the State Treasurer's Office and State Employees' Credit Union on financial accounting for their investment options, the Dependable Income Fund and the Federally-Insured Deposit Account, respectively.

2. Programs Administered by the Foundation (Continued)

Investment Option History

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 by the rules of the N.C. State Education Assistance Authority. The new program initially offered direct or advisor-sold enrollment, the direct program under the name of North Carolina's National College Savings Program ("NC 529 Plan") and the Advisor-sold as the National College Savings Program.

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 through direct enrollment 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 chose to work with a financial advisor who was 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.

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, during 2008 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 were not managed by Vanguard, but featured 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.

2. Programs Administered by the Foundation (Continued)

After review and consultation, in April of 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.

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 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.

In order to reduce fees to participants, on October 31, 2011, the Foundation replaced existing age-based and individual V Fund investment options with comparable Vanguard age-based and individual investment options, and added a new individual option from Vanguard, the Vanguard Aggressive Growth Portfolio.

The Foundation does not provide financial or investment advice to prospects or Participants.

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 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. Pathways of North Carolina, created by the N.C. General Assembly in 1999, is a state-wide initiative to increase the college-going rate of North Carolinians. Pathways is administered by The University of North Carolina in collaboration with the N.C. Department of Public Instruction, the N.C. Community College System, and the N.C. Independent Colleges and Universities.

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.

2. Programs Administered by the Foundation (Continued)

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.

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.

2. Programs Administered by the Foundation (Concluded)

N. School Services:

The Foundation began work in the Spring of 2012 on a pilot program offering verification and C-Code resolution services to assist the financial aid offices at five North Carolina community colleges. During the year ended June 30, 2012, the Foundation performed a limited number of services for four of these schools.

O. N.C. Need-Based Scholarship Program:

This program was created by the N.C. General Assembly in 2011 to provide need-based scholarships for North Carolina resident students attending eligible private institutions in the State of North Carolina. 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 February 2012.

P. 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/Payable--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, 2012, the return of excess borrower interest totaled $88,035,810, which included $13,881 related to loans owned by the Foundation and $88,021,929 related to loans owned by other funds providers. During the year ended June 30, 2011, the return of 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.

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.

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

The Consolidated Appropriations Act signed on December 23, 2011 allowed Federal Family Education Loan Program (FFELP) loan holders and entities holding beneficial ownership interests in FFELP loans to have the 1-month London Inter Bank Offered Rate (LIBOR) substituted for the 3-month commercial paper rate for the purposes of special allowance calculations on FFELP loans first disbursed on or after January 1, 2000 and before July 1, 2010. The Foundation, as an eligible lender and agent for North Carolina banks and other funds providers, and the N.C. State Education Assistance Authority, as holder and beneficial owner of FFELP loans, elected to waive calculation of special allowance on the basis of the 3-month commercial paper rate for all qualifying loans effective with the calendar quarter beginning April 1, 2012.

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. Note Receivable and Loan Agreement

On June 18, 2012, the Foundation entered into a Loan Agreement and executed a Future Advance Promissory Note to loan up to $350,000 to Mapping Your Future, Inc. (MYF), a South Dakota nonprofit corporation. Advances can be made through July 1, 2015 and principal is to be repaid in quarterly installments beginning October 1, 2014. Interest is due quarterly and accrues at a variable rate equal to the Prime Rate. The interest rate will change quarterly on the first day of January, April, July and October of each year using the Prime Rate as published by Bloomberg LP two business days prior to the beginning of the applicable quarter. All principal and accrued interest is to be paid in full by the maturity date of December 31, 2015. Advances under the loan are intended to be used by MYF as working capital to provide career, college, financial aid, and financial literacy information and services for students, families and schools. Under the Loan Agreement, the Foundation is to receive, or have access to, certain services free of charge. The loan is secured by a security interest in all assets of MYF pursuant to the terms of a Security Agreement and an Intellectual Property Security Agreement. As of June 30, 2012, $100,000 had been advanced under the Loan Agreement.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
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5. 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.

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, 2012, 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	$ 9,312	$ 157,328	$	$ 166,640
N.C. SEAA--Trust, Bond, and Escheat	1,611,605	979,351,620	1,819,887,835	2,800,851,060
Banks--Assigned Loans	5,009,234	3,443,307		8,452,541
Special Scholarship and Loan Funds	523,900	2,467,249	833,638	3,824,787
Totals	$ 7,154,051	$ 985,419,504	$ 1,820,721,473	$ 2,813,295,028

Comparative data (including Trustee and Agency Funds) as of June 30, 2011, 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

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

5. Loan Insurance and Defaults (Continued)

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, 2012 and 2011, the contingency totaled $6,100,000 and $6,800,000, 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 entering repayment 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 certain loan programs under Title IV of the Higher 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, 2012, 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	357,353	$ 1,241,102,682
2-Year Public--In State	38,803	86,226,006
4-Year Private--In State	123,398	475,976,373
2-Year Private--In State	3,846	10,488,284
Proprietary--In State	24,270	64,798,312
2/4-Year Public--Out of State	1,336	8,432,527
2/4-Year Private--Out of State	3,564	22,792,032
Proprietary--Out of State	968	4,702,546
Out of Country	354	3,571,800
Totals	553,892	$ 1,918,090,562

Comparative data (including Trustee and Agency Funds but excluding Federal Consolidation Loans) as of June 30, 2011, 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

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

6. Property and Equipment

Property and equipment held by the Foundation at June 30, 2012, were categorized as follows:

	June 30, 2011	Additions	Disposals	June 30, 2012
Highwoods Office Park Land (1)	$ 1,302,882	$	$	$ 1,302,882
Highwoods Boulevard Building (2)	9,291,532	67,408		9,358,940
Poplarwood Court Building (3)	2,992,578	77,799		3,070,377
Yonkers Road Land (4)	961,308			961,308
Yonkers Road Building (5)	3,862,067			3,862,067
Computer equipment	15,904,261	744,474		16,648,735
Computer software	10,763,272	191,769		10,955,041
Office furniture and equipment	1,451,258	59,443		1,510,701
Total	$ 46,529,158	$ 1,140,893	$ 0	47,670,051
Less accumulated depreciation				29,627,069
Net property and equipment				$ 18,042,982

Comparative data as of June 30, 2011 were 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

(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 15). The total amount of accumulated depreciation on this building is $1,612,461.

7. 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.

7. Funding Agreements (Continued)

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.

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.

8. 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 year ended June 30, 2011, unused fees of $1,337 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.
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9. Analysis By Loan Type and Funding

As of June 30, 2012, 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:				
Special Scholarship Fund	$ 943,802	$	$	$ 943,802
Permanently Restricted Special Nonassigned Fund	364,534			364,534
Total Owned by the Foundation Under the Higher Education Act	1,308,336			1,308,336
Trustee and Agency Funds:				
N.C. SEAA Funded Loans:				
N.C. SEAA Trust Funds	1,177,671,594	93,325,654	3,073,315	1,274,070,563
N.C. SEAA Escheat Funds	7,579,352			7,579,352
N.C. SEAA Bond Funds	590,572,943	36,864,383	891,930,459	1,519,367,785
Total N.C. SEAA Loans	1,775,823,889	130,190,037	895,003,774	2,801,017,700
Assigned Loans:				
Bank Assigned Loans	8,252,121	200,420		8,452,541
Special Assigned Loans	2,299,681	16,078	200,692	2,516,451
Total Assigned Loans	10,551,802	216,498	200,692	10,968,992
Total Trustee and Agency Funds Under the Higher Education Act	1,786,375,691	130,406,535	895,204,466	2,811,986,692
Other (Non-Federal)				
Loans Owned by the Foundation:				
Special Scholarship Fund	73,520		41,513	115,033
N.C. SEAA Funded Loans:				
Computer Loans	52,335			52,335
EXTRA Education Loans	200,793,195			200,793,195
EXTRA MBA Loans	12,855,021			12,855,021
Assigned Loans:				
Special Assigned Loans	611,141			611,141
Total Other (Non-Federal)	214,385,212		41,513	214,426,725
Total Serviced by the Foundation	$ 2,002,069,239	$ 130,406,535	$ 895,245,979	$ 3,027,721,753

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

9. Analysis By Loan Type and Funding (Continued)

Comparative data (including Trustee and Agency Funds) as of June 30, 2011, 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
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)				
Loans Owned by the Foundation:				
Unrestricted Special Nonassigned Fund	62,997		43,086	106,083
N.C. SEAA Funded Loans:				
Computer Loans	161,332			161,332
EXTRA Education Loans	207,836,774			207,836,774
EXTRA MBA Loans	14,960,465			14,960,465
Assigned Loans:				
Special Assigned Loans	642,532			642,532
Nonassigned Special Loans:				
Moore County Trusts	3,000			3,000
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, 2012 and 2011

10. Analysis of Loan Status and Delinquency

As of June 30, 2012, 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	$ 782,083,841	$ 91,945,190	$ 622,319,616	$ 1,496,348,647
Delinquent:				
One Payment Delinquent	101,287,865	9,599,603	51,832,256	162,719,724
Two Payments Delinquent	50,783,746	3,092,331	19,943,675	73,819,752
More Than Two Payments Delinquent	141,770,523	4,913,104	39,665,087	186,348,714
Total Delinquent	293,842,134	17,605,038	111,441,018	422,888,190
Total in Repayment	1,075,925,975	109,550,228	733,760,634	1,919,236,837
Loans in Deferment	299,878,723	10,008,347	96,325,391	406,212,461
Loans in Forbearance	180,172,102	10,530,761	62,675,189	253,378,052
Total Mature	1,555,976,800	130,089,336	892,761,214	2,578,827,350
Loans Not Yet Mature:				
In School	133,722,311			133,722,311
In Grace/Interim	89,248,929			89,248,929
Total Not Yet Mature	222,971,240			222,971,240
Claims Pending	8,735,987	317,199	2,443,252	11,496,438
Total Outstanding Loans Under the Higher Education Act	$ 1,787,684,027	$ 130,406,535	$ 895,204,466	$ 2,813,295,028

Comparative data (including Trustee and Agency Funds) as of June 30, 2011, 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

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

11. Vehicle Leases

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. The Foundation then leased these vehicles on a month-to-month basis until new lease agreements were finalized.

In December 2011, the Foundation entered into operating leases for eight new vehicles with single lease payments due at delivery, four at $10,976 each and four at $10,821 each. These leases expire December 2013.

During the years ended June 30, 2012 and 2011, expenses including taxes and licenses under these leases in the amount of $59,218 and $60,776, respectively, were included in operating expense. At June 30, 2012, $61,759 was included in prepaid expenses.

12. Net Assets

At June 30, 2012 and 2011, permanently restricted net assets provided through contributions from the Broyhill Family Foundation equaled $551,704 and $548,178, respectively.

These funds were initially restricted to providing loans to students attending the educational institutions listed below. Broyhill requires interest on these loans that is capitalized to be subject to the same permanent restrictions. As of June 30, 2012 and 2011, outstanding balances on these loans were as follows:

	2012	2011
Mars Hill College	$ 103,613	$ 111,335
Gardner-Webb University	139,497	156,853
Lenoir-Rhyne University	121,424	135,919
	$ 364,534	$ 404,107

At the direction of the Broyhill Family Foundation, in July 2012, Broyhill cash assets were deposited into an account in North Carolina's National College Savings Program with College Foundation, Inc. as the account owner. Future Broyhill student loan principal and interest collections will also be deposited into this account. Annually, the Savings Program account earnings will be made available to the three educational institutions listed above for Broyhill Family Foundation Scholarships to students in their business schools. A change in the administration of Broyhill's contributions was necessary because College Foundation is no longer originating student loans and cannot administer these contributions as originally directed.

At June 30, 2012 and 2011, 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.

12. Net Assets (Continued)

At June 30, 2012 and 2011, total net assets of the Foundation equaled $35,869,867 and $35,278,173, respectively, of which $31,004,159 and $30,403,699, 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, 2012 and 2011, the officers had designated net assets in the amount of $234,040 and $156,038, respectively.

13. Investment Expenses

During the years ended June 30, 2012 and 2011, investment expenses of $539 and $239, respectively, were netted against the Foundation's interest income earned on cash and cash equivalents and investments in North Carolina's National College Savings Program accounts.

14. Unamortized Lease Commission

Unamortized lease commission at June 30, 2012 and 2011, was as follows:

	2012	2011
Lease Commission	$ 261,691	$ 261,691
Less Accumulated Amortization	157,014	130,845
Unamortized Lease Commission	$ 104,677	$ 130,846

For the years ended June 30, 2012 and 2011, amortization expense was $26,169 and $27,259, respectively. Future amortization expense is as follows:

Fiscal Year Ending June 30	
2013	$ 26,169
2014	26,169
2015	26,169
2016	26,170
Future Amortization Expense	$ 104,677

15. 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, 2012, rental expenses of $239,315, including $98,097 in depreciation expense, were netted against rental income of $438,737. 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.

Future minimum rentals under this lease at June 30, 2012, not including a five-year renewal option, are:

Fiscal Year Ending June 30	
2013	$ 445,492
2014	452,247
2015	459,003
2016	465,760
Future Minimum Rents	$ 1,822,502

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

16. 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. At the point at which participation becomes mandatory, the Foundation will begin making 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, 2012 and 2011, was $397,279 and $408,121, respectively. Total employee contributions to this plan through salary reduction for the two referenced periods amounted to $765,161 and $800,523, respectively.

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, 2012 and 2011, the assets and liabilities related to the plan totaled $76,368 and $27,928, 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		
2013	$	13,505
2014		13,791
2015		14,084
2016		14,383
2017		14,688
	$	70,451

17. Postretirement Benefits

In addition to providing pension benefits, the Foundation maintains a postretirement benefit plan (welfare benefit plan) for the purpose of reimbursing eligible retirees for postretirement medical and dental insurance premiums. In order to be eligible for reimbursements, an employee must retire on or after age 60 and have been a "full-time" employee with the Foundation for at least 10 years.

Effective June 30, 2012, the Foundation established a Voluntary Employee Beneficiary Association (VEBA) Trust to fund the postretirement benefit obligation. Within the VEBA Trust, an account was created for each current employee with at least one year of full-time service. Beginning June 30, 2012 and annually thereafter, it is the Foundation's intent to transfer funds to the VEBA Trust. The amount of the contribution to the Trust for the fiscal year ending June 30, 2012 was $304,200.

17. Postretirement Benefits (Continued)

The Foundation also created unfunded Notional accounts effective June 30, 2012 for all current employees with at least one year of full-time service. The initial account balance was allocated based on years of service. The Foundation may, at its discretion, credit additional amounts to these accounts annually. As amounts are funded, the value of the individual Notional accounts will decrease by such funded amount while the value of the individual VEBA Trust accounts will increase. An employee's total account balance will be comprised of an unfunded Notional account and a funded VEBA Trust account.

Eligible employees who retire prior to July 1, 2014 will be eligible to receive a reimbursement amount based on their years of service as shown in the table below. Payment of all or a portion of an eligible retiree's medical and dental insurance premiums will remain an obligation of the Foundation even if not fully funded under the VEBA Trust.

Years of Service	Percentage of Premiums
10 but less than 15 years	25%*
15 but less than 20 years	50%*
20 but less than 25 years	75%*
25 or more Years of Service	100%*

* Up to a maximum not to exceed an amount equal to the same percentage portion of the monthly premiums paid by the Foundation for the medical and dental plans for a current single full-time employee.

Eligible employees who retire after June 30, 2014 will be eligible to receive reimbursement from their own individual VEBA Trust account to the extent funded and, otherwise, from Operating Fund cash of the Foundation up to the amount allocated to their Notional account.

The postretirement benefit plan is viewed as a deferred compensation arrangement whereby the Foundation promises to exchange future benefits for employees' current services. The Foundation records annual amounts relating to the plan based on calculations that incorporate various actuarial and other assumptions including discount rates, mortality, assumed rates of return, and healthcare cost trend rates. All required calculations were prepared by Stanley Benefit Services, actuaries, using pertinent data for the Foundation's staff.

The Foundation recognizes the funded status of its defined benefit postretirement plan on a net basis as an asset or liability and recognizes changes in that funded status in the year in which the changes occur through a charge to unrestricted net assets to the extent those changes are not included in net periodic benefit cost. The funded status is reported on the statement of financial position as the difference between the fair value of plan assets and the benefit obligation.

Information with respect to this plan as of and for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Change in Benefit Obligation:		
Benefit Obligation at End of Prior Plan Year	$ (5,995,061)	$ (5,546,640)
Service Cost	(435,549)	(446,582)
Interest Cost	(302,198)	(266,880)
Amendments	4,237,414	0
Actuarial Gain (Loss)	(2,685,806)	238,423
Actual Distributions	28,948	26,618
Benefit Obligation at End of Year	$ (5,152,252)	$ (5,995,061)

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

17. Postretirement Benefits (Continued)

	2012	2011
Change in Plan Assets:		
Plan Assets at Fair Value at Beginning Year	$ 0	$ 0
Actual Return on Plan Assets	0	0
Actual Employer Contributions	333,148	26,618
Actual Distributions	(28,948)	(26,618)
Plan Assets at Fair Value at End of Year	$ 304,200	$ 0
(Accrued) Prepaid Pension Cost:		
Funded Status	$ (4,848,052)	$ (5,995,061)
Unrecognized Net Actuarial (Gain) Loss	3,456,403	770,597
Unrecognized Prior Service Cost	(4,049,223)	238,916
Unrecognized Transition Obligation (Asset)	0	0
Net Amount Recognized	$ (5,440,872)	$ (4,985,548)
Amounts Recognized on Statement of Financial Position:		
Funded Status	$ (4,848,052)	$ (5,995,061)
Accrued Pension Cost	(5,440,872)	(4,985,548)
Additional Liability Adjustment to Net Asset Value	$ 592,820	$ (1,009,513)
(Accrued) Prepaid Postretirement Benefit Cost as of Beginning of Fiscal Year	$ (4,985,548)	$ (4,247,165)
NPPB (Cost) Income for the Fiscal Year	(788,472)	(765,001)
Actual Employer Contributions	333,148	26,618
(Accrued) Prepaid Postretirement Benefit Cost as of End of Fiscal Year	$ (5,440,872)	$ (4,985,548)
Benefit Obligation at End of Prior Plan Year	$ (5,995,061)	$ (5,546,640)
NPPB (Cost) Income for the Fiscal Year	(788,472)	(765,001)
Actual Contributions	333,148	26,618
Expected Postretirement Balance Sheet Liability	(6,450,385)	(6,285,023)
Actual Postretirement Balance Sheet Liability	(4,848,052)	(5,995,061)
Postretirement Related Charges (Credits) other than Net Periodic Postretirement Benefit Cost	$ (1,602,233)	$ (289,962)
Net Periodic Postretirement Benefit Cost:		
Service Cost with Interest to Year-End	$ 435,549	$ 446,582
Interest Cost on Accumulated Postretirement Benefit Obligation	302,198	266,880
Expected Return on Assets	0	N/A
Net Amortization:		
Transition Obligation (Asset)	0	0
Prior Service Cost	50,725	50,726
(Gain) Loss	0	813
Net Periodic Pension Cost	$ 788,472	$ 765,001
Actuarial Assumptions:		
Weighted Average Assumptions:		
Discount Rate--Benefit Obligation	4.1%	5.5%
Discount Rate--Net Periodic Benefit Cost	5.5%	5.3%
Assumed Healthcare Cost Trend Rates:		
Healthcare Cost Trend Rate Assumed for Next Year	8.0%	8.5%
Rate to which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	5.0%	5.0%
Year that the Rate reaches the Ultimate Trend	2018	2018

All plan assets were in the VEBA Trust and consisted only of cash during the year ended June 30, 2012. There were no plan assets during the year ended June 30, 2011.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2012 and 2011

17. Postretirement Benefits (Concluded)

The VEBA Trust's primary investment objective is protection of capital by investing in a prudent manner and avoiding high-risk investments. The Foundation's plan asset allocation strategy provides for investments in cash and/or cash equivalents, securities and obligations fully guaranteed by the United States as to both principal and interest, or funds in which the majority of assets are securities and obligations fully guaranteed by the United States as to both principal and interest.

The Foundation expects to contribute at least $88,244 in postretirement benefits during the fiscal year ending June 30, 2013.

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

Fiscal Year June 30		
2013	$	88,244
2014		106,924
2015		277,504
2016		191,954
2017		383,048
2018-2022		1,257,820

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.

18. 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 North Carolina's National College Savings Program, by contract requires each Investment Manager, State Employees' Credit Union, MetLife, and Vanguard, to maintain commercially reasonable insurance.

19. 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 $200,000, on two executives. The original policy covering one executive was used to purchase a Single Premium Income Annuity which funds the premium on a term life insurance policy for this executive; the other executive is covered under a newer, separate term life insurance policy. The cash value of the annuity as of June 30, 2012 and 2011, totaled $11,192 and $12,275, respectively.

20. 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, 2012 and 2011, marketing and advertising costs totaled $2,882,566 and $2,793,591, respectively.

21. Functional Expenses

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

	2012	2011
Program Services	$ 27,310,666	$ 28,233,842
Management and General	2,061,013	1,549,239
	$ 29,371,679	$ 29,783,081

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.

22. 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 received after March 27, 1985, be recorded in the Special Scholarship Fund.

23. Trustee and Agency Funds

The Foundation has served 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 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 service fees and any amount not outstanding in loans.

On March 26, 2012, the Clerk of Superior Court of Moore County, NC approved the resignation of College Foundation, Inc. as trustee of certain educational trusts and the appointment of Sandhills Community College Foundation, Inc. as successor trustee effective March 31, 2012. To facilitate this transfer, loan assets belonging to the educational trusts as of March 31, 2012 totaling $744,615 were purchased by the Special Scholarship Fund.

In June 2012, the Foundation awarded $520,000 in one-time Byrum-Mansfield Scholarships to 57 qualifying needy students nominated by their Durham County high schools. These awards brought the assets of the Byrum-Mansfield Memorial Fund to a $0 balance at June 30, 2012.

23. 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.

23. 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. On August 23, 2012, the N.C. State Education Assistance Authority issued Student Loan Backed Notes, the proceeds from which were utilized to release the Conduit Lender's and the Conduit Lender Eligible Lender Trustee's right, title, and interest in $560,267,183 of student loans under the Conduit Program. The Foundation will continue to service the remaining pledged loans unless and until the N.C. State Education Assistance Authority sells or refinances 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 4 and 5.

24. Concentration of Credit Risk

The Foundation maintains cash balances at financial institutions located in Raleigh, North Carolina. Balances are insured by the Federal Deposit Insurance Corporation up to $250,000 with the exception of three checking accounts which are eligible for unlimited insurance coverage through December 31, 2012.

At June 30, 2012 and 2011, the Foundation's uninsured cash balances totaled $8,601,518 and $5,366,306, respectively. This amount is derived per a review of bank account balances and not the Foundation's "book" balances as of June 30, 2012 and 2011.

25. 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 eliminated the authority to provide new loans under the Federal Family Education Loan (FFEL) Program and required that all new federal loans be made through the Federal Direct Loan Program. However, if a first disbursement was made on a FFEL Program loan prior to July 1, 2010, subsequent disbursements of that loan were allowed to 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 February 7, 2013.

COLLEGE FOUNDATION, INC.
Notes to Schedules of Expenditures of Federal Awards
June 30, 2012 and 2011

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, 2012 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, 2012 and 2011, the balance of Federal Family Education Loan Program (FFELP) loans funded by the Foundation totaled $1,308,336 and $626,788, respectively. Interest and special allowance due to the Foundation from the Department of Education for the quarters ended June 30, 2012 and 2011 totaled $3,850 and $2,139, respectively. As of July 1, 2010, no new loans could be originated under the FFEL Program. 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, 2012 and 2011, 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 $1,206,001,590 and $1,405,567,952, respectively. Interest and special allowance due to the Conduit Lender from the Department of Education for the quarters ended June 30, 2012 and 2011 totaled $2,775,405 and $3,752,148, respectively. These loans are included in the N.C. SEAA Loan Fund on the Schedules of Trustee and Agency Funds.

On August 23, 2012, the N.C. State Education Assistance Authority issued Student Loan Backed Notes, the proceeds from which were utilized to release the Conduit Lender's and the Conduit Lender Eligible Lender Trustee's right, title, and interest in $560,267,183 of student loans under the Conduit Program.

COMPLIANCE AND INTERNAL CONTROL REPORTS

KWH Koonce, Wooten & Haywood, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012, and have issued our report thereon dated December 13, 2012. 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

Management of College Foundation, Inc. is responsible for establishing and maintaining effective 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 the Foundation'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.

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Compliance and Other Matters

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 December 13, 2012.

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
December 13, 2012

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, 2012. College Foundation, Inc.'s major federal program is identified in the summary of auditors' 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, 2012.

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Internal Control Over Compliance

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
December 13, 2012

COLLEGE FOUNDATION, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

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: $654,415

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.