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COLLEGE FOUNDATION, INC.

June 30, 2016 and 2015

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of College Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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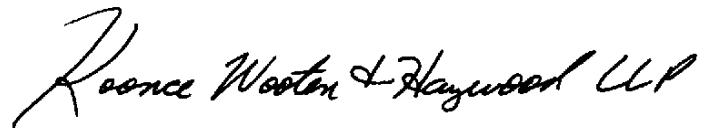
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Other Matters***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 6 through 11 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, 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* in considering College Foundation, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rance Wooten & Haywood LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
September 28, 2016

STATEMENTS OF FINANCIAL POSITION

COLLEGE FOUNDATION, INC.
Statements of Financial Position
June 30, 2016 and 2015

ASSETS

	2016	
	Unrestricted	Temporarily Restricted
CURRENT ASSETS:		
Cash and Cash Equivalents (Notes 1F and 22)	\$ 19,439,146	\$
Service Fees Receivable (Note 1G)	6,488,121	
Other Accounts Receivable (Note 1H)	868,819	
Accrued Interest Receivable	18,963	
Education Loans: Foundation--Owner and Holder (Notes 1I, 2, and 5)	102,000	
N.C. College Savings and Investment Program Accounts (Note 1K)	120,000	3,658
Unamortized Lease Commission (Notes 1M and 13)		
Prepaid Expenses	1,651,701	
Total Current Assets	28,688,750	3,658
PROPERTY AND EQUIPMENT (Notes 1L and 7)	17,011,057	
OTHER ASSETS:		
Cash and Cash Equivalents: Board Designated (Notes 1F, 11, and 22)	884,505	
Other Investments: Board Designated (Notes 1J, 11, and 22)	1,749,907	
Education Loans: Foundation--Owner and Holder (Notes 1I, 2, and 5)	800,517	
Single Premium Income Annuity (Note 18)	11,846	
N.C. College Savings and Investment Program Accounts (Note 1K)	435,094	
Deferred Compensation (Note 15)	119,203	
Accrued Postretirement Benefit Asset (Note 16)	645,408	
Prepaid Expenses	564,457	
Total Other Assets	5,210,937	
Total Assets	\$ 50,910,744	\$ 3,658
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,614,933	\$
Accrued Salary and Annual Leave	812,872	
Deferred Service Fee Revenue (Note 1N)	5,683,116	
Deferred Compensation Payable (Note 15)	133,891	
Other (Note 3)	2,706,230	
Total Current Liabilities	10,951,042	
LONG-TERM LIABILITIES:		
Deferred Compensation Payable (Note 15)		
Contingency for Uninsured Loans (Notes 1O and 4B)	3,700,000	
Total Long-Term Liabilities	3,700,000	
Total Liabilities	14,651,042	
NET ASSETS (Note 10)	36,259,702	3,658
Total Liabilities and Net Assets	\$ 50,910,744	\$ 3,658

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

2015

Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$	\$ 19,439,146	\$ 15,948,138	\$	\$	\$ 15,948,138
	6,488,121	6,223,357			6,223,357
	868,819	2,911,570			2,911,570
	18,963	15,014			15,014
	102,000	117,702			117,702
	123,658	100,000	3,602		103,602
		26,169			26,169
	1,651,701	1,382,600			1,382,600
	<u>28,692,408</u>	<u>26,724,550</u>	<u>3,602</u>		<u>26,728,152</u>
	<u>17,011,057</u>	<u>17,302,918</u>			<u>17,302,918</u>
	884,505	124,092			124,092
	1,749,907	1,802,678			1,802,678
	800,517	900,000			900,000
	11,846	11,673			11,673
555,000	990,094	413,488		555,000	968,488
	119,203	99,852			99,852
	645,408	683,181			683,181
	564,457	301,938			301,938
<u>555,000</u>	<u>5,765,937</u>	<u>4,336,902</u>		<u>555,000</u>	<u>4,891,902</u>
<u>\$ 555,000</u>	<u>\$ 51,469,402</u>	<u>\$ 48,364,370</u>	<u>\$ 3,602</u>	<u>\$ 555,000</u>	<u>\$ 48,922,972</u>
\$	\$ 1,614,933	\$ 1,444,622	\$	\$	\$ 1,444,622
	812,872	759,668			759,668
	5,683,116	4,718,128			4,718,128
	133,891	114,233			114,233
	2,706,230	1,372,129			1,372,129
	<u>10,951,042</u>	<u>8,408,780</u>			<u>8,408,780</u>
		14,688			14,688
	<u>3,700,000</u>	<u>4,200,000</u>			<u>4,200,000</u>
	<u>3,700,000</u>	<u>4,214,688</u>			<u>4,214,688</u>
	<u>14,651,042</u>	<u>12,623,468</u>			<u>12,623,468</u>
<u>555,000</u>	<u>36,818,360</u>	<u>35,740,902</u>	<u>3,602</u>	<u>555,000</u>	<u>36,299,504</u>
<u>\$ 555,000</u>	<u>\$ 51,469,402</u>	<u>\$ 48,364,370</u>	<u>\$ 3,602</u>	<u>\$ 555,000</u>	<u>\$ 48,922,972</u>

STATEMENTS OF ACTIVITIES

COLLEGE FOUNDATION, INC.
 Statements of Activities
 For The Years Ended June 30, 2016 and 2015

	2016	
	Unrestricted	Temporarily Restricted
CHANGES IN NET ASSETS:		
Revenues, Gains, and Other Support:		
Service Fees (Note 2)	\$ 24,793,366	\$
Interest Income (Notes 1J, 1K, 3, and 12)	44,313	7,031
Rental Income (Note 14)	192,692	
Reduction in Contingency for Uninsured Loans (Notes 1O and 4B)	499,069	
Miscellaneous	11,846	
Net Assets Released from Restrictions	6,975	(6,975)
Total Revenues, Gains, and Other Support	25,548,261	56
 Total Expenses (Note 20)	 24,991,688	
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	556,573	56
NONOPERATING:		
Postretirement-Related Changes other than Net Periodic Postretirement Benefits Cost (Note 16)	(37,773)	
CHANGES IN NET ASSETS	518,800	56
NET ASSETS--Beginning of Year	35,740,902	3,602
NET ASSETS--End of Year	\$ 36,259,702	\$ 3,658

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

2015					
Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$	\$ 24,793,366	\$ 23,991,553	\$	\$	\$ 23,991,553
	51,344	44,431	7,014		51,445
	192,692	154,610			154,610
	499,069	569,336			569,336
	11,846	20,022			20,022
	<u>18,213</u>	<u>18,213</u>	<u>(18,213)</u>		<u>18,213</u>
	25,548,317	24,798,165	(11,199)		24,786,966
	<u>24,991,688</u>	<u>25,539,674</u>			<u>25,539,674</u>
	556,629	(741,509)	(11,199)		(752,708)
	<u>(37,773)</u>	<u>(139,126)</u>			<u>(139,126)</u>
	518,856	(880,635)	(11,199)		(891,834)
<u>555,000</u>	<u>36,299,504</u>	<u>36,621,537</u>	<u>14,801</u>	<u>555,000</u>	<u>37,191,338</u>
<u>\$ 555,000</u>	<u>\$ 36,818,360</u>	<u>\$ 35,740,902</u>	<u>\$ 3,602</u>	<u>\$ 555,000</u>	<u>\$ 36,299,504</u>

COLLEGE FOUNDATION, INC.
 Statements of Cash Flows
 For The Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ 518,856	\$ (891,834)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,999,798	1,966,225
Amortization of Lease Commission	26,169	26,169
Changes In:		
Service Fees Receivable	(264,764)	281,318
Other Receivables	2,042,751	(1,054,420)
Accrued Interest Receivable	(3,949)	259
Education Loans	115,185	124,384
Prepaid Expenses	(531,620)	15,773
Accrued Postretirement Benefit Asset	37,773	139,126
Accounts Payable	170,311	(129,599)
Excess Revenue Payable to N.C. SEAA		(691,964)
Accrued Salary and Annual Leave	53,204	89,442
Deferred Service Fee Revenue	964,988	1,979,124
Deferred Compensation Payable	(14,381)	(14,086)
Other Current Liabilities	1,334,101	(339,850)
Contingency for Uninsured Loans	(500,000)	(600,000)
Net Cash Provided by Operating Activities	<u>5,948,422</u>	<u>900,067</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Value of Single Premium Income Annuity	(173)	(167)
Purchase of Other Investments	(499,907)	(1,802,678)
Redemption of Other Investments	552,678	
Deposits to N.C. College Savings and Investment Program Accounts	(107,372)	(104,724)
Distributions from N.C. College Savings and Investment Program Accounts	65,710	53,092
Proceeds from Sale of Property and Equipment		3,000
Purchase of Property and Equipment	(1,707,937)	(1,725,684)
Net Cash Used by Investing Activities	<u>(1,697,001)</u>	<u>(3,577,161)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,251,421	(2,677,094)
CASH AND CASH EQUIVALENTS--Beginning of Year	<u>16,072,230</u>	<u>18,749,324</u>
CASH AND CASH EQUIVALENTS--End of Year	<u>\$ 20,323,651</u>	<u>\$ 16,072,230</u>

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

DETAILED SCHEDULE OF FINANCIAL POSITION

COLLEGE FOUNDATION, INC.
Detailed Schedule of Financial Position
June 30, 2016

ASSETS

	Unrestricted	
	Operating Fund	Special Scholarship Fund
CURRENT ASSETS:		
Cash and Cash Equivalents (Notes 1F and 22)	\$ 15,561,108	\$ 140,000
Service Fees Receivable (Note 1G)	6,488,121	
Other Accounts Receivable (Note 1H)	868,145	
Accrued Interest Receivable		18,963
Education Loans: Foundation--Owner and Holder (Notes 1I, 2, and 5)		102,000
N.C. College Savings and Investment Program Accounts (Note 1K)		120,000
Prepaid Expenses	1,651,701	
Interfund Receivables (Payables)	536,780	3,563
Total Current Assets	25,105,855	384,526
PROPERTY AND EQUIPMENT (Notes 1L and 7)	17,011,057	
OTHER ASSETS:		
Cash and Cash Equivalents: Board Designated (Notes 1F, 11, and 22)		884,505
Other Investments: Board Designated (Notes 1J, 11, and 21)		1,749,907
Education Loans: Foundation--Owner and Holder (Notes 1I, 2, and 5)		800,517
Single Premium Income Annuity (Note 18)	11,846	
N.C. College Savings and Investment Program Accounts (Note 1K)		435,094
Deferred Compensation (Note 15)	119,203	
Accrued Postretirement Benefit Asset (Note 16)	645,408	
Prepaid Expenses	564,457	
Total Other Assets	1,340,914	3,870,023
Total Assets	\$ 43,457,826	\$ 4,254,549
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,614,933	\$
Accrued Salary and Annual Leave	812,872	
Deferred Service Fee Revenue (Note 1N)	5,683,116	
Deferred Compensation Payable (Note 15)	133,891	
Other (Note 3)	68,159	2,892
Total Current Liabilities	8,312,971	2,892
LONG-TERM LIABILITIES		
Contingency for Uninsured Loans (Notes 1O and 4B)	3,700,000	
Total Liabilities	12,012,971	2,892
NET ASSETS (Note 10)	31,444,855	4,251,657
Total Liabilities and Net Assets	\$ 43,457,826	\$ 4,254,549

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

Special Nonassigned Loan Fund	Total Unrestricted	Temporarily Restricted Special Nonassigned Loan Fund	Permanently Restricted Special Nonassigned Loan Fund	Total
\$ 3,738,038	\$ 19,439,146	\$	\$	\$ 19,439,146
	6,488,121			6,488,121
674	868,819			868,819
	18,963			18,963
	102,000			102,000
	120,000	3,658		123,658
	1,651,701			1,651,701
<u>(540,343)</u>				
<u>3,198,369</u>	<u>28,688,750</u>	<u>3,658</u>		<u>28,692,408</u>
	<u>17,011,057</u>			<u>17,011,057</u>
	884,505			884,505
	1,749,907			1,749,907
	800,517			800,517
	11,846			11,846
	435,094		555,000	990,094
	119,203			119,203
	645,408			645,408
	564,457			564,457
	<u>5,210,937</u>		<u>555,000</u>	<u>5,765,937</u>
<u>\$ 3,198,369</u>	<u>\$ 50,910,744</u>	<u>\$ 3,658</u>	<u>\$ 555,000</u>	<u>\$ 51,469,402</u>
	1,614,933			1,614,933
	812,872			812,872
	5,683,116			5,683,116
	133,891			133,891
<u>2,635,179</u>	<u>2,706,230</u>			<u>2,706,230</u>
<u>2,635,179</u>	<u>10,951,042</u>			<u>10,951,042</u>
	<u>3,700,000</u>			<u>3,700,000</u>
<u>2,635,179</u>	<u>14,651,042</u>			<u>14,651,042</u>
<u>563,190</u>	<u>36,259,702</u>	<u>3,658</u>	<u>555,000</u>	<u>36,818,360</u>
<u>\$ 3,198,369</u>	<u>\$ 50,910,744</u>	<u>\$ 3,658</u>	<u>\$ 555,000</u>	<u>\$ 51,469,402</u>

DETAILED SCHEDULE OF ACTIVITIES

COLLEGE FOUNDATION, INC.
Detailed Schedule of Activities
For The Year Ended June 30, 2016

	Operating Fund	Special Scholarship Fund
OPERATING:		
Revenues, Gains, and Other Support:		
Service Fees (Note 2):		
Trust, Bond and Escheat Loan Programs	\$ 10,465,889	\$
General Loan Program	25,692	
Special Loan Program	165,908	
UNC Need-Based Grant Program	538,544	
N.C. Community College Grant Program	90,160	
N.C. College Savings and Investment Program	2,962,149	
College Foundation of North Carolina	4,670,848	
EXTRA Education Loan Program	622,785	
EXTRA MBA Loan Program	23,138	
College Funds Installment Payment Plan	14,585	
N.C. Education Lottery Scholarship Program	216,297	
School Services	2,242,463	
N.C. Need-Based Scholarship Program	283,563	
Direct Loan Program	82,657	
EXSEL Program	208,025	
Management and Computer Services	1,000,857	
Other Program Services	1,199,630	
Total Service Fees	24,813,190	
Interest Income:		
Cash and Cash Equivalents		867
Other Investments (Note 1J)		11,665
Education Loan Borrowers		39,318
U.S. Department of Education Interest Benefits (Note 3)		3,922
U.S. Department of Education Special Allowance (Note 3)		1,169
Excess Borrower Interest Remitted to U.S. Department of Education (Note 3)		(18,969)
N.C. College Savings and Investment Program Accounts (Notes 1K and 12)		6,341
Total Interest Income		44,313
Rental Income (Note 14)	192,692	
Reduction in Contingency for Uninsured Loans (Notes 1O and 4B)	499,069	
Miscellaneous	11,846	
Net Assets Released from Restrictions		
Total Revenues, Gains, and Other Support	25,516,797	44,313

(Continued)

Unrestricted Special Nonassigned Loan Fund	Eliminations	Total Unrestricted	Temporarily Restricted Special Nonassigned Loan Fund	Permanently Restricted Special Nonassigned Loan Fund	Total
\$	\$	\$ 10,465,889	\$	\$	\$ 10,465,889
		25,692			25,692
	19,824	146,084			146,084
		538,544			538,544
		90,160			90,160
		2,962,149			2,962,149
		4,670,848			4,670,848
		622,785			622,785
		23,138			23,138
		14,585			14,585
		216,297			216,297
		2,242,463			2,242,463
		283,563			283,563
		82,657			82,657
		208,025			208,025
		1,000,857			1,000,857
		1,199,630			1,199,630
	<u>19,824</u>	<u>24,793,366</u>			<u>24,793,366</u>
		867			867
		11,665			11,665
		39,318			39,318
		3,922			3,922
		1,169			1,169
		(18,969)			(18,969)
		<u>6,341</u>	<u>7,031</u>		<u>13,372</u>
		<u>44,313</u>	<u>7,031</u>		<u>51,344</u>
		192,692			192,692
		499,069			499,069
		11,846			11,846
<u>6,975</u>		<u>6,975</u>	<u>(6,975)</u>		<u>11,846</u>
<u>6,975</u>	<u>19,824</u>	<u>25,548,261</u>	<u>56</u>		<u>25,548,317</u>

DETAILED SCHEDULE OF ACTIVITIES

COLLEGE FOUNDATION, INC.
Detailed Schedule of Activities
For The Year Ended June 30, 2016

	Operating Fund	Special Scholarship Fund
Expenses:		
Staff Salaries--Full-time or Half-time	\$ 10,609,008	\$
Part-time Assistance	687,044	
Payroll Taxes	789,804	
Staff Insurance Benefits	1,625,944	
Staff Retirement Benefits (Note 15)	381,373	
Net Periodic Postretirement Benefits (Note 16)	16,229	
Deferred Compensation Benefits (Note 15)	619	
Staff Training and Development	75,200	
Membership Fees and Other Expenses for Staff Benefit	41,128	
Staff Travel, Transportation and Subsistence	41,538	
Office Materials and Supplies	401,975	
Mail Delivery and Handling	943,423	
Telephone and Electronic Communications	227,539	
Heat, Lights and Water	155,163	
Building Operation	182,706	
Equipment Maintenance	493,240	
Software Maintenance and License Fees	1,459,832	
Legal Fees	20,371	
External Accounting and Auditing Fees	149,160	
Consultants' Fees	511,669	
Computerized Services	666,077	
Other Contracted Operational Services	1,210,086	
Property Protection and Liability Insurance (Notes 17 and 18)	203,543	
Disaster Recovery Program	129,648	
Marketing and Advertising (Note 19)	1,809,657	
Miscellaneous Expenses	201,845	1,110
Service Fees		19,824
Scholarship Grants		58,735
Depreciation and Amortization (Note 1L)	1,889,593	
Total Expenses (Note 20)	24,923,414	79,669
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	593,383	(35,356)
NONOPERATING:		
Postretirement-Related Changes other than Net Periodic Postretirement Benefits Cost (Note 16)	(37,773)	
CHANGES IN NET ASSETS BEFORE NET ASSETS TRANSFER	555,610	(35,356)
NET ASSETS TRANSFER (NOTE 11)	(72,866)	72,866
CHANGES IN NET ASSETS	482,744	37,510
NET ASSETS--Beginning of Year	30,962,111	4,214,147
NET ASSETS--End of Year	\$ 31,444,855	\$ 4,251,657

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

Unrestricted Special Nonassigned Loan Fund	Eliminations	Total Unrestricted	Temporarily Restricted Special Nonassigned Loan Fund	Permanently Restricted Special Nonassigned Loan Fund	Total
\$	\$	\$ 10,609,008	\$	\$	\$ 10,609,008
		687,044			687,044
		789,804			789,804
		1,625,944			1,625,944
		381,373			381,373
		16,229			16,229
		619			619
		75,200			75,200
		41,128			41,128
		41,538			41,538
		401,975			401,975
		943,423			943,423
		227,539			227,539
		155,163			155,163
		182,706			182,706
		493,240			493,240
		1,459,832			1,459,832
		20,371			20,371
		149,160			149,160
		511,669			511,669
		666,077			666,077
1,454		1,211,540			1,211,540
		203,543			203,543
		129,648			129,648
		1,809,657			1,809,657
		202,955			202,955
	19,824				
6,975		65,710			65,710
		<u>1,889,593</u>			<u>1,889,593</u>
<u>8,429</u>	<u>19,824</u>	<u>24,991,688</u>			<u>24,991,688</u>
(1,454)		556,573	56		556,629
		<u>(37,773)</u>			<u>(37,773)</u>
(1,454)		518,800	56		518,856
(1,454)		518,800	56		518,856
<u>564,644</u>		<u>35,740,902</u>	<u>3,602</u>	<u>555,000</u>	<u>36,299,504</u>
<u>\$ 563,190</u>	<u>\$ 0</u>	<u>\$ 36,259,702</u>	<u>\$ 3,658</u>	<u>\$ 555,000</u>	<u>\$ 36,818,360</u>

DETAILED SCHEDULE OF CASH FLOWS

COLLEGE FOUNDATION, INC.
Detailed Schedule of Cash Flows
For The Year Ended June 30, 2016

	Operating Fund	Special Scholarship Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ 482,744	\$ 37,510
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,999,798	
Amortization of Lease Commission	26,169	
Changes In:		
Service Fees Receivable	(264,764)	
Other Receivables	203,659	566,858
Accrued Interest Receivable		(3,949)
Education Loans		115,185
Prepaid Expenses	(531,620)	
Accrued Postretirement Benefit Asset	37,773	
Accounts Payable	170,311	
Accrued Salary and Annual Leave	53,204	
Deferred Service Fee Revenue	964,988	
Deferred Compensation Payable	(14,381)	
Other Current Liabilities	(18,123)	(1,356)
Contingency for Uninsured Loans	(500,000)	
Net Cash Provided by Operating Activities	2,609,758	714,248
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Value of Single Premium Income Annuity	(173)	
Purchase of Other Investments		(499,907)
Redemption of Other Investments		552,678
Deposits to N.C. College Savings and Investment Program Accounts		(100,341)
Distributions from N.C. College Savings and Investment Program Accounts		58,735
Purchase of Property and Equipment	(1,707,937)	
Net Cash Provided (Used) by Investing Activities	(1,708,110)	11,165
NET INCREASE IN CASH AND CASH EQUIVALENTS	901,648	725,413
CASH AND CASH EQUIVALENTS--Beginning of Year	14,659,460	299,092
CASH AND CASH EQUIVALENTS--End of Year	\$ 15,561,108	\$ 1,024,505

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

<u>Special Nonassigned Loan Fund</u>	<u>Total</u>
\$ (1,398)	\$ 518,856
	1,999,798
	26,169
	(264,764)
1,272,234	2,042,751
	(3,949)
	115,185
	(531,620)
	37,773
	170,311
	53,204
	964,988
	(14,381)
1,353,580	1,334,101
	(500,000)
<u>2,624,416</u>	<u>5,948,422</u>
	(173)
	(499,907)
	552,678
(7,031)	(107,372)
6,975	65,710
	<u>(1,707,937)</u>
<u>(56)</u>	<u>(1,697,001)</u>
2,624,360	4,251,421
<u>1,113,678</u>	<u>16,072,230</u>
<u>\$ 3,738,038</u>	<u>\$ 20,323,651</u>

SCHEDULE OF AGENCY FUNDS
June 30, 2016

COLLEGE FOUNDATION, INC.
Schedule of Agency Funds
June 30, 2016

ASSETS

	N.C. SEAA Loan Fund	Bank Assigned Loan Fund	Special Assigned Loan Fund
Cash and Cash Equivalents (Note 1F)	\$ 1,594,529	\$	\$ 91,179
Accounts Receivable:			
Agency Funds (Note 21)	9,333,904		73,238
U. S. Department of Education (Note 3)		7,161	
Interfund Receivables (Payables)	1,419,006		
College Foundation, Inc.	2,726,624	5,589	7
Accrued Interest Receivable	29,010,186	59,998	372,716
Note Receivable--Other	541,406		
Education Loans: Foundation--Agent (Notes 1I, 2, and 5)	1,826,507,179	4,159,805	22,811,144
Total Assets	\$ 1,871,132,834	\$ 4,232,553	\$ 23,348,284

LIABILITIES

Accounts Payable:			
Agency Funds (Note 21)	\$ 1,861,065,404	\$ 4,226,212	\$ 23,272,924
U. S. Department of Education (Note 3)	9,333,904		73,238
College Foundation, Inc.	192,120	6,341	2,122
Other			
Note Payable--Agency Funds	541,406		
Total Liabilities	\$ 1,871,132,834	\$ 4,232,553	\$ 23,348,284

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

North Carolina College Savings and Investment Program	UNC Need-Based Grant Program	N.C. Community College Grant Program	N.C. Education Lottery Scholarship Program	N.C. Need-Based Scholarship Program	Total
\$ 1,161,106	\$ 1,572,835	\$ 410,944	\$ 38,439	\$ 142,550	\$ 5,011,582
55,584					9,462,726
	(1,419,006)				7,161
160					2,732,380
					29,442,900
					541,406
					<u>1,853,478,128</u>
<u>\$ 1,216,850</u>	<u>\$ 153,829</u>	<u>\$ 410,944</u>	<u>\$ 38,439</u>	<u>\$ 142,550</u>	<u>\$ 1,900,676,283</u>
\$ 214,406	\$ 99,524	\$ 410,944	\$ 38,439	\$ 142,550	\$ 1,889,470,403
246,299					9,407,142
756,145	54,305				446,882
					810,450
					<u>541,406</u>
<u>\$ 1,216,850</u>	<u>\$ 153,829</u>	<u>\$ 410,944</u>	<u>\$ 38,439</u>	<u>\$ 142,550</u>	<u>\$ 1,900,676,283</u>

SCHEDULE OF AGENCY FUNDS
June 30, 2015

COLLEGE FOUNDATION, INC.
Schedule of Agency Funds
June 30, 2015

ASSETS

	N.C. SEAA Loan Fund	Bank Assigned Loan Fund	Special Assigned Loan Fund
Cash and Cash Equivalents (Note 1F)	\$ 3,579,440	\$	\$ 17,498
Accounts Receivable:			
Agency Funds (Note 21)	11,595,558		2,044,331
U. S. Department of Education (Note 3)		7,881	
Interfund Receivables (Payables)	1,420,560		(750,000)
College Foundation, Inc.	1,228,313	13,907	
Accrued Interest Receivable	31,484,822	60,690	254,797
Note Receivable--Other	1,082,813		
Education Loans: Foundation--Agent (Notes 1I, 2, and 5)	<u>2,061,104,157</u>	<u>4,796,868</u>	<u>23,788,635</u>
Total Assets	<u>\$ 2,111,495,663</u>	<u>\$ 4,879,346</u>	<u>\$ 25,355,261</u>

LIABILITIES

Accounts Payable:			
Agency Funds (Note 21)	\$ 2,098,652,495	\$ 4,873,933	\$ 24,055,418
U. S. Department of Education (Note 3)	11,592,390		77,192
College Foundation, Inc.	167,965	5,413	1,222,651
Other			
Note Payable--Agency Funds	<u>1,082,813</u>	<u></u>	<u></u>
Total Liabilities	<u>\$ 2,111,495,663</u>	<u>\$ 4,879,346</u>	<u>\$ 25,355,261</u>

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

North Carolina College Savings and Investment Program	UNC Need-Based Grant Program	N.C. Community College Grant Program	N.C. Education Lottery Scholarship Program	N.C. Need-Based Scholarship Program	Total
\$ 1,206,821	\$ 185,345	\$ 267,434	\$ 61,886	\$ 16,385	\$ 5,334,809
	537,319				14,177,208
	(670,560)				7,881
7,900					1,250,120
					31,800,309
					1,082,813
					<u>2,089,689,660</u>
<u>\$ 1,214,721</u>	<u>\$ 52,104</u>	<u>\$ 267,434</u>	<u>\$ 61,886</u>	<u>\$ 16,385</u>	<u>\$ 2,143,342,800</u>
\$ 427,122	\$ 312	\$ 267,434	\$ 61,886	\$ 16,385	\$ 2,128,354,985
245,777					11,669,582
541,822	51,792				1,641,806
					593,614
					<u>1,082,813</u>
<u>\$ 1,214,721</u>	<u>\$ 52,104</u>	<u>\$ 267,434</u>	<u>\$ 61,886</u>	<u>\$ 16,385</u>	<u>\$ 2,143,342,800</u>

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

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 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. The Foundation continues to operate exclusively for its stated, charitable purpose.

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 contracted flat rates or direct and reasonably allocated indirect operating and capital costs.

C. Basis of Presentation:

The Foundation classifies 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. Certain net assets classified as unrestricted may be designated for specific purposes by action of the Board of Trustees.

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.

D. Restricted and Unrestricted Revenue:

The Foundation reports 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.

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.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

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

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 service fee from each program funding source.

G. Service Fees Receivable:

Service fees are billed monthly or quarterly and are based on contracted flat rates or on direct and reasonably allocated indirect operating and capital costs according to program service agreements. Management determines the allowance for doubtful accounts based on its assessment of prior experience with parties having outstanding balances and current relationships with them. At June 30, 2016 and 2015, service fees receivable were considered fully collectible by management; therefore, no allowance for doubtful accounts was provided.

H. Other Accounts Receivable:

Other accounts receivable primarily consist of receivables due from state and agency entities due to normal Foundation program operations and are stated at the amount management expects to collect from balances outstanding at quarter 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, 2016 and 2015, other accounts receivable were considered fully collectible by management; therefore, no allowance for doubtful accounts was provided.

I. Education Loans:

Education loans receivable are recorded based on unpaid principal balances, which represent net realizable value. These loans have mandated interest rates and repayment terms. See Note 4 for information regarding education loan insurance. At June 30, 2016 and 2015, management determined that the estimated uninsured amount of loans owned by the Foundation that could potentially default was immaterial; therefore, no allowance was provided.

J. Other Investments:

Certificates of deposit with maturities greater than three months are reported using the cost method.

K. North Carolina College Savings and Investment Program Accounts:

Funds in these accounts are 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.

North Carolina College Savings and Investment Program accounts are subject to withdrawal restrictions under Section 529 of the Internal Revenue Code. These accounts are for the benefit of current and future recipients of the Victor E. Bell Jr. Scholarship and Broyhill Family Foundation Scholarship programs.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

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

L. Property and Equipment:

Property and equipment including computer software are stated at cost if purchased or developed in-house or at fair value if donated, less accumulated depreciation or amortization. Amortization of computer software and depreciation of property and equipment are computed using the straight-line method over the estimated useful lives of assets, which range from three to forty years.

Additions and betterments of \$1,500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

M. Lease Commission:

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

N. Deferred Service Fee Revenue:

Service fees for certain N.C. State Education Assistance Authority loan programs are billed at contractually-mandated rates. If these fees exceed actual costs incurred, revenue is held and used to offset future expenses as directed by the N.C. State Education Assistance Authority.

O. Contingency for Uninsured Loans:

A reserve for denied claims was created to cover possible losses from uncollectible education 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. Board policy requires that an analysis be presented to the Board annually for re-evaluation of the appropriate funding level and the formula utilized in its calculation. The most recent re-evaluation took place at the May 2016 Board of Trustees meeting.

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.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

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

P. 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” on the basis of its administration of the state’s student financial assistance programs and its governance structure under the charter; 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, 2013.

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.

Q. Contributed Services:

The Foundation's nine Board members contribute their services to the Foundation. No revenue is recognized for these services as they do not meet the requirements for recognition in the financial statements. Each member attends semi-annual meetings, normally held in May and November, and serves on at least one committee providing oversight and advice for management.

R. Subsequent Events:

Subsequent events have been evaluated through September 28, 2016, which is the date the financial statements were available to be issued.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

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 is an eligible lender under Section 435(d)(1)(D) of the Act and has originated (including disbursement of the loans) and serviced loans since its enactment. Loans under the program have been funded by the N.C. State Education Assistance Authority and by direct and special investment from financial institutions and other organizations. 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. 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 Program (FFELP) and required that all new federal loans be made through the Federal Direct Loan Program. The legislation did not alter or affect the terms and conditions of existing FFELP loans.

B. UNC Need-Based Grant Program:

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

C. N.C. Community College Grant Program:

This program was established and first funded by the N.C. General Assembly in July 1999 to provide need-based grants to students enrolled at the State's community colleges. The Foundation administers this program as agent for the N.C. State Education Assistance Authority.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

2. Programs Administered by the Foundation (Continued)

D. 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 April 3, 2006, recordkeeping, disbursement, and transfer agent services for the Program were contracted with PFPC, Inc. and portfolio accounting and custodial services with State Street Bank and Trust Company. On March 27, 2006, the Foundation contracted with Upromise Investments, Inc. and Upromise Investment Advisors, LLC (collectively "Upromise") to begin providing these and other administrative services for the program as of April 3, 2006. Upromise subcontracted with Mellon Authority, N.A. to provide custodial services for the Foundation.

On August 29, 2007, Foundation management sent Upromise notification of contract termination and as of February 28, 2008, contracted with Upromise for the orderly transition of recordkeeping and administrative services and the continuation of Upromise Rewards, an automatic sweep functionality service. On March 3, 2008, the Foundation assumed the recordkeeping and other administrative duties previously handled by Upromise and again contracted with State Street Bank and Trust Company to provide portfolio accounting and custodial services. In March of 2010, the Foundation notified Upromise it would not renew Upromise Rewards; however, Upromise continued making the automatic sweep available until April of 2011.

In October of 2011, the Foundation terminated its contract with State Street and began to work directly with The Vanguard Group, Inc. for portfolio accounting for new Vanguard investment options. Custodial services were no longer required because the new portfolio options did not invest in any certificated securities and were unique mutual fund products offered to and managed specifically for the North Carolina College Savings and Investment Program. The Foundation now works directly with Vanguard, just as it has always done with the State Treasurer's Office and State Employees' Credit Union, investment managers for the Dependable Income Fund and the Federally-Insured Deposit Account investment options, respectively.

Investment Option History

The original college savings program for North Carolina, the College Vision Fund, was established May 28, 1998, offering a single option managed by the Office of the State Treasurer. On December 3, 2001, all College Vision Fund assets (a total 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 as North Carolina's National College Savings Program ("NC 529 Plan") and the advisor-sold as the National College Savings Program.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

2. Programs Administered by the Foundation (Continued)

As of December 3, 2001, investment options made available through direct enrollment with the Foundation 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.

The Seligman College*Horizon*Funds investment option was also available to participants who chose to work with a financial advisor compensated through sales and asset-based charges (advisor-sold enrollment).

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 insurance contracts known as funding agreements. These agreements were issued by Metropolitan Life Insurance Company (MetLife) to the Foundation.

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 funding agreements issued by MetLife to the Foundation.

On December 1, 2003, an additional investment option, the Seligman Balanced Allocation, was available through advisor-sold enrollment. However, on December 15, 2004, the N.C. State Education Assistance Authority and the Foundation discontinued advisor-sold enrollment, and on March 1, 2005, transferred any assets in advisor-sold accounts to 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 as of March 3, 2008 for the creation of eight individual V Fund investment options and three age-based investment options. Accounts with funds in the existing Vanguard investment options were migrated to the new V Fund investment options as of March 3, 2008.

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., Incorporated), effective July 1, 2009. Participants were notified in mid-May 2009 of the termination, and given the option of reallocating assets invested in the investments being terminated to other investment options, or having the Foundation automatically reallocate their assets from the terminated funds to the appropriate V Funds.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

2. Programs Administered by the Foundation (Continued)

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 Vanguard Total Stock Market Index Fund shares. 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, when the Active Core Equity Fund was closed out.

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.

On February 28, 2013, the final MetLife Protected Stock Fund subscription period matured with account balances being transferred into the Dependable Income Fund option in accordance with Program Description rules.

After close of trading on March 2, 2016, the Vanguard Money Market Portfolio was replaced with the Vanguard Interest Accumulation Portfolio. Within the Vanguard Income Portfolio, the Vanguard Prime Money Market Fund was replaced with the Vanguard Short-Term Reserves Account.

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

E. 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.

F. EXTRA Education Loans:

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

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

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

2. Programs Administered by the Foundation (Continued)

G. EXTRA MBA Loans:

This program began in March 2003 to assist borrowers enrolled in the Kenan-Flagler Business School MBA or MAC Programs 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.

H. 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 all North Carolina colleges and universities in 2006.

I. N.C. 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 Education Lottery. The Foundation administers this program as agent for the N.C. State Education Assistance Authority.

J. 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 the North Carolina College Savings and Investment Program with the Foundation as the account owner and the individual as the beneficiary. The first award recipients were selected in November 2007. Funding for this scholarship program is provided by the Foundation's Special Scholarship Fund.

K. School Services Program:

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 North Carolina Community Colleges. The Program was expanded in the Spring of 2013 to include constituent institutions of The University of North Carolina and out-of-state schools and further expanded in the Spring of 2014 to include private North Carolina schools. The Foundation acts as agent for the N.C. State Education Assistance Authority under this Program for the North Carolina schools.

L. 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.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

2. Programs Administered by the Foundation (Concluded)

M. Servicing of Federal Assets:

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). The legislation contained a provision which required the Secretary of Education to establish performance-based contracts with eligible not-for-profit servicers to service education loans originated under the Federal Direct Loan Program. The Foundation was determined to be eligible and technically qualified to service federal assets under this provision. In May 2011, a Memorandum of Understanding was executed with the U.S. Department of Education, and a contract effective February 1, 2013, allowed the Foundation, doing business as *EDGE*ducation Loans, to begin servicing education loans owned by the Federal government. The Foundation received its first allotment of loans under this contract on February 7, 2013. In May 2013, the Foundation was notified by the contractor providing the servicing system that it would discontinue its servicing operations as soon as practicably possible. As a result, the Foundation entered into a full-service contract with the Missouri Higher Education Loan Authority (MOHELA). Loans with principal balances were transferred to MOHELA on August 4, 2013. Information on all other zero balance loans formerly held by *EDGE*ducation Loans was transmitted to MOHELA on September 27, 2013. The Foundation's contract with the U.S. Department of Education was officially terminated effective July 10, 2014.

N. EX\$EL Program:

The Foundation launched a financial education and repayment success program, EX\$EL, during the summer of 2014. Services under this program are geared toward enrolled students, borrowers in grace and repayment, and seriously delinquent borrowers. EX\$EL provides regular communications via email, online education courses, access to a robust financial education library, and, in the case of delinquent borrowers, specific advice on how to resolve their delinquency status.

O. Other Programs:

From time to time the Foundation administers other programs of student financial assistance, including the Knights of Pythias Scholarships, Syringomyelia Scholarships, the Bryan Foundation Scholarships, the Broyhill Family Foundation Scholarships, and the Carolina Computing Initiative Loans.

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

The U.S. Department of Education pays an interest subsidy on eligible education loans and special allowance to lenders holding loans made under the Federal Family Education Loan Program, which includes North Carolina's Program administered by the Foundation. 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.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

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

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 education 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.

The Consolidated Appropriations Act signed on December 23, 2011 allowed FFELP loan holders and entities holding beneficial ownership interests in FFELP loans to have the 1-month London InterBank 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 participating 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 education 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. For Federal Stafford Loans first disbursed between July 1, 2009 and June 30, 2010, the origination fee was 0.5% of the loan principal amount; for those first disbursed between July 1, 2008 and June 30, 2009, the origination fee was 1%; for those first disbursed between July 1, 2007 and June 30, 2008, the origination fee was 1.5%; for those first disbursed between July 1, 2006 and June 30, 2007, the origination fee was 2%. For Federal PLUS Loans first disbursed between July 1, 2006 and June 30, 2010, the origination fee was 3% of the loan principal amount. 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%.

At June 30, 2016, net due to the U.S. Department of Education totaled \$9,402,873, which included \$2,892 related to loans owned by the Foundation and \$9,399,981 related to loans owned by other funds providers. During the year ended June 30, 2016, excess borrower interest remitted to the U.S. Department of Education totaled \$49,446,214, which included \$18,969 related to loans owned by the Foundation and \$49,427,245 related to loans owned by other funds providers.

At June 30, 2015, net due to the U.S. Department of Education totaled \$11,665,949, which included \$4,248 related to loans owned by the Foundation and \$11,661,701 related to loans owned by other funds providers. During the year ended June 30, 2015, excess borrower interest remitted to the U.S. Department of Education totaled \$58,834,947, which included \$23,500 related to loans owned by the Foundation and \$58,811,447 related to loans owned by other funds providers.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

4. Education Loan Insurance

A. Education Loan Insurance and Reinsurance:

The majority of all education loans originated by the Foundation are insured by the N.C. State Education Assistance Authority as to principal and interest. The insurance percentage for default claims on loans made under the Higher Education Act varies between 97% and 100% based upon the date the loans were made as follows: (1) loans made prior to October 1, 1993 and Lender of Last Resort Loans are insured at 100%; (2) loans made October 1, 1993 through June 30, 2006 are insured at 98%; and (3) loans made on or after July 1, 2006 are insured at 97%. All death, disability, and bankruptcy claims on these loans are insured at 100%. 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 Federal 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 guaranty 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 Federal 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 guaranty 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.

As of June 30, 2016, outstanding balances (including Agency Funds) on education 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 Loans	\$ 5,120	\$ 109,943	\$	\$ 115,063
N.C. SEAA--Trust, Bond, and Escheat Loans	999,314	572,140,179	1,088,292,552	1,661,432,045
Bank Assigned Loans	2,503,893	1,655,912		4,159,805
Special Assigned Loans	642,702	10,681,109	11,070,750	22,394,561
Special Scholarship Fund Loans	58,108	296,472	448,486	803,066
Totals	\$ 4,209,137	\$ 584,883,615	\$ 1,099,811,788	\$ 1,688,904,540

Comparative data (including Agency Funds) as of June 30, 2015, 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 Loans	\$ 5,546	\$ 111,650	\$	\$ 117,196
N.C. SEAA--Trust, Bond, and Escheat Loans	949,252	645,173,554	1,236,088,563	1,882,211,369
Bank Assigned Loans	2,874,618	1,922,250		4,796,868
Special Assigned Loans	747,543	11,557,115	11,020,487	23,325,145
Special Scholarship Fund Loans	61,663	338,551	514,193	914,407
Totals	\$ 4,638,622	\$ 659,103,120	\$ 1,247,623,243	\$ 1,911,364,985

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

4. Education Loan Insurance (Continued)

B. Contingency for Uninsured Loans:

A reserve for denied claims exists to cover possible losses from uncollectible education loans that were improperly originated or serviced by the Foundation. At June 30, 2016 and 2015, the contingency totaled \$3,700,000 and \$4,200,000, respectively.

C. Analysis of Outstanding Education Loans by School Type:

As of June 30, 2016, outstanding balances (including Agency Funds but excluding Federal Consolidation Loans) on education loans originated by the Foundation under the Higher Education Act were as follows:

<u>School--Type</u>	<u>Number of Loans</u>	<u>Outstanding Balance</u>
4-Year Public--In State	212,020	\$ 696,922,619
2-Year Public--In State	22,369	51,592,308
4-Year Private--In State	72,695	261,403,046
2-Year Private--In State	2,069	6,047,617
Proprietary--In State	14,781	43,256,384
2/4-Year Public--Out of State	751	4,402,975
2/4-Year Private--Out of State	2,020	12,107,831
Proprietary--Out of State	561	2,873,431
Out of Country	<u>222</u>	<u>2,212,260</u>
Totals	<u>327,488</u>	<u>\$ 1,080,818,471</u>

Comparative data (including Agency Funds but excluding Federal Consolidation Loans) as of June 30, 2015, were as follows:

<u>School--Type</u>	<u>Number of Loans</u>	<u>Outstanding Balance</u>
4-Year Public--In State	243,198	\$ 802,417,422
2-Year Public--In State	25,246	57,711,770
4-Year Private--In State	83,023	299,839,449
2-Year Private--In State	2,362	6,742,817
Proprietary--In State	16,485	46,903,818
2/4-Year Public--Out of State	843	5,032,442
2/4-Year Private--Out of State	2,376	14,636,076
Proprietary--Out of State	629	3,242,596
Out of Country	<u>265</u>	<u>2,457,270</u>
Totals	<u>374,427</u>	<u>\$ 1,238,983,660</u>

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

5. Analysis By Education Loan Type and Funding

As of June 30, 2016, outstanding balances (including Agency Funds) on education loans were as follows:

	<u>Loans to Students</u>	<u>Loans to Parents</u>	<u>Consolidation Loans</u>	<u>Total</u>
<u>Made Under the Higher Education Act</u>				
Loans Owned by the Foundation:				
Special Scholarship Fund	\$ 789,017	\$ _____	\$ 14,049	\$ 803,066
Agency Funds:				
N.C. SEAA Funded Loans:				
N.C. SEAA Trust Funds	21,784,072	653,608	6,107,297	28,544,977
N.C. SEAA Escheat Funds	3,727,851			3,727,851
N.C. SEAA Bond Funds	984,930,080	47,681,458	596,662,742	1,629,274,280
Total N.C. SEAA Loans	<u>1,010,442,003</u>	<u>48,335,066</u>	<u>602,770,039</u>	<u>1,661,547,108</u>
Assigned Loans:				
Bank Assigned Loans	4,035,034	124,771		4,159,805
Special Assigned Loans	16,664,206	428,374	5,301,981	22,394,561
Total Assigned Loans	<u>20,699,240</u>	<u>553,145</u>	<u>5,301,981</u>	<u>26,554,366</u>
Total Agency Funds				
Under the Higher Education Act	<u>1,031,141,243</u>	<u>48,888,211</u>	<u>608,072,020</u>	<u>1,688,101,474</u>
<u>Other (Non-Federal)</u>				
Loans Owned by the Foundation:				
Special Scholarship Fund	66,492		32,959	99,451
N.C. SEAA Funded Loans:				
Computer Loans	573			573
EXTRA Education Loans	159,289,629			159,289,629
College Vision Fund Loans		18,139		18,139
EXTRA MBA Loans	5,651,730			5,651,730
Assigned Loans:				
Special Assigned Loans	416,583			416,583
Total Other (Non-Federal)	<u>165,425,007</u>	<u>18,139</u>	<u>32,959</u>	<u>165,476,105</u>
Total Serviced by the Foundation	<u>\$ 1,197,355,267</u>	<u>\$ 48,906,350</u>	<u>\$ 608,119,028</u>	<u>\$ 1,854,380,645</u>

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

5. Analysis By Education Loan Type and Funding (Continued)

Comparative data (including Agency Funds) as of June 30, 2015, were as follows:

	Loans to Students	Loans to Parents	Consolidation Loans	Total
<u>Made Under the Higher Education Act</u>				
Loans Owned by the Foundation:				
Special Scholarship Fund	\$ 914,407	\$ _____	\$ _____	\$ 914,407
Agency Funds:				
N.C. SEAA Funded Loans:				
N.C. SEAA Trust Funds	9,913,186	342,962	2,698,219	12,954,367
N.C. SEAA Escheat Funds	4,335,077			4,335,077
N.C. SEAA Bond Funds	<u>1,138,816,192</u>	<u>61,728,137</u>	<u>664,494,792</u>	<u>1,865,039,121</u>
Total N.C. SEAA Loans	<u>1,153,064,455</u>	<u>62,071,099</u>	<u>667,193,011</u>	<u>1,882,328,565</u>
Assigned Loans:				
Bank Assigned Loans	4,658,322	138,546		4,796,868
Special Assigned Loans	<u>17,650,514</u>	<u>486,317</u>	<u>5,188,314</u>	<u>23,325,145</u>
Total Assigned Loans	<u>22,308,836</u>	<u>624,863</u>	<u>5,188,314</u>	<u>28,122,013</u>
Total Agency Funds				
Under the Higher Education Act	<u>1,175,373,291</u>	<u>62,695,962</u>	<u>672,381,325</u>	<u>1,910,450,578</u>
<u>Other (Non-Federal)</u>				
Loans Owned by the Foundation:				
Special Scholarship Fund	68,057		35,238	103,295
N.C. SEAA Funded Loans:				
Computer Loans	2,038			2,038
EXTRA Education Loans	171,783,323			171,783,323
College Vision Fund Loans		19,545		19,545
EXTRA MBA Loans	6,970,686			6,970,686
Assigned Loans:				
Special Assigned Loans	<u>463,490</u>			<u>463,490</u>
Total Other (Non-Federal)	<u>179,287,594</u>	<u>19,545</u>	<u>35,238</u>	<u>179,342,377</u>
Total Serviced by the Foundation	<u>\$ 1,355,575,292</u>	<u>\$ 62,715,507</u>	<u>\$ 672,416,563</u>	<u>\$ 2,090,707,362</u>

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

6. Analysis of Education Loan Status and Delinquency

As of June 30, 2016, outstanding balances (including Agency Funds) on education loans were as follows:

	Originated Under the Higher Education Act				Non-Federal Loans	Total
	Loans to Students	PLUS Loans to Parents	Consolidation Loans	Total Federal Loans		
Loans in Repayment:						
Current	\$ 545,624,726	\$ 28,779,830	\$ 433,772,000	\$ 1,008,176,556	\$ 114,044,861	\$ 1,122,221,417
Delinquent:						
One Payment Delinquent	76,926,636	4,956,329	38,787,064	120,670,029	9,251,060	129,921,089
Two Payments Delinquent	43,894,564	2,162,254	19,379,827	65,436,645	3,526,485	68,963,130
Three or More Payments Delinquent	90,287,255	2,898,742	27,547,492	120,733,489	5,813,792	126,547,281
Total Delinquent	211,108,455	10,017,325	85,714,383	306,840,163	18,591,337	325,431,500
Total in Repayment	756,733,181	38,797,155	519,486,383	1,315,016,719	132,636,198	1,447,652,917
Loans in Deferment	124,955,595	2,222,473	38,323,319	165,501,387		165,501,387
Loans in Forbearance	136,457,848	7,845,917	49,692,203	193,995,968	31,539,244	225,535,212
Total Mature	1,018,146,624	48,865,545	607,501,905	1,674,514,074	164,175,442	1,838,689,516
Loans Not Yet Mature:						
In School	7,330,587			7,330,587	840,374	8,170,961
In Grace/Interim	3,707,549			3,707,549	369,615	4,077,164
Total Not Yet Mature	11,038,136			11,038,136	1,209,989	12,248,125
Total Claims Pending	2,701,170	22,666	570,115	3,293,951	90,674	3,384,625
Total Pending Cures of Violations	44,330		14,049	58,379		58,379
Total Serviced by the Foundation	\$ 1,031,930,260	\$ 48,888,211	\$ 608,086,069	\$ 1,688,904,540	\$ 165,476,105	\$ 1,854,380,645

Comparative data (including Agency Funds) as of June 30, 2015, were as follows:

	Originated Under the Higher Education Act				Non-Federal Loans	Total
	Loans to Students	PLUS Loans to Parents	Consolidation Loans	Total Federal Loans		
Loans in Repayment:						
Current	\$ 624,289,121	\$ 39,900,871	\$ 484,391,745	\$ 1,148,581,737	\$ 124,034,831	\$ 1,272,616,568
Delinquent:						
One Payment Delinquent	86,607,472	6,301,553	42,178,189	135,087,214	9,202,182	144,289,396
Two Payments Delinquent	45,631,065	2,105,285	17,865,274	65,601,624	3,942,986	69,544,610
Three or More Payments Delinquent	91,304,274	3,151,658	26,728,195	121,184,127	5,572,111	126,756,238
Total Delinquent	223,542,811	11,558,496	86,771,658	321,872,965	18,717,279	340,590,244
Total in Repayment	847,831,932	51,459,367	571,163,403	1,470,454,702	142,752,110	1,613,206,812
Loans in Deferment	159,995,957	3,335,760	47,754,478	211,086,195		211,086,195
Loans in Forbearance	143,258,560	7,851,124	52,769,448	203,879,132	33,856,217	237,735,349
Total Mature	1,151,086,449	62,646,251	671,687,329	1,885,420,029	176,608,327	2,062,028,356
Loans Not Yet Mature:						
In School	15,157,049			15,157,049	1,619,746	16,776,795
In Grace/Interim	6,508,120			6,508,120	838,600	7,346,720
Total Not Yet Mature	21,665,169			21,665,169	2,458,346	24,123,515
Total Claims Pending	3,536,080	49,711	693,996	4,279,787	275,704	4,555,491
Total Serviced by the Foundation	\$ 1,176,287,698	\$ 62,695,962	\$ 672,381,325	\$ 1,911,364,985	\$ 179,342,377	\$ 2,090,707,362

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

7. Property and Equipment

Property and equipment held by the Foundation at June 30, 2016, were categorized as follows:

	June 30, 2015	Additions	Disposals	June 30, 2016
Highwoods Office Park Land (1)	\$ 1,302,882	\$	\$	\$ 1,302,882
Highwoods Boulevard Building (2)	9,536,698	56,605		9,593,303
Poplarwood Court Building (3)	3,090,126	18,105		3,108,231
Yonkers Road Land (4)	961,308			961,308
Yonkers Road Building (5)	4,140,759	27,152		4,167,911
Computer equipment	10,347,048	638,899	(3,762,832)	7,223,115
Computer software (6)	13,048,305	920,785	(288,616)	13,680,474
Office furniture and equipment	1,630,541	46,391	(70,788)	1,606,144
Total	<u>\$ 44,057,667</u>	<u>\$ 1,707,937</u>	<u>\$ (4,122,236)</u>	<u>41,643,368</u>
Less accumulated depreciation and amortization				<u>24,632,311</u>
Net property and equipment				<u>\$ 17,011,057</u>

Comparative data as of June 30, 2015, were as follows:

	June 30, 2014	Additions	Disposals	June 30, 2015
Highwoods Office Park Land (1)	\$ 1,302,882	\$	\$	\$ 1,302,882
Highwoods Boulevard Building (2)	9,365,653	171,045		9,536,698
Poplarwood Court Building (3)	3,084,377	5,749		3,090,126
Yonkers Road Land (4)	961,308			961,308
Yonkers Road Building (5)	3,909,411	278,693	(47,345)	4,140,759
Computer equipment	10,360,329	620,222	(633,503)	10,347,048
Computer software (6)	12,473,539	579,500	(4,734)	13,048,305
Office furniture and equipment	1,560,066	70,475		1,630,541
Total	<u>\$ 43,017,565</u>	<u>\$ 1,725,684</u>	<u>\$ (685,582)</u>	<u>44,057,667</u>
Less accumulated depreciation and amortization				<u>26,754,749</u>
Net property and equipment				<u>\$ 17,302,918</u>

- (1) Land related to Highwoods Boulevard Building consists of 2.81 acres purchased May 31, 2002, on which the office building is located plus 1.45 acres which contains only parking and landscaping. Land related to Poplarwood Court Building consists of 1.45 acres purchased May 31, 2002, on which the office building is located.
- (2) Building is 61,888 square feet, occupied by the Foundation on October 24, 2003.
- (3) Building is 18,660 square feet, occupied by the Foundation on October 24, 2003.
- (4) Land consists of 3.0 acres purchased June 15, 1987, on which the office building is located plus 2.0 acres purchased November 29, 1988, in an adjacent lot which also fronts on Yonkers Road.
- (5) Building is 43,433 square feet, two-story brick, completed during 1987-88, which is currently being held for leasing (see Note 14). At June 30, 2016 and 2015, the total amount of accumulated depreciation on this building was \$2,021,977 and \$1,911,772, respectively.
- (6) Certain computer software developed in-house with the assistance of another entity may not be licensed, sold, or transferred to a third party without the express written consent of the other entity.

8. 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.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
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9. Lease Commitments

Vehicle Leases

In December 2013, the Foundation entered into noncancelable operating leases for seven new vehicles, each with single lease payments due at delivery of \$10,266. These leases expired December 2015.

In December 2015, the Foundation entered into noncancelable operating leases for seven new vehicles with single lease payments due at delivery of \$11,581 each. These leases expire December 2018.

During the years ended June 30, 2016 and 2015, expenses including taxes and licenses under these leases in the amount of \$31,881 and \$37,260, respectively, were included in operating expense. At June 30, 2016 and 2015, prepaid expenses totaled \$65,303 and \$14,886, respectively.

Computer Hardware Lease

In December 2013, the Foundation entered into a noncancelable lease for certain data storage units and related hardware with annual lease payments of \$229,377 due January 1, 2014 through January 1, 2016. The lease, which was originally set to expire November 30, 2016, was amended in June 2016 to add additional equipment and extend the expiration. Lease payments of \$249,997 are due January 1, 2017 and January 1, 2018. The lease expires November 30, 2018, at which time the equipment may be purchased for fair market value or the lease may be renewed.

During the years ended June 30, 2016 and 2015, expenses including taxes under this lease in the amount of \$233,241 and \$234,401, respectively, were included in operating expense. At June 30, 2016 and 2015, prepaid expenses totaled \$95,574 and \$95,574, respectively.

10. Net Assets

Board-Designated Net Assets

At June 30, 2016 and 2015, net assets designated by the Board of Trustees to provide long-term scholarship and education loan support equaled \$4,251,657 and \$4,214,147, respectively.

Temporarily Restricted Net Assets

At June 30, 2016 and 2015, temporarily restricted net assets of \$3,658 and \$3,602, respectively, were donor-restricted to provide Broyhill Family Foundation Scholarships. These funds were provided through contributions from the Broyhill Family Foundation.

Permanently Restricted Net Assets

At June 30, 2016 and 2015, permanently restricted net assets equaled \$555,000. These funds were provided through contributions from the Broyhill Family Foundation (Broyhill) and were initially restricted to providing loans to students attending Mars Hill University, Gardner-Webb University, and Lenoir-Rhyne University.

At Broyhill's direction, all assets were used to establish an endowment in July 2012 with the earnings used to fund Broyhill Family Foundation Scholarships. A change in the administration of Broyhill's contributions was necessary because the Foundation was no longer originating education loans and could not administer these contributions as originally directed.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
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11. Endowment Funds

The Foundation's endowment funds provide long-term support for scholarship and education loan programs. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Donor-Restricted Endowment Fund

Permanently restricted net assets consist of an endowment fund established on July 1, 2012. On that date, prior contributions from the Broyhill Family Foundation were donor-restricted to permanently fund Broyhill Family Foundation Scholarships.

The endowment fund is subject to donor restrictions that stipulate all cash, including collections from Broyhill-funded education loans contributed to the endowment, be deposited into a North Carolina College Savings and Investment Program account. These donor restrictions also stipulate that earnings in this account as of December 31, 2013, and annually thereafter, be made available to Mars Hill University, Gardner-Webb University and Lenoir-Rhyne University for Broyhill Family Foundation Scholarships to students in their business schools.

The State of North Carolina enacted the North Carolina (NC) Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective March 2009, the provisions of which apply to endowment funds existing on or established after that date. Absent donor stipulations to the contrary, the provisions of this state law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gifts.

As a result of the Foundation's interpretation of UPMIFA, the Foundation classifies as permanently restricted net assets (1) the original dollar value of the donor-restricted endowment funds on the date of the gift and (2) accumulations to the permanent endowment made in accordance with the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the direction of the gift instrument and the standard of prudence described in UPMIFA.

Board-Designated Endowment Fund

On March 27, 1985, the Board of Trustees passed a resolution which established the Special Scholarship Fund in honor of Victor E. Bell, Jr., for his many years of service to the Foundation as Chairman of the Board. The Board then passed a resolution which authorized the transfer of \$1,000,000 of Foundation assets from the Operating Fund and the Direct and Special Loan Funds to the Special Scholarship Fund and specified that all unrestricted contributions received by the Foundation after March 27, 1985, be added to the Special Scholarship Fund. Subsequent resolutions specified that Special Scholarship funds including future contributions, transfers, and income could be used to fund education loans.

On May 9, 2007, the Board passed a resolution which 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. See Note 2J for more information regarding this scholarship program. The Board then passed a resolution which specified that net rental income (after covering capital maintenance needs) from the Foundation's Yonkers Road rental property less costs associated with administration of this scholarship program be transferred to the Special Scholarship Fund. During the years ended June 30, 2016 and 2015, transfers from the Operating Fund to the Special Scholarship Fund totaled \$72,866 and \$203,033, respectively.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

11. Endowment Funds (Continued)

Investment Return Objectives and Strategies

The Foundation has adopted investment policies for endowment assets that attempt to subject the funds to low investment risk, provide income for future scholarships, and ensure the long-term financial health of the endowment funds. North Carolina College Savings and Investment Program (NCSP) accounts are invested in a fixed price fund with the price per unit set at \$1.00 and unlimited insurance coverage by the National Credit Union Administration.

Spending Policy

Earnings on the Broyhill Family Foundation NCSP account are made available for scholarships as directed by the Broyhill gift instrument.

The Foundation makes annual awards to recipients of the Victor E. Bell, Jr. Scholarship in accordance with policies and procedures approved by the Board of Trustees. These policies and procedures were established considering the expected long-term return on Special Scholarship Fund assets as well as rental income from the Yonkers Road rental property in order to sustain the board-designated endowment fund. Awards are held in NCSP accounts until disbursements are made for the scholarship recipients' college expenses. The first disbursements were made to recipients entering college Fall of 2013.

The Foundation expects the current spending policies to sustain its endowment funds.

The endowment net asset composition by type of fund and changes in endowment assets for the year ended June 30, 2016, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Fund	\$	\$ 3,658	\$ 555,000	\$ 558,658
Board-Designated Endowment Fund	4,251,657			4,251,657
	<u>\$ 4,251,657</u>	<u>\$ 3,658</u>	<u>\$ 555,000</u>	<u>\$ 4,810,315</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets--July 1, 2015	\$ 4,214,147	\$ 3,602	\$ 555,000	\$ 4,772,749
Investment Return:				
Net Investment Income	18,873	7,031		25,904
Education Loan Net Income	4,506			4,506
Board-Directed Transfer	72,866			72,866
Amount Appropriated for Expenditure	<u>(58,735)</u>	<u>(6,975)</u>		<u>(65,710)</u>
Endowment Net Assets--June 30, 2016	<u>\$ 4,251,657</u>	<u>\$ 3,658</u>	<u>\$ 555,000</u>	<u>\$ 4,810,315</u>

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

11. Endowment Funds (Concluded)

Comparative data for the year ended June 30, 2015, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Fund	\$ 4,214,147	\$ 3,602	\$ 555,000	\$ 558,602
Board-Designated Endowment Fund	<u>4,214,147</u>	<u>3,602</u>	<u>555,000</u>	<u>4,772,749</u>
	<u>\$ 4,214,147</u>	<u>\$ 3,602</u>	<u>\$ 555,000</u>	<u>\$ 4,772,749</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets--July 1, 2014	\$ 4,027,595	\$ 3,563	\$ 555,000	\$ 4,586,158
Investment Return:				
Net Investment Income	12,015	7,014		19,029
Education Loan Net Income	6,383			6,383
Board-Directed Transfer	203,033			203,033
Amount Appropriated for Expenditure	<u>(34,879)</u>	<u>(6,975)</u>		<u>(41,854)</u>
Endowment Net Assets--June 30, 2015	<u>\$ 4,214,147</u>	<u>\$ 3,602</u>	<u>\$ 555,000</u>	<u>\$ 4,772,749</u>

12. Investment Expenses

During the years ended June 30, 2016 and 2015, investment expenses of \$2,680 and \$2,545, respectively, were netted against interest income earned on the Foundation's North Carolina College Savings and Investment Program accounts.

13. Unamortized Lease Commission

Unamortized lease commission at June 30, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Lease Commission	\$ 261,691	\$ 261,691
Less Accumulated Amortization	<u>261,691</u>	<u>235,522</u>
Unamortized Lease Commission	<u>\$ 0</u>	<u>\$ 26,169</u>

For the years ended both June 30, 2016 and 2015, amortization expense was \$26,169.

14. Rental Income

The Foundation leases the Yonkers Road building to a tenant under a noncancelable operating lease which commenced on July 15, 2006, and expired June 30, 2016. During the year ended June 30, 2016, rental expenses of \$273,068, including \$110,205 in depreciation expense, were netted against rental income of \$465,760. During the year ended June 30, 2015, rental expenses of \$304,393, including \$144,670 in depreciation expense, were netted against rental income of \$459,003.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

14. Rental Income (Continued)

The Yonkers Road tenant did not exercise their lease renewal option. The Foundation entered into a short-term noncancelable operating lease with the same tenant which commenced on July 1, 2016, and expires on November 30, 2016.

Future minimum rentals under this lease at June 30, 2016, not including a one-month renewal option, are:

Fiscal Year Ending <u>June 30</u> 2017	\$ <u>197,047</u>
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15. Staff Retirement Benefits

The Foundation established a contributory pension plan, effective July 1, 1968, funded through individual annuity contracts with Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF). The plan rules have been modified from time to time. Since November 16, 1977, employees may elect to make their contributions to this plan through salary reduction. Since July 1, 1989, for employees who have attained age 21 and have completed two years of employment, participation is mandatory at a level of at least 2 percent of salary; employees may choose to participate at a higher level. 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. For the years ended June 30, 2016 and 2015, total Foundation matching contributions were \$392,798 and \$371,833, respectively. In both years, some of these matching contributions were allocated to costs capitalized for computer software developed in-house. Total employee contributions to this plan through salary reduction for the two referenced periods amounted to \$738,697 and \$746,344, 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, and asset allocation is directed by the participant. At June 30, 2016 and 2015, the assets and liabilities related to the plan totaled \$119,203 and \$99,852, 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.

At June 30, 2016, future distributions under this deferred compensation arrangement are as follows:

Fiscal Year Ending <u>June 30</u> 2017	\$ <u>14,688</u>
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COLLEGE FOUNDATION, INC.
Notes to Financial Statements
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16. Postretirement Benefits

In addition to providing pension benefits, the Foundation maintains a postretirement benefit plan (welfare benefit plan) for the purpose of reimbursing eligible employees for postretirement medical and dental insurance premiums. Employees who have attained age 60 and completed at least ten years of full-time service may elect to retire and become eligible for postretirement medical and dental insurance premium benefits. An employee with at least ten years of full-time service who was terminated due to a reduction in force may become eligible for postretirement medical and dental insurance premium benefits upon turning 60 years old if he/she executes a severance agreement with the Foundation.

The Foundation made a change to its postretirement benefit plan in July 2012. Eligible employees who retired prior to July 1, 2014 could continue to receive benefits under the defined benefit approach as outlined below. Eligible employees retiring on or after July 1, 2014 are provided benefits under a defined contribution approach also as outlined below.

In conjunction with these changes, 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 eligible employee (current employee with at least one year of full-time service) as of June 30, 2012. At the end of each plan year (June 30) thereafter, an account is created for any newly eligible employee. A separate general account was created to fund the obligation related to those who retired prior to July 1, 2014. The Foundation may, at its discretion, contribute to the VEBA Trust from time to time.

At the same time, the Foundation also created unfunded Notional accounts effective July 1, 2012 for all current employees with at least one year of full-time service as of June 30, 2012. 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 may be composed of an unfunded Notional account and a funded VEBA Trust account. As of June 30, 2016 and 2015, there were no unfunded Notional accounts.

Benefits for Pre-July 1, 2014 Retirees

Eligible employees who retired prior to July 1, 2014 are 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.

<u>Years of Service</u>	<u>Percentage of Premiums</u>
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.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

16. Postretirement Benefits (Continued)

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 eligible retirees.

The Foundation recognizes the funded status of the defined benefit portion of its postretirement benefit 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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Change in Benefit Obligation:		
Benefit Obligation at End of Prior Plan Year	\$ (1,047,255)	\$ (904,308)
Interest Cost	(43,931)	(36,775)
Amendments	0	0
Actuarial Gain (Loss)	(48,590)	(151,109)
Actual Distributions	<u>44,622</u>	<u>44,937</u>
Benefit Obligation at End of Year	\$ <u>(1,095,154)</u>	\$ <u>(1,047,255)</u>
Change in Plan Assets:		
Plan Assets at Fair Value at Beginning of Year	\$ 1,730,436	\$ 1,726,615
Actual Return on Plan Assets	38,519	35,341
Acquisition/Transfers In	0	0
Actual Employer Contributions	16,229	13,417
Other	0	0
Actual Distributions	<u>(44,622)</u>	<u>(44,937)</u>
Plan Assets at Fair Value at End of Year	\$ <u>1,740,562</u>	\$ <u>1,730,436</u>
Funded Status = Net Asset / (Liability) at End of Year	\$ <u>645,408</u>	\$ <u>683,181</u>
Amounts Recognized in Statement of Financial Position:		
Non-Current Assets	\$ 645,408	\$ 683,181
Non-Current Liabilities	<u>0</u>	<u>0</u>
Net Amount Recognized	645,408	683,181
(Accrued) / Prepaid Cost (pre-Statement of Financial Position Item)	<u>2,512,142</u>	<u>2,512,142</u>
Net Adjustment to Unrestricted Net Assets	\$ <u>(1,866,734)</u>	\$ <u>(1,828,961)</u>
Amounts Recognized in Unrestricted Net Assets:		
Unrecognized Net (Gain) / Loss	\$ <u>1,866,734</u>	\$ <u>1,828,961</u>
(Accrued) / Prepaid Cost, pre-Statement of Financial Position Item:		
(Accrued) / Prepaid Cost at Beginning of Fiscal Year	\$ 2,512,142	\$ 2,512,142
Net Periodic Postretirement Benefit (Cost) / Income	(16,229)	(13,417)
Actual Employer Contributions	16,229	13,417
Transfers In	<u>0</u>	<u>0</u>
(Accrued) / Prepaid Cost at End of Fiscal Year	\$ <u>2,512,142</u>	\$ <u>2,512,142</u>
Net Periodic Postretirement Benefit Cost / (Income):		
Interest Cost	43,931	36,775
Expected Return on Plan Assets	(119,902)	(120,863)
Amortization of Net (Gain) / Loss	<u>92,200</u>	<u>97,505</u>
Net Periodic Postretirement Benefit Cost / (Income)	\$ <u>16,229</u>	\$ <u>13,417</u>

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
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16. Postretirement Benefits (Continued)

	<u>2016</u>	<u>2015</u>
Other Changes in Plan Assets and Benefit Obligations		
Recognized in Statement of Activities:		
Net (Gain) / Loss	\$ 129,973	\$ 236,631
Amortization of Net Gain / (Loss)	<u>(92,200)</u>	<u>(97,505)</u>
Total Recognized in Unrestricted Net Assets	37,773	139,126
Net Periodic Postretirement Benefit Cost / (Income)	<u>16,229</u>	<u>13,417</u>
 Total Recognized in Statement of Activities	 <u>\$ 54,002</u>	 <u>\$ 152,543</u>
Reconciliation of Minimum Statement of Financial Position Liability:		
Statement of Financial Position Liability at Beginning of Year	\$ 683,181	\$ 822,307
Total NPPBC plus Special Events	(16,229)	(13,417)
Actual Employer Contributions	16,229	13,417
Transfers In	0	0
Statement of Financial Position Adjustment	<u>(37,773)</u>	<u>(139,126)</u>
 Statement of Financial Position Asset / (Liability) at End of Year	 <u>\$ 645,408</u>	 <u>\$ 683,181</u>
Actuarial Assumptions:		
Weighted Average Assumptions:		
Discount Rate--Net Periodic Benefit Cost	4.3%	4.2%
Discount Rate--Benefit Obligation	3.8%	4.3%
Expected Long-Term Rate of Return on Assets	7.0%	7.0%
Assumed Healthcare Cost Trend Rates:		
Healthcare Cost Trend Rate Assumed for Next Year	8%	8.0%
Rate to which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	5%	5.0%
Year that the Rate reaches the Ultimate Trend	2022	2021

College Foundation, Inc.'s overall expected long-term rate of return is based on the expected overall asset allocation. The return assumptions for each asset class are determined based upon current market conditions, including but not limited to, current market valuations, yield, inflation, and various economic indicators, and the final rate is determined as a weighted average and rounded to the next multiple of 25 basis points.

The Foundation expects to contribute at least \$20,000 in postretirement benefits during the fiscal year ending June 30, 2017.

The estimated interest cost, expected return on assets, and net loss that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are as follows:

Interest Cost	\$ 37,076
Expected Return on Plan Assets	(112,298)
Amortization of Net Loss	<u>95,263</u>
	<u>\$ 20,041</u>

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

<u>Fiscal Year Ending</u> <u>June 30</u>	
2017	\$ 48,000
2018	51,000
2019	53,000
2020	56,000
2021	58,000
2022-2026	313,000

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
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16. Postretirement Benefits (Continued)

Benefits for Post-June 30, 2014 Retirees

Eligible employees who retire after June 30, 2014 are eligible to receive reimbursement of medical and dental insurance premiums from their own individual VEBA Trust Account.

During the year ended June 30, 2015, the Foundation contributed \$17,668 to the VEBA Trust to fund postretirement benefits for those eligible employees outside of the defined benefit portion of its postretirement benefit plan.

VEBA Investments

The VEBA Trust's primary investment objective is protection of capital and long-term rates of return by investing in a prudent manner and avoiding high-risk investments. The Foundation's plan asset allocation strategy provides for diversification in both fixed income and equity securities so as to provide a balance to the investment portfolio, thereby avoiding undue risk concentration in any single asset class or investment category. The Foundation's Employee Benefit Plans Investment Oversight Committee has the authority to make adjustments to the asset allocations in order to maintain target allocations in the VEBA Trust and to make any permanent changes in policy.

At June 30, 2016 and 2015, the target and current plan asset allocations were as follows:

	2016			2015		
	Target	Ranges	Actual	Target	Ranges	Actual
Cash and Cash Equivalents	3%	2-20%	3.0%	3%	2-20%	3.2%
Debt Securities:						
Government Bonds	25%	15-75%	24.9%	25%	15-75%	25.3%
Corporate Bonds	26%	25-35%	26.1%	26%	25-35%	26.0%
Inflation Protected Bonds	11%	5-35%	11.2%	11%	5-35%	10.9%
Equity Securities:						
Large Blend	4%	2-15%	3.8%	4%	2-15%	4.0%
Large Growth	8%	5-25%	7.3%	8%	5-25%	7.9%
Large Value	8%	5-25%	8.6%	8%	5-25%	7.9%
Moderate Allocation	10%	5-20%	10.3%	10%	5-20%	9.9%
International	5%	0-10%	4.8%	5%	0-10%	4.9%

Plan assets held in the VEBA Trust are measured at fair value, based on quoted market prices when available. The fair value hierarchy for inputs used in measuring fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The hierarchy is broken down into three levels. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

16. Postretirement Benefits (Continued)

At June 30, 2016 and 2015, plan assets held in the VEBA Trust measured at fair value on a recurring basis, all at Level 1 in the fair value hierarchy, were as follows:

	2016	2015
Cash and Cash Equivalents	\$ 250,261	\$ 261,632
Mutual Funds:		
Government Debt Securities	2,091,578	2,095,214
Corporate Debt Securities	2,195,609	2,153,330
Inflation Protected Debt Securities	939,916	903,693
Large Blend Equity Securities	317,331	328,723
Large Growth Equity Securities	611,036	653,097
Large Value Equity Securities	720,670	655,293
Moderate Allocation Equity Securities	869,089	823,402
International Equity Securities	400,956	404,876
	<u>\$ 8,396,446</u>	<u>\$ 8,279,260</u>

Prescription Drug Benefits

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 benefit plan are at least actuarially equivalent to the prescription drug benefits offered under Medicare Part D and has not applied for the subsidy under the Act.

17. Property Protection and Liability Insurance

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

18. Executives and Trustees' Liability and Life Insurance

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

The Foundation is also owner and beneficiary of life insurance policies, totaling \$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, 2016 and 2015 totaled \$11,846 and \$11,673, respectively.

19. Marketing and Advertising

The Foundation uses marketing and advertising to promote the various programs it services. The costs of marketing and advertising are expensed as incurred. During the years ended June 30, 2016 and 2015, marketing and advertising costs totaled \$1,809,657 and \$2,083,411, respectively.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

20. Functional Expenses

At June 30, 2016 and 2015, expenses on the Statements of Activities can be classified into the following functional expense categories:

	2016	2015
Program Services	\$ 23,396,290	\$ 23,996,729
Management and General	1,595,398	1,542,945
	\$ 24,991,688	\$ 25,539,674

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

21. Agency Funds

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 education loans to be "assigned" to the funding bank, making it the legal "holder." Under the terms of the Servicing Agreements, the Foundation promptly remits to the banks all principal and interest payments collected from borrowers. Upon the receipt of the net interest subsidy and special allowance payments from the U.S. Department of Education each quarter, the Foundation deducts its service fee provided for in the Servicing Agreements and promptly remits the remainder to each bank or submits a billing to each bank.

In July 1991, the Foundation entered into the first Special Fund Purchase Agreement which provided for education loans to be "assigned" to a Special Fund participant, making it the legal "holder." Under the Servicing Agreement executed, the Foundation, as agent for the funds provider, collects the loans and remits to the Special Fund participant all principal and interest payments collected from borrowers. The Foundation submits a quarterly report to the U.S. Department of Education, promptly processes net interest and special allowance, and notifies the Special Fund participant of the amount due from or due to the Foundation. The Foundation either deducts its service fee from borrower interest collections or submits a billing to the participant for the service fee due for the quarter.

In addition to serving as agent for the Special Fund and bank participants with respect to assigned loans, the Foundation services education loans funded 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 promptly processes net U.S. Department of Education interest subsidy and special allowance each quarter and notifies the N.C. State Education Assistance Authority or its designated trustee of the amount due from or due to the Foundation. The Foundation also submits a billing quarterly to the N.C. State Education Assistance Authority or its designated trustee for the service fees on these loans.

The assets and liabilities attributable to these loan funds and to the grant, scholarship, and college savings and investment programs that the Foundation administers for the N.C. State Education Assistance Authority, as outlined in Note 2, are reflected in Schedules 4 and 5.

COLLEGE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2016 and 2015

22. Concentration of Credit Risk

The Foundation maintains cash balances and invests in certificates of deposit at financial institutions located in North Carolina. The aggregate balance at each financial institution was insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016 and 2015, the Foundation's uninsured cash balances totaled \$21,765,020 and \$19,546,756, respectively. This amount is derived per a review of bank account balances and not the Foundation's "book" balances as of June 30, 2016 and 2015.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COLLEGE FOUNDATION, INC.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Program Title	Federal CFDA Number	Interest	Special Allowance
<u>U. S. Department of Education--Direct Program</u>			
Federal Family Education Loan Program (Lenders)	84.032L	\$ 7,106,697	\$ 1,207,389
Less amounts received by the Foundation as an agent for other funds providers		<u>7,102,775</u>	<u>1,206,220</u>
Net Federal Family Education Loan Program		<u>3,922</u>	<u>1,169</u>
<u>Student Financial Assistance Cluster--Other</u>			
U.S. Department of Education:			
Federal Supplemental Educational Opportunity Grants	84.007		
Federal Work-Study Program	84.033		
Federal Perkins Loan Program	84.038		
Federal Pell Grant Program	84.063		
Federal Direct Student Loans	84.268		
Teacher Education Assistance for College and Higher Education Grants	84.379		
TOTALS		\$ <u>3,922</u>	\$ <u>1,169</u>

The accompanying notes are an integral part of this schedule.

<u>Outstanding Loan Balances at July 1, 2015</u>	<u>Total Federal Expenditures</u>
\$ 1,911,364,985	\$ 1,919,679,071
<u>1,910,450,578</u>	<u>1,918,759,573</u>
<u>914,407</u>	<u>919,498</u>
<u>914,407</u>	<u>919,498</u>
<u>\$ 914,407</u>	<u>\$ 919,498</u>

COLLEGE FOUNDATION, INC.
Notes to Schedule of Expenditures of Federal Awards
June 30, 2016

1. Basis of Accounting and Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of College Foundation, Inc. (the Foundation) under programs of the federal government for the year ended June 30, 2016 and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, change in net assets, or cash flows of the Foundation.

2. Federal Family Education Loan Program

As of July 1, 2010, no new loans could be originated under the Federal Family Education Loan Program (FFELP). This program is administered directly by the Foundation, and balances and transactions relating to this program are included in the Foundation's basic financial statements and schedule of agency funds. Loans outstanding at the beginning of the year are included in the federal expenditures presented in the Schedule. At June 30, 2016, the balance of FFELP loans serviced by the Foundation totaled \$1,688,904,540, which included \$803,066 owned by the Foundation. At June 30, 2016, interest and special allowance due to the Foundation from the U.S. Department of Education for FFELP loans serviced by the Foundation totaled \$2,022,183, which included \$1,336 related to loans owned by the Foundation.

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, 2016, excess borrower interest remitted to the U.S. Department of Education totaled \$49,446,214, which included \$18,969 related to loans owned by the Foundation. At June 30, 2016, excess borrower interest due to the U.S. Department of Education for FFELP loans serviced by the Foundation totaled \$11,425,056, which included \$4,228 related to loans owned by the Foundation.

3. Student Financial Assistance – Verification and C Code Resolution Services

During the year ended June 30, 2016, the Foundation provided verification of certain Free Application for Federal Student Aid (FAFSA) data elements and C Code resolution services as required by the U.S. Department of Education to assist financial aid offices at schools in and outside North Carolina. These services were performed by the Foundation on behalf of the N.C State Education Assistance Authority for the North Carolina schools. The Foundation receives no federal monies for these services, either directly or as a subrecipient.

COMPLIANCE AND INTERNAL CONTROL REPORTS



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

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of College Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered College Foundation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether College Foundation, Inc.'s financial statements are free from 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*.

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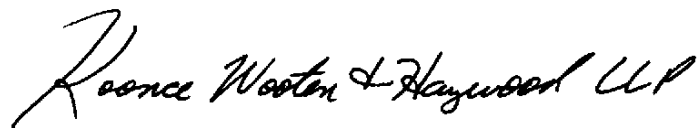
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rance Wooten & Haywood LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
September 28, 2016



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited College Foundation, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of College Foundation, Inc.'s major federal programs for the year ended June 30, 2016. College Foundation, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of College Foundation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 a 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 on compliance for each major federal program. However, our audit does not provide a legal determination of College Foundation, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, College Foundation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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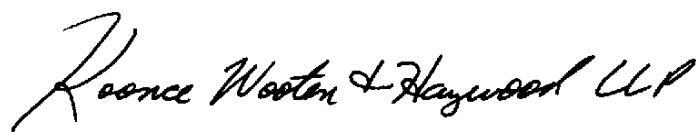
Report on Internal Control over Compliance

Management of College Foundation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered College Foundation, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rance Wooten & Haywood LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
September 28, 2016

COLLEGE FOUNDATION, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

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 auditor's report issued on compliance for each major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.032L	Federal Family Education Loan Program (Lenders)
SFAC	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

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 Federal awards required to be reported under 2 CFR Section 200.516(a).