

KnowledgeWorks Foundation

Consolidated Financial Statements and
Supplemental Schedules as of and for the
Years Ended June 30, 2009 and 2008, and
Independent Auditors' Report

KNOWLEDGEWORKS FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
KnowledgeWorks Foundation:

We have audited the accompanying consolidated statements of financial position of KnowledgeWorks Foundation and subsidiaries (the "Foundation") as of June 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating schedules on pages 22–25 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the Foundation's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

October 29, 2009

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 17,863,552	\$ 20,897,177
INTEREST RECEIVABLE:		
Investments	35,858	100,273
Student loans	7,753,566	7,841,311
GRANTS RECEIVABLE	2,526,644	6,091,812
INVESTMENTS — At fair value	99,371,378	143,001,809
RESTRICTED CASH AND INVESTMENTS	51,181,626	61,222,704
STUDENT LOANS HELD FOR SALE	26,586,743	
STUDENT LOANS RECEIVABLE — Net of allowance of approximately \$1.1 million in 2009 and \$775,000 in 2008	468,783,199	497,908,181
DEFERRED FINANCING COSTS — Net	2,616,396	3,237,538
OTHER	278,644	860,821
PROPERTY AND EQUIPMENT — Net	<u>1,291,119</u>	<u>1,737,654</u>
TOTAL	<u>\$ 678,288,725</u>	<u>\$ 742,899,280</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 7,875,390	\$ 6,633,687
INTEREST PAYABLE	534,801	1,491,037
INTEREST RATE SWAP AGREEMENT	3,031,813	1,913,229
BORROWINGS UNDER LINE OF CREDIT	1,648,712	170,589
BORROWINGS UNDER FEDERAL PARTICIPATION PROGRAM	25,309,678	
ARBITRAGE REBATE LIABILITY	2,558,237	2,744,173
BONDS AND NOTES PAYABLE	520,400,000	557,000,000
COMMITMENTS AND CONTINGENCIES		
Total liabilities	<u>561,358,631</u>	<u>569,952,715</u>
UNRESTRICTED NET ASSETS	109,739,328	162,691,461
TEMPORARILY RESTRICTED NET ASSETS	<u>7,190,766</u>	<u>10,255,104</u>
Total net assets	<u>116,930,094</u>	<u>172,946,565</u>
TOTAL	<u>\$ 678,288,725</u>	<u>\$ 742,899,280</u>

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES:						
Income from investments	\$ 1,550,832	\$ 106,468	\$ 1,657,300	\$ 10,379,776	\$ 277,598	\$ 10,657,374
Interest and fees on student loans receivable — net	16,638,011		16,638,011	21,715,054		21,715,054
Grant revenue	152,221	5,697,465	5,849,686	425,806	5,253,400	5,679,206
Contract service revenue	319,354		319,354	266,930		266,930
Unrealized and realized losses on investment securities — net	(33,487,773)		(33,487,773)	(18,823,717)		(18,823,717)
Net assets released from restriction	8,868,271	(8,868,271)	-	8,350,657	(8,350,657)	-
Total revenues	(5,959,084)	(3,064,338)	(9,023,422)	22,314,506	(2,819,659)	19,494,847
COST OF DEBT:						
Interest expense	16,235,545		16,235,545	28,326,247		28,326,247
Amortization of deferred costs	621,143		621,143	85,080		85,080
Other debt-related costs	14,243		14,243	27,346		27,346
Remarketing expenses	204,803		204,803	617,605		617,605
Total cost of debt	17,075,734	-	17,075,734	29,056,278	-	29,056,278
Net expense after cost of debt	(23,034,818)	(3,064,338)	(26,099,156)	(6,741,772)	(2,819,659)	(9,561,431)
PROVISION FOR STUDENT LOAN LOSS	(642,493)		(642,493)	(222,000)		(222,000)
UNREALIZED LOSS ON INTEREST RATE SWAP	(1,118,584)		(1,118,584)	(2,399,425)		(2,399,425)
PROGRAM AND SUPPORTING EXPENSES — Program services:						
High school redesign	9,020,486		9,020,486	9,512,177		9,512,177
New technology network	2,859,703		2,859,703	119,874		119,874
Strive	1,955,522		1,955,522	1,127,951		1,127,951
College access and success	332,536		332,536	1,646,490		1,646,490
Grantmaking	282,616		282,616	847,838		847,838
Institute for creative collaboration	989,390		989,390	446,326		446,326
Strategic advancement	1,325,227		1,325,227	2,654,797		2,654,797
Education policy institute	1,794,841		1,794,841	2,692,277		2,692,277
Student loan programs	4,518,649		4,518,649	4,906,617		4,906,617
General and administrative	5,077,268		5,077,268	6,147,765		6,147,765
Total program and supporting expenses	28,156,238	-	28,156,238	30,102,112	-	30,102,112
DECREASE IN NET ASSETS	(52,952,133)	(3,064,338)	(56,016,471)	(39,465,309)	(2,819,659)	(42,284,968)
NET ASSETS — Beginning of year	162,691,461	10,255,104	172,946,565	202,156,770	13,074,763	215,231,533
NET ASSETS — End of year	\$ 109,739,328	\$ 7,190,766	\$ 116,930,094	\$ 162,691,461	\$ 10,255,104	\$ 172,946,565

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2009

	High School Redesign	New Technology Network	Strive	College Access & Success	Grantmaking	Institute for Creative Collaboration	Strategic Advancement	Education Policy Institute	Student Loan Programs	Total Program Expenses	General and Administrative	Total Program and Supporting Expenses
Salaries and benefits	\$ 1,630,062	\$ 414,407	\$ 693,007	\$ 46,527	\$ 63,930	\$ 451,551	\$ 623,237	\$ 633,802	\$ 64,648	\$ 4,621,171	\$ 2,305,999	\$ 6,927,170
Grants made to other entities	1,221,000	2,008,200	703,490	212,000	196,957		10,000	90,250		4,441,897	4,905	4,446,802
Professional fees	3,318,134	204,169	319,684	52,737		258,542	293,679	713,208	2,498,410	7,658,563	657,552	8,316,115
Legal expense	7,200	5,161	14,063			4,782		1,003	35,939	68,148	151,621	219,769
Evaluation	423,592		5,950					23,800		453,342		453,342
Communications	12,937	19,500	24,186		17,799	57	188,948	108,385		371,812	39,162	410,974
Accounting/auditing fees									45,847	45,847	149,652	195,499
Travel	941,626	196,052	36,100	19,975	1,528	104,136	114,562	87,798	2,491	1,504,268	137,832	1,642,100
Industry conferences	358,422		2,009			1,690	4,588	5,644		372,353	11,524	383,877
Business meetings	753,827	10,934	26,940	57	924	82,533	10,178	38,652	4,113	928,158	38,097	966,255
Office administration	183,598		86,749			65,054		45,652		381,053	459,499	840,552
Telephone	8,498		629				202	1,565		10,894	68,943	79,837
Insurance										-	81,326	81,326
Technology support								80		80	132,467	132,547
Internet and network	15,833	302	1,664			509	2,282	8,675		29,265	78,189	107,454
Equipment leasing	14,374		9,600			7,200		3,128	12,545	46,847	34,844	81,691
Office supplies	13,542	269	16,284		371	2,917	2,939	6,991	1,118	44,431	81,906	126,337
Postage and delivery	11,370	567	1,143	469	32	7,128	12,815	2,368	507	36,399	15,158	51,557
Printing and copying	8,345	8	1,934			40	29,714	110	3,663	43,814	16,495	60,309
Depreciation	34,533								61,722	96,255	499,980	596,235
Training and development materials	59,068		2,097				70			61,235	10,702	71,937
Recruiting	1,806		60							1,866	542	2,408
Temporary help			8,477			1,770	28,394	10,986		49,627	2,684	52,311
Art program					1,075					1,075		1,075
Subscriptions	1,930	96	955	104		957	3,404	12,534		19,980	10,371	30,351
Dues and memberships	399	30	310			524	190	110		1,563	78,752	80,315
Other	390	8	191	667			25	100		1,381	9,066	10,447
Loan servicing fees									888,909	888,909		888,909
Trustee and admin fees									63,856	63,856		63,856
Marketing, business development and other									834,881	834,881		834,881
TOTAL PROGRAM AND SUPPORTING EXPENSES	\$ 9,020,486	\$ 2,859,703	\$ 1,955,522	\$ 332,536	\$ 282,616	\$ 989,390	\$ 1,325,227	\$ 1,794,841	\$ 4,518,649	\$ 23,078,970	\$ 5,077,268	\$ 28,156,238

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2008

	High School Redesign	New Technology Network	Strive	College Access & Success	Grantmaking	Institute for Creative Collaboration	Strategic Advancement	Education Policy Institute	Student Loan Programs	Total Program Expenses	General and Administrative	Total Program and Supporting Expenses
Salaries and benefits	\$ 1,789,666	\$ 43,712	\$ 704,405	\$ 256,707	\$ 175,353	\$ 179,467	\$ 913,941	\$ 885,486	\$ 83,841	\$ 5,032,578	\$ 2,719,541	\$ 7,752,119
Grants made to other entities	1,715,268		101,500	986,500	581,138		122,272	255,000		3,761,678	5,775	3,767,453
Professional fees	3,091,857	13,912	69,018	249,925	1,340	133,420	1,056,227	842,370	1,933,447	7,391,516	804,691	8,196,207
Legal expense	48,692	17,177	12,859	37,628		5,080	116	2,352	33,550	157,454	160,402	317,856
Evaluation	256,825		16,518							273,343		273,343
Communications	58,841		60,837		8,560	803	43,838	179,323		352,202	82,425	434,627
Accounting/auditing fees	12,457								43,068	55,525	167,827	223,352
Travel	966,809	44,130	28,622	89,357	10,571	71,342	314,239	158,207	2,067	1,685,344	250,194	1,935,538
Industry conferences	339,321		5,120	575	238	12,806	3,439	109,638		471,137	40,615	511,752
Business meetings	857,944	899	19,856	17,912	57,561	23,349	95,528	191,588	6,185	1,270,822	83,568	1,354,390
Office administration	188,186		90,594			10,947		22,860		312,587	433,826	746,413
Telephone	963				39			2,160		3,162	77,238	80,400
Insurance	459							106		565	81,715	82,280
Technology support								380		380	122,605	122,985
Internet and network	4,905		1,457			585	1,479	1,006		9,432	84,236	93,668
Equipment leasing	17,919		9,263			1,264		990	40,785	70,221	43,196	113,417
Office supplies	23,090		2,552	502	653	378	5,196	4,492	5,304	42,167	121,124	163,291
Postage and delivery	11,342	44	354	2,309	81	564	12,797	10,471	2,030	39,992	26,860	66,852
Printing and copying	6,245		50			166	34,411	1,547	3,422	45,841	15,502	61,343
Depreciation	10,451								99,610	110,061	614,761	724,822
Training and development materials	91,938		3,413		300			3,472		99,123	37,676	136,799
Recruiting	8,215									8,215	5,172	13,387
Temporary help	5,383					6,155	47,360	11,661		70,559	19,779	90,338
Art program					11,704					11,704		11,704
Subscriptions	3,067		279	74			2,854	7,920		14,194	17,869	32,063
Dues and memberships	634		920	15			880	1,155		3,604	95,431	99,035
Other	1,700		334	4,986	300		220	93		7,633	35,737	43,370
Loan servicing fees									922,124	922,124		922,124
Trustee and admin fees									28,255	28,255		28,255
Marketing, business development and other									1,702,929	1,702,929		1,702,929
TOTAL PROGRAM AND SUPPORTING EXPENSES	\$ 9,512,177	\$ 119,874	\$ 1,127,951	\$ 1,646,490	\$ 847,838	\$ 446,326	\$ 2,654,797	\$ 2,692,277	\$ 4,906,617	\$ 23,954,347	\$ 6,147,765	\$ 30,102,112

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (56,016,471)	\$ (42,284,968)
Adjustments to reconcile change in net assets to net cash flows used in operating activities:		
Depreciation and amortization	3,369,716	2,602,463
Unrealized and realized losses on investment securities — net	33,487,773	18,823,717
Provision for student loan loss	642,493	222,000
Unrealized loss on interest rate swap	1,118,584	2,399,425
Change in arbitrage rebate liability	(185,936)	(2,231,481)
Student loans originated for sale — net of repayments	(26,586,743)	
Change in operating assets and liabilities:		
Grants receivable	3,565,168	5,563,877
Interest receivable	152,160	(2,057,690)
Other assets	582,177	(365,120)
Interest payable	(956,236)	(225,502)
Accounts payable and accrued expenses	<u>1,241,703</u>	<u>664,867</u>
Net cash used in operating activities	<u>(39,585,612)</u>	<u>(16,888,412)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition/origination of student loans	(4,248,509)	(194,212,852)
Principal repayments on student loans	30,578,659	34,717,244
Purchases of fixed assets	(149,700)	(564,941)
Purchases of investments	(43,571,269)	(53,509,483)
Proceeds from maturities and sales of investments	53,713,927	41,851,932
Investments in restricted cash and investments	(35,059,645)	(33,345,000)
Withdrawals of restricted cash and investments	<u>45,100,723</u>	<u>198,443,692</u>
Net cash provided by (used in) investing activities	<u>46,364,186</u>	<u>(6,619,408)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of bonds and notes payable		
Principal repayments on bonds and notes payable	(36,600,000)	
Borrowings under federal participation program	25,309,678	
Borrowings on line of credit	44,138,737	31,471,497
Principal repayments on line of credit	(42,660,614)	(31,886,463)
Financing costs deferred		<u>(353,319)</u>
Net cash used in financing activities	<u>(9,812,199)</u>	<u>(768,285)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,033,625)	(24,276,105)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>20,897,177</u>	<u>45,173,282</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 17,863,552</u>	<u>\$ 20,897,177</u>
SUPPLEMENTAL DISCLOSURE — Interest paid	<u>\$ 17,191,781</u>	<u>\$ 28,551,749</u>

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations — KnowledgeWorks Foundation (the “Foundation”) engages in two primary lines of business, including the development and implementation of innovative and effective approaches to high school education in the United States (“Program Operations”), and student loan activities, which seeks to provide students and families with low-cost student loans and financial outreach.

Basis of Presentation — The consolidated financial statements include the accounts of the Foundation and all entities that are controlled by the Foundation and in which the Foundation has an economic interest. These entities include (1) the Foundation, KnowledgeWorks Intermediary, LLC; EdWorks, LLC and Strive, LLC, which conduct the Foundation’s program operating activities; (2) KWI, which manages the Foundation’s investment portfolio; and (3) KWSL, LLC; Student LendingWorks, Inc.; and KnowledgeFunding Ohio, Inc.; (KFO), which conduct the Foundation’s student loan activities. KWSL, LLC is an Ohio limited liability company created to manage the Foundation’s student loan activities (including a portfolio of student loans originated under the Federal Family Education Loan Program (FFELP) and a private education loan program (“National Program”)); Student LendingWorks, Inc. is an Ohio nonprofit organization that originates federally guaranteed student loans; and KFO is an Ohio nonprofit organization designated as the state of Ohio’s sole issuer of qualified scholarship bonds. All intercompany transactions and balances have been eliminated.

2. SUMMARY OF ACCOUNTING POLICIES

Cash and Cash Equivalents — Cash and cash equivalents consist of cash in checking and money market accounts. At times, cash and money market balances may be in excess of the insurance coverage provided by the Federal Deposit Insurance Corporation.

Investments — Investments primarily consisting of equity securities and mutual funds are carried at current fair values based upon quoted market prices. Investments also include certain nonregistered funds which are carried at current fair value based on information provided by the fund managers. Unrealized gains and losses resulting from changes in fair values are recognized in the consolidated statements of activities. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Restricted Cash and Investments — Restricted cash and investments represent demand deposits bearing interest at a variable rate. Such deposits are primarily restricted to funding the acquisition or origination of student loans. Also included in restricted cash and investments is the escrow fund established to provide further security for the payment of principal and interest on the tax-exempt bonds issued by KFO (see Note 6 for discussion of the escrow account).

Deposit and Investment Policies — KFO is restricted to investing its excess cash in eligible investments, as defined in the bond indenture and approved by the rating agencies.

Student Loans Receivable — Student loans are reported in the statements of financial position at their unpaid principal balances plus unamortized loan origination costs and loan acquisition premiums. Costs related to loan originations and premiums related to loan purchases are deferred and recognized over the life of the loan as an adjustment to yield using the effective yield method. The reported value of student loans is also decreased by an allowance for loan losses to reflect probable loan losses.

Student loan income is recognized on the accrual basis, including adjustments for the amortization of costs of loan origination and purchases.

Probable losses on student loan receivables can result from deficient servicing, risk sharing on defaults, and on uninsured loans. The allowance for loan losses is based upon the Foundation's ongoing evaluation of the loan portfolios, past and anticipated loss experience, and the amount and quality of the loans. The allowance is maintained at a level that the Foundation believes is adequate to absorb probable losses, but the evaluation is inherently subjective and the required allowance may significantly change in the future.

Student Loans Held for Sale — Student loans held for sale are reported in the consolidated statements of financial position at the lower of unpaid principal balances or fair value. These loans were sold to the U.S. Department of Education subsequent to June 30, 2009, at a statutory purchase price that exceeds their carrying value.

Deferred Financing Costs — Financing costs, comprised of underwriting fees, legal expenses, and other costs related to debt financings, have been deferred and are being amortized over the life of the related debt using a method which approximates the level-yield method.

Arbitrage Rebate Liability — In accordance with provisions of the Internal Revenue Code (IRC) and related regulations, retainable interest income from investments related to proceeds from tax-exempt bonds is limited to the bond yield of the related bond issue. Similarly, student loan income on all tax-exempt bond issues, which may be retained by KFO, is limited to the bond yield plus debt issue costs, loan acquisition costs, certain administrative expenses, and an allowable spread. Reserves are maintained for estimated liabilities with respect to future payments of excess student loan and investment income above the retainable amount. Payments of the nonretainable ("excess interest") investment or student loan income are required to be made to the federal government on a periodic basis generally every five years and at final maturity of the related bond issue. Included in income from investments on the consolidated statements of activities is \$186,000 and \$2,231,000 of unrealized income related to the change in the estimated arbitrage rebate liability in 2009 and 2008, respectively.

Interest Rate Swap Agreement — Interest rate swap agreements are derivatives and, as such, are recorded at fair value in the accompanying consolidated statements of financial position. Unrealized changes in the fair value of the interest rate swap agreement are recorded as unrealized losses in the accompanying consolidated statements of activities. Net payments or receipts under the interest rate swap agreement are recorded as adjustments to interest expense (see Note 6 for discussion of interest rate swap agreement).

Depreciation — Depreciation of property and equipment is provided over the estimated useful lives, which range from three to seven years, of the respective assets on a straight-line basis.

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

Revenue Recognition — The Foundation recognizes unconditional promises to give as grant revenue and grants receivable when the promise to give is made by the donor.

Grant-Making Activities — Conditional promises to give are recorded as contributions made in the period that they become unconditional. As of June 30, 2009, the Foundation had made future conditional promises to give \$216,500 to 11 charitable organizations through fiscal year 2011.

Functional Expenses — Costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses; accordingly, certain costs have been allocated among benefited programs and supporting services.

Tax Status — The Foundation and subsidiaries have been recognized as exempt from federal income tax under Section 501(c)(3) of the IRC by the Internal Revenue Service and favorable determination letters have been obtained. The Foundation has also been recognized as public charity as defined in Section 509(a) of the IRC by the Internal Revenue Service. Management believes that the Foundation has been operated consistent with the requirement to retain its tax-exempt status; therefore, no provision for income taxes is reflected in the consolidated financial statements.

Reclassifications — Certain reclassifications have been made to the fiscal year 2008 consolidated financial statements to conform to the fiscal year 2009 presentation.

3. INVESTMENTS

Cost and fair values of investments at June 30, 2009 and 2008, are as follows:

	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stocks	\$ 71,200,529	\$ 892,112	\$ (16,541,793)	\$ 55,550,848
Mutual funds — stocks	17,738,565		(7,087,980)	10,650,585
Hedge and private equity funds	<u>22,178,565</u>	<u>11,465,319</u>	<u>(473,939)</u>	<u>33,169,945</u>
	<u>\$ 111,117,659</u>	<u>\$ 12,357,431</u>	<u>\$ (24,103,712)</u>	<u>\$ 99,371,378</u>
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stocks	\$ 71,789,894	\$ 9,252,329	\$ (11,679,595)	\$ 69,362,628
Mutual funds — stocks	35,757,945	371,168	(2,723,930)	33,405,183
Hedge and private equity funds	<u>26,959,064</u>	<u>15,204,047</u>	<u>(1,929,113)</u>	<u>40,233,998</u>
	<u>\$ 134,506,903</u>	<u>\$ 24,827,544</u>	<u>\$ (16,332,638)</u>	<u>\$ 143,001,809</u>

The Foundation's investments in common stocks and mutual funds are commonly traded in active markets; as such the fair values of these investments are based primarily upon quoted market prices. Hedge and private equity fund values are based upon the per unit value of the fund as reported to the Foundation by the fund manager.

4. STUDENT LOANS RECEIVABLE

Student loans receivable consist primarily of loans made under the FFELP of the Higher Education Act and are carried at their unpaid principal balance, net of an allowance for loan losses, plus unamortized purchase premiums, origination fees, and transfer fees. The Foundation owns, holds, and administers subsidized Federal Stafford loans, unsubsidized Federal Stafford loans, Federal PLUS loans, Federal Supplemental Loans to Students (SLS), and Federal Consolidation Loans.

Whenever the statutory interest rates paid by borrowers on FFELP loans provide less than the prescribed rates of return, as defined by the Higher Education Act, the U.S. Department of Education pays a special allowance payment (SAP), which increases the lender's loan yield by mark-ups ranging from 1.74% to 3.50% per annum on loans first disbursed prior to October 1, 2008, and 1.19% to 2.24% on loans disbursed on or after October 1, 2008, over a base rate tied to either the 91-day Treasury Bill auction yield or the bond equivalent rates of the average three-month Commercial Paper rates ("CP rate") in effect for each of the days in a quarter. For the quarter ended June 30, 2009, the average CP rate in effect was .41%. In addition, the U.S. Department of Education generally pays the stated interest rate on subsidized Federal Stafford Loans while the borrower is in school, grace, or deferment. Whenever the statutory rate paid by borrowers on FFELP loans provide more than the prescribed rate of return, as defined by the Higher Education Act, the lender must repay to the U.S. Department of Education an amount sufficient to reduce the lender's yield to the prescribed rate of return ("negative SAP"). Net SAP (expense) income was approximately \$(5,440,000) and \$3,373,000 during 2009 and 2008, respectively, and is included in the consolidated statements of activities as a component of interest and fees on student loans.

Under the Federal Consolidation Loan Program, eligible borrowers are permitted to consolidate many types of eligible federally guaranteed student loans into a single loan that is federally insured. The lender of Federal Consolidation Loans is required to pay the U.S. Department of Education a monthly fee generally equal to 0.0875% (1.05% per annum) of the monthly ending balance of the sum of the principal and accrued interest of Federal Consolidation Loans held. This fee was approximately \$4,588,000 and \$3,958,000 during 2009 and 2008, respectively, and is included in the consolidated statements of activities as a component of interest and fees on student loans.

Student loan receivables of the Foundation also include certain private education loans that were originated under the Access Loan Program and include Law Access loans, Bar Examination loans, and Private Consolidation loans. Interest rates paid by borrowers of private education loans are based on the 91-day Treasury bill, adjusted quarterly, plus a spread ranging from 3.25% to 3.40%.

A summary of the loan portfolio at June 30, 2009 and 2008, is as follows (amounts in thousands):

	2009	2008
Stafford	\$ 9,741	\$ 8,816
SLS	40	54
PLUS	5,641	5,606
Consolidation	434,289	458,477
Private loans	4,267	7,748
Unamortized loan acquisition and origination costs and borrower benefits	<u>15,872</u>	<u>17,982</u>
	469,850	498,683
Allowance for loan losses	<u>1,067</u>	<u>775</u>
	<u>\$ 468,783</u>	<u>\$ 497,908</u>

Under FFELP, the principal and accrued interest on student loans are guaranteed against default by the borrower. Loans originated prior to October 1, 1993, are 100% guaranteed. Loans originated between October 1, 1993 and June 30, 2006, are 98% guaranteed. Loans made subsequent to June 30, 2006, are 97% guaranteed. As of June 30, 2009, 63% of the FFELP loans were 97% guaranteed, 33% were 98% guaranteed, and 4% were 100% guaranteed. FFELP loans are 100% guaranteed against the death, disability, or bankruptcy of the borrower regardless of the date of origination of the loan, provided that the Foundation has not already started the claims process in which case the guarantee rates revert to those described above. The loans are guaranteed by certain guarantee agencies, which have reinsurance contracts with the U.S. Department of Education. At June 30, 2008, the majority of FFELP student loans are guaranteed by United Student Aid Funds, Inc., the Pennsylvania Higher Education Assistance Authority, Great Lakes Higher Education Guaranty Corporation, American Student Assistance, and EdFund (California). The Private loans are guaranteed by a private insurer at 100% of unpaid principal and interest, however, the insurer of the Private loans filed for Federal Bankruptcy protection on April 17, 2009. At this time, the insurer is not processing or paying claims on defaulted Private loans and it is uncertain as to how much, if any, the insurer will be able to pay subsequent to the bankruptcy proceedings. Management is taking steps to arrange for collection on defaulted Private loans through a third-party collection agent. The extent of future recoveries on Private loans is not known.

Management believes its probable losses with respect to these guaranteed loans will not be material to the consolidated financial statements, and that allowances are adequate, but not excessive, to absorb estimated credit losses associated with the loan portfolio at June 30, 2009 and 2008, respectively.

The Foundation has entered into direct servicing agreements with five loan-servicing agents, including American Education Services, Student Assistance Foundation of Montana (SAF), Great Lakes Educational Loan Services, Xpress Loan Servicing, and ACS, Inc. SAF services approximately 48% of the Foundation's loan portfolio, while the percent serviced by the remaining agents range from 6% to 18% of the portfolio. The Foundation and its servicers must comply with certain provisions of the Higher Education Act of 1965 and its regulations and the various guarantee agency regulations to ensure that the guarantees on the student loans remain in effect.

Based upon the performance and aging of the student loan portfolio, the ability of the loan servicing agents and guarantee agencies to meet their contractual obligations, the terms of the servicing guarantee, and reinsurance agreements of such loans and other pertinent factors, management continually evaluates the need for reserves for uncollectible loans and, as adjustments become necessary, they are recorded in the periods in which they become known.

5. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2009 and 2008, are summarized as follows:

	2009	2008
Furniture and fixtures	\$ 1,465,746	\$ 1,470,856
Computer hardware and software	1,183,118	1,126,069
Equipment	1,022,555	1,002,139
Leasehold improvements	<u>945,011</u>	<u>984,414</u>
	4,616,430	4,583,478
Less accumulated depreciation and amortization	<u>3,325,311</u>	<u>2,845,824</u>
Total property and equipment	<u>\$ 1,291,119</u>	<u>\$ 1,737,654</u>

6. DEBT FINANCINGS

Debt obligations at June 30, 2009 and 2008, are summarized as follows (in thousands):

2009	Interest Rate at June 30	Total Outstanding
Variable rate tax-exempt bonds maturing in fiscal year 2042	0.63%–0.82%	\$ 167,600
Variable rate tax-exempt bonds maturing in fiscal year 2041	0.60–1.10	239,800
Variable rate taxable notes maturing in fiscal year 2047	1.03–1.23	<u>113,000</u>
		<u>\$ 520,400</u>
2008	Interest Rate at June 30	Total Outstanding
Variable rate tax-exempt bonds maturing in fiscal year 2042	2.84%–2.98%	\$ 200,000
Variable rate tax-exempt bonds maturing in fiscal year 2041	2.62–2.90	244,000
Variable rate taxable notes maturing in fiscal year 2047	2.72–2.77	<u>113,000</u>
		<u>\$ 557,000</u>

The respective bond indentures establish the following special trust accounts for each bond series, unless otherwise indicated:

Loan Accounts — The loan accounts are used to account for the proceeds of bond issues not required to be deposited in the debt service reserve accounts. Generally, amounts in the loan accounts may be expended (a) to finance eligible student loans (as defined in the indenture of trust), (b) to pay bond issue costs, and (c) to make deposits to the revenue accounts for the purpose of paying principal and/or interest on the bonds.

Revenue Accounts — The revenue accounts are used to account for all revenues received into the student loan trust accounts. Generally, amounts in the revenue accounts are used (a) to make principal and/or interest payments on the bonds, (b) to fund debt service reserve accounts, (c) to pay estimated program expenses to the operating account, and (d) to reimburse the issuers of insurance guaranteeing the bonds for amounts borrowed under the terms of the policies. Excess amounts in the revenue account may be transferred to the loan accounts or to optional redemption accounts.

Operating Accounts — Amounts deposited in operating accounts are used to pay reasonable and necessary program expenses for the bond issues.

Rebate Accounts — Amounts deposited in the rebate accounts are used to pay the U.S. Treasury amounts required by Section 148 of the IRC (arbitrage rebate liability).

Debt Service Reserve Accounts — The debt service reserve accounts are used by the trustee to pay principle, interest, and any premiums on the bonds when the funds in the loan and/or operating accounts are insufficient.

All bonds summarized in the table above were issued pursuant to a master indenture of trust (the “Indenture”). The Indenture requires that a trustee hold certain assets in trust for the benefit of the bondholders. The assets pledged to the trustee as collateral for the repayment of the bonds consist of student loans, including the related interest income, and restricted cash and investments. All of such assets are included in the accompanying consolidated financial statements. As outlined in the Indenture, the bonds are collateralized by such assets, and the bondholders have no recourse to any assets of the Foundation that are outside of the Indentures, or to KFO, the Foundation’s subsidiary.

Auction agents have been appointed for the variable rate bonds and notes to set rates every 35 days. In addition, the auction agents are responsible for the resale of certain bonds tendered pursuant to the bondholder put options. Interest on the bonds is payable semiannually.

Since February 12, 2008, significant disruptions in the U.S. capital markets have caused the auctions on KFO’s outstanding variable rate bonds to fail. A failed auction occurs when there are insufficient investors to purchase the bonds at auction on a particular day. The Indenture covering the bonds requires that, when a failed auction occurs, the interest rate on the bonds resets to the Maximum Auction Rate equal to 175% of the Bond Market Association Index Rate for tax-exempt bonds. Under the terms of the Indenture, the failed auctions have temporarily restricted KFO’s ability to acquire student loans and to issue additional bonds. Also, the failed auctions have generally caused the interest rates on KFO’s bonds to increase and to significantly narrow its net interest margin on student loans.

The assets held in trust are currently insufficient to satisfy the full repayment of the principal amount of the bonds. Since the collapse of the auction rate securities markets early in 2008, the net cash flows received on the investments held in trust have been insufficient to pay the costs to administer the student loan program and to pay interest on the bonds. This situation has led to an ever widening gap between

the value of the assets held in trust and the principal amount of the related bond obligations. As a result, there is currently substantial doubt about whether the assets in the trust will ultimately be sufficient to satisfy the repayment of principal at the contractual maturity dates. In addition, if the costs to service the interest on the bonds and administer the student loan program continue to exceed the net investment income received by the trustee for the benefit of the bondholders, the cash reserves may be depleted and the contractual interest payments due on the bonds will not be satisfied.

Since the collapse of the auction rate securities markets early in 2008, management has been pursuing opportunities in the capital markets in an attempt to lower the cost of borrowings by refinancing the outstanding obligations. However, it is currently uncertain whether any viable refinancing alternative will emerge from these efforts.

To the extent that the principal balance on the student loan portfolio financed by the variable rate notes is collected at a more rapid rate than debt service requirements, the Foundation must pay down the debt more rapidly. During fiscal year 2009 the Foundation was required to make principal payments totaling \$36.6 million.

In order to provide further security for the payment of principal and interest on the tax-exempt bonds issued by KFO, the Foundation has entered into an Escrow and Pledge Agreement with the bond trustee and the escrow agent. This agreement established an escrow account, which is in custody of the bond trustee, to provide for the payment of debt obligations in the event that funds in tax-exempt bond financing are not sufficient to cover principal and interest payments on the outstanding debt. On December 21, 2005, the Foundation funded the escrow account in the amount of \$7 million. Interest earned on the amounts in the escrow fund is payable to the Foundation.

Student LendingWorks, Inc. maintains a bank line of credit which provides for borrowings up to \$10 million, bearing a variable interest rate based on the lender's prime rate minus 1% (2.25% at June 30, 2009). The line of credit was renewed on September 11, 2009, with amendments to the variable interest rate base which is now based upon 30-day LIBOR and the maturity date which is now tied to specific events that will not extend beyond December 31, 2010. Borrowings at June 30, 2009, totaled \$1.6 million. The Foundation is the guarantor of the Student LendingWorks line of credit.

Borrowings under the federal participation program are secured by the student loans held for sale. The Foundation pays the U.S. Department of Education a facility fee equal to the three-month financial commercial paper, plus .5%. The borrowings under the federal participation program were repaid subsequent to June 30, 2009 (see Note 12).

The Foundation is subject to certain restrictive covenants under the indentures of trust and the line of credit agreements related to the notes and bonds. Among other requirements, the Foundation is required to do all things necessary to perfect their security interest and rights under the guarantee agreements with the guarantee agencies with respect to purchased student loans. As of June 30, 2009 and 2008, management believes the Foundation is in compliance with these requirements. The debt obligations are collateralized by certain of the Foundation's assets held by the trustees under the indentures of trust, primarily comprised at June 30, 2009 and 2008, of student loans receivable of \$480.2 million and \$480.7 million and approximately \$51.2 million and \$61.2 million, respectively, of restricted cash and investments.

At June 30, 2009, the Foundation was a party to an interest rate swap agreement as follows:

Notional Amount	Maturity	Receive	Pay	Fair Value
<u>\$52,253,000</u>	June 15, 2024	One-month LIBOR	5.64 %	<u>\$(3,032,000)</u>

The interest rate swap agreement in effect at June 30, 2009, will amortize down over the life of the agreement to a notional amount of \$3.5 million at the maturity date. The objective of the interest rate swap is to economically manage the interest rate risk associated with certain fixed rate loans that were funded with variable rate borrowings. The interest rate swap is a complex derivative that contains an embedded option which allows the Foundation to further reduce the notional amount of the contract at set dates during the life of the contract.

The fair value of this interest rate swap agreement was recorded as a liability as of June 30, 2009 and 2008, in the accompanying consolidated statements of financial position. The unrealized losses on this interest rate swap agreement have been recorded as unrealized losses on interest rate swaps in the accompanying consolidated statements of activities.

Notional amounts do not quantify credit risk or represent assets or liabilities, but are used in the calculation of cash settlements under the interest rate swap agreements. The counterparty to this interest rate swap agreement is a major financial institution whose creditworthiness is subject to continuing review by management.

7. ARBITRAGE REBATE PAYABLE

In accordance with Section 148 of the IRC of 1986, as amended, and the regulations promulgated thereunder, KFO is required to pay to the United States Treasury certain amounts related to the KFO tax-exempt bond issues. The amount required to be paid represents the excess of amounts earned over the interest cost of the tax-exempt borrowings as defined in the IRC. Excess interest on investments is rebatable every fifth year and when the bonds are retired. Excess interest on student loans is rebatable in the tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. The rebate calculation utilizes various assumptions and allows for the selection of alternative calculation options under the IRC. At June 30, 2009 and 2008, the estimated arbitrage rebate liability is approximately \$2.6 million and \$2.7 million, respectively, which have been provided for in the consolidated statements of financial position. Higher debt costs experienced during fiscal years ended June 30, 2009 and 2008, resulted in respective \$186,000 and \$2,231,000 reductions in the arbitrage rebate accrual. The factors used in determining this estimate are sensitive to change in the future, and the change in estimate may be material to the consolidated financial statements. However, the ultimate amount payable, if any, is dependent on the investment yields and bond rates in the future.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective July 1, 2008, the Foundation adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Instruments*, which provides a framework for fair value measurements. Fair values are generally based upon quoted market prices, where available. In the event that market prices or quotes are not available, fair value is based upon market data and may involve the use of industry experts. Fair value measurements are grouped into a three-level valuation hierarchy. The valuation hierarchy is based on the transparency of inputs to the valuation of the financial instruments as of the valuation date. The three levels are defined as follows:

Level 1 — Inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 — Inputs include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly.

Level 3 — Inputs are unobservable and considered significant to the fair value measurement.

A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used as well as the general classification of such instruments pursuant to the hierarchy.

Common Stocks and Mutual Funds — The Foundation's investments in common stocks and mutual funds are commonly traded in active markets. The fair values of these investments are based primarily on quoted market prices. These investments are classified as Level 1.

Hedge and Private Equity Funds — Hedge and private equity fund values are based upon the per unit value of the fund as reported to the Foundation by the fund manager. These values are compared to the values of similar funds and market indexes. Values are also compared to purchases and sales as reported by the managers. These investments are classified as Level 3.

Interest Rate Swap Agreement — The fair value of the interest rate swap agreement is estimated by management based on information obtained from the counterparty of the amount the Foundation would be required to pay or would receive, as of June 30, 2009 and 2008, in order to terminate the agreement. Due to the significant unobservable inputs used in the valuation, the interest rate swap agreement is classified as Level 3.

The following tables set forth by level within the fair value hierarchy a summary of the Foundation's investments and interest rate swap agreement measured at fair value at June 30, 2009.

	2009			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Common stocks	\$ 55,550,848	\$ -	\$ -	\$ 55,550,848
Mutual funds — stocks	10,650,585			10,650,585
Hedge and private equity funds			33,169,945	33,169,945
	<u>\$ 66,201,433</u>	<u>\$ -</u>	<u>\$ 33,169,945</u>	<u>\$ 99,371,378</u>
Liabilities — interest rate swap agreement	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,031,813)</u>	<u>\$ (3,031,813)</u>

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

	Beginning Balance July 1, 2008	Net Realized and Unrealized Losses Included in Operations	Purchases, Issuances and Settlements — Net	Beginning Balance June 30, 2009
Hedge and private equity funds	\$ 40,233,998	\$ (513,535)	\$ (6,550,518)	\$ 33,169,945
Interest rate swap agreement	(1,913,229)	(1,118,584)		(3,031,813)

Total net realized and unrealized losses recorded in the consolidated statements of activities include \$1.4 million related to Level 3 investments, of which \$3.1 million are net unrealized losses as of June 30, 2009.

FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information for both financial instruments reported in the financial statements and off-balance-sheet financial instruments. The estimated fair value amounts have been determined by management using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash, Cash Equivalents, and Restricted Cash and Investments — Due to their short-term and liquid nature, cash, cash equivalents, and restricted cash and investments have a fair value which approximates their carrying value.

Interest and Grants Receivable — The Foundation's interest and grants receivable, which are primarily short-term in nature, maintain a fair value which approximates their carrying value.

Investments — See above for a detailed description of the fair values of investments, including a comparison of carrying value and fair value and a description of the methods used to arrive at the fair value, by type of investment.

Student Loans Held for Sale — The fair value of student loans held for sale is the principal amount outstanding, as these loans were sold within 90 days subsequent to the balance sheet date.

Student Loans Receivable — Net — Loans are categorized by status (in-school, grace, repayment, and delinquent). The fair value was estimated in 2009 by reference to sale information from the marketplace and by discounting the future cash flows using current rates of return required by investors in similar assets.

Interest Payable, Accounts Payable, and Accrued Expenses — The Foundation's interest payable, accounts payable, and accrued expenses, which are primarily short-term in nature, have a fair value which approximates their carrying value.

Bonds, Notes, and Borrowings Under Line of Credit — The Foundation's bonds, notes, and line of credit consist of variable rate debt. Due to disruptions in the United States capital markets, there is not a current active market for the Foundation's bonds. The estimated fair value of bonds was determined by discounting the cash flows of each separate bond series using current market rates, including a liquidity discount due to the status of the auction rate bond market. Due to the short term nature of the borrowings under the line of credit, the fair value approximates its carrying value.

Borrowings Under Federal Participation Program — The fair value of the borrowings under the federal participation program is the principal amount outstanding, as these obligations will be settled within 90 days subsequent to the balance sheet date.

Interest Rate Swap Agreement — The interest rate swap agreement is a complex financial instrument consisting of both an interest rate swap and an option contract. The fair value is estimated by management based on information obtained from the counterparty.

The following table compares the carrying value to the fair value of the Foundation's financial instruments as of June 30, 2009 and 2008 (in thousands).

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 17,864	\$ 17,864	\$ 20,897	\$ 20,897
Interest and accounts receivable	10,316	10,316	14,033	14,033
Investments	99,371	99,371	143,002	143,002
Restricted cash and investments	51,182	51,182	61,223	61,223
Student loans held for sale	26,587	26,587		
Student loans receivable — net	468,783	399,500	497,908	439,055
Financial liabilities:				
Bonds and notes payable	520,400	439,700	557,000	465,750
Borrowings under line of credit	1,649	1,649	171	171
Borrowings under federal participation program	25,310	25,310		
Interest payable	535	535	1,491	1,491
Interest rate swap agreement	3,032	3,032	1,913	1,913
Accounts payable and accrued expenses	7,875	7,875	6,634	6,634

9. EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) Plan (the “Plan”). The Plan is available to eligible employees, as defined. Employer contributions to the Plan include non-discretionary contributions of 3%, matching contributions of 50% of employee pre-tax deferrals up to a maximum of 4%, and discretionary retirement contributions as determined by the Board of Directors. The Company’s profit sharing and 401(k) expense for the years ended June 30, 2009 and 2008, approximated \$426,000 and \$684,000, respectively.

10. COMMITMENTS AND CONTINGENCIES

The Foundation leases office space and certain equipment under operating lease agreements which expire between June 2013 and December 2014. Net rent expense for the office space and equipment operating leases amounted to approximately \$725,000 and \$668,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

The future minimum lease payments under such leases are as follows (in thousands):

Years Ending June 30

2010	\$ 674
2011	678
2012	677
2013	660
2014	305
Thereafter	

During fiscal year 2007, the Foundation’s Board of Directors approved a \$100 million spending plan for program services, net of grant revenue, over a five-year period beginning in fiscal year 2008. In fiscal year 2009 spending was reduced in response to the decline in the investment portfolio. To the extent that investment related income is less than the spending amount, the spending plan would result in a reduction of unrestricted net assets.

The Foundation has entered into three investment subscription agreements totaling \$3 million. As of June 30, 2009, the Foundation has funded \$2.76 million of these investments. The remaining \$240,000 will be recorded as additional investment securities when funded.

In the normal course of business, the Foundation may become involved in legal proceedings. The Foundation accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. As of June 30, 2009 and 2008, there were no proceedings which required an accrual in the consolidated financial statements.

11. RESTRICTED NET ASSETS

During the years ended June 30, 2009 and 2008, the Foundation received contributions and grants that contained donor-imposed restrictions on the use of the contributed funds. At June 30, 2009 and 2008, the Foundation had temporarily restricted net assets totaling \$7.2 million and \$10.3 million, respectively, restricted for various programs (in thousands):

	2009	2008
High school redesign	\$4,679	\$ 8,884
Strive	1,821	681
College access and success	236	223
Education policy institute	83	434
Institute for creative collaboration	<u>372</u>	<u>33</u>
Total temporarily restricted net assets	<u>\$7,191</u>	<u>\$10,255</u>

12. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through October 29, 2009, the date of issuance, to determine if either recognition or disclosure of significant events or transactions is required. See below for disclosure of such items.

On August 28, 2009, New Technology Foundation and New Technology Fund (“New Technology”), California nonprofit public benefit corporations, became wholly owned subsidiaries of the Foundation. The Foundation is now the sole member of each organization. The New Technology organizations work nationwide with schools, districts, and communities to develop innovative high schools by utilizing real-world projects as the basis for instruction and implementing a 1:1 student-computer ratio. This affiliation will further the Foundation’s goal of improving high school education in the United States.

Since June 30, 2009 and through August 31, 2009, KFO has made principal repayments on bonds outstanding totaling \$17.4 million.

On September 22, 2009, the student loans held for sale, totaling \$26.6 million at year-end, were sold to the U.S. Department of Education in satisfaction of the borrowings under the federal participation program.

* * * * *

SUPPLEMENTAL SCHEDULES

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION FOR THE YEAR ENDED JUNE 30, 2009

	Student Loan Programs					TOTAL	Knowledge Works Foundation	KWI	Eliminations	Knowledge Works Consolidated
	National Program	KWSL	KFO	SLW	Eliminations					
ASSETS										
CASH AND CASH EQUIVALENTS	\$ -	\$ 384,302	\$ -	\$ -	\$ -	\$ 384,302	\$ 3,793,296	\$ 13,685,954	\$ -	\$ 17,863,552
INTEREST RECEIVABLE:										
Investments	2,794		6,959			9,753	59	26,046		35,858
Notes receivable						-		150,652	(150,652)	-
Student loans	1,510,993		5,670,735	571,838		7,753,566				7,753,566
GRANTS RECEIVABLE						-	2,526,644			2,526,644
INVESTMENTS — At fair value						-		99,371,378		99,371,378
RESTRICTED CASH AND INVESTMENTS	10,043,758		33,994,633	143,235		44,181,626	7,000,000			51,181,626
STUDENT LOANS RECEIVABLE	105,066,175		365,823,210		(2,106,186)	468,783,199				468,783,199
STUDENT LOANS HELD FOR SALE				26,586,743		26,586,743				26,586,743
DEFERRED FINANCING COSTS — Net	507,054		2,109,342			2,616,396				2,616,396
OTHER		6,548	343,552	38,337	(381,889)	6,548	3,945,498	7,000,000	(10,673,402)	278,644
PROPERTY AND EQUIPMENT — Net		38,186				38,186	1,252,933			1,291,119
TOTAL	<u>\$ 117,130,774</u>	<u>\$ 429,036</u>	<u>\$ 407,948,431</u>	<u>\$ 27,340,153</u>	<u>\$ (2,488,075)</u>	<u>\$ 550,360,319</u>	<u>\$ 18,518,430</u>	<u>\$ 120,234,030</u>	<u>\$ (10,824,054)</u>	<u>\$ 678,288,725</u>
LIABILITIES AND NET ASSETS										
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 480,578	\$ 3,787,402	\$ 2,320,130	\$ 589,004	\$ (381,889)	\$ 6,795,225	\$ 3,646,572	\$ 1,106,995	\$ (3,673,402)	\$ 7,875,390
INTEREST PAYABLE	299,719		234,434	648		534,801	150,652		(150,652)	534,801
INTEREST RATE SWAP AGREEMENT	3,031,813					3,031,813				3,031,813
BORROWINGS UNDER LINE OF CREDIT				1,648,712		1,648,712				1,648,712
BORROWINGS UNDER FEDERAL PARTICIPATION PROGRAM				25,309,678		25,309,678				25,309,678
ARBITRAGE REBATE LIABILITY			2,558,237			2,558,237				2,558,237
BONDS AND NOTES PAYABLE	113,000,000		407,400,000			520,400,000	7,000,000		(7,000,000)	520,400,000
COMMITMENTS AND CONTINGENCIES						-				-
Total liabilities	<u>116,812,110</u>	<u>3,787,402</u>	<u>412,512,801</u>	<u>27,548,042</u>	<u>(381,889)</u>	<u>560,278,466</u>	<u>10,797,224</u>	<u>1,106,995</u>	<u>(10,824,054)</u>	<u>561,358,631</u>
UNRESTRICTED NET ASSETS	318,664	(3,358,366)	(4,564,370)	(207,889)	(2,106,186)	(9,918,147)	530,440	119,127,035		109,739,328
TEMPORARILY RESTRICTED NET ASSETS						-	7,190,766			7,190,766
Total net assets	<u>318,664</u>	<u>(3,358,366)</u>	<u>(4,564,370)</u>	<u>(207,889)</u>	<u>(2,106,186)</u>	<u>(9,918,147)</u>	<u>7,721,206</u>	<u>119,127,035</u>	<u>-</u>	<u>116,930,094</u>
TOTAL	<u>\$ 117,130,774</u>	<u>\$ 429,036</u>	<u>\$ 407,948,431</u>	<u>\$ 27,340,153</u>	<u>\$ (2,488,075)</u>	<u>\$ 550,360,319</u>	<u>\$ 18,518,430</u>	<u>\$ 120,234,030</u>	<u>\$ (10,824,054)</u>	<u>\$ 678,288,725</u>

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

	Student Loan Programs					TOTAL	Knowledge Works Foundation	KWI	Eliminations	Knowledge Works Consolidated
	National Program	KWSL	KFO	SLW	Eliminations					
ASSETS										
CASH AND CASH EQUIVALENTS	\$ -	\$ 456,534	\$ -	\$ -	\$ -	\$ 456,534	\$ 6,064,276	\$ 14,376,367	\$ -	\$ 20,897,177
INTEREST RECEIVABLE:										
Investments	14,043		21,425			35,468	2,733	62,072		100,273
Notes receivable						-		151,484	(151,484)	-
Student loans	1,381,623		6,459,688			7,841,311				7,841,311
GRANTS RECEIVABLE						-	6,091,812			6,091,812
INVESTMENTS — At fair value						-		143,001,809		143,001,809
RESTRICTED CASH AND INVESTMENTS	7,683,394		46,224,352	314,958		54,222,704	7,000,000			61,222,704
STUDENT LOANS RECEIVABLE	107,503,972		392,579,801		(2,175,592)	497,908,181				497,908,181
DEFERRED FINANCING COSTS — Net	520,013		2,717,525			3,237,538				3,237,538
OTHER		6,169,298	80,588	191,884	(6,413,751)	28,019	3,790,841	7,054,171	(10,012,210)	860,821
PROPERTY AND EQUIPMENT — Net		99,908				99,908	1,637,746			1,737,654
TOTAL	\$ 117,103,045	\$ 6,725,740	\$ 448,083,379	\$ 506,842	\$ (8,589,343)	\$ 563,829,663	\$ 24,587,408	\$ 164,645,903	\$ (10,163,694)	\$ 742,899,280
LIABILITIES AND NET ASSETS										
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 280,116	\$ 3,167,711	\$ 1,289,461	\$ 6,260,563	\$ (6,413,751)	\$ 4,584,100	\$ 4,920,123	\$ 141,674	\$ (3,012,210)	\$ 6,633,687
INTEREST PAYABLE	322,909		1,166,740	1,388		1,491,037	151,484		(151,484)	1,491,037
INTEREST RATE SWAP AGREEMENT	1,913,229					1,913,229				1,913,229
BORROWINGS UNDER LINE OF CREDIT				170,589		170,589				170,589
ARBITRAGE REBATE LIABILITY			2,744,173			2,744,173				2,744,173
BONDS AND NOTES PAYABLE	113,000,000		444,000,000			557,000,000	7,000,000		(7,000,000)	557,000,000
COMMITMENTS AND CONTINGENCIES						-				-
Total liabilities	115,516,254	3,167,711	449,200,374	6,432,540	(6,413,751)	567,903,128	12,071,607	141,674	(10,163,694)	569,952,715
UNRESTRICTED NET ASSETS	1,586,791	3,558,029	(1,116,995)	(5,925,698)	(2,175,592)	(4,073,465)	2,260,697	164,504,229		162,691,461
TEMPORARILY RESTRICTED NET ASSETS							10,255,104			10,255,104
Total net assets	1,586,791	3,558,029	(1,116,995)	(5,925,698)	(2,175,592)	(4,073,465)	12,515,801	164,504,229	-	172,946,565
TOTAL	\$ 117,103,045	\$ 6,725,740	\$ 448,083,379	\$ 506,842	\$ (8,589,343)	\$ 563,829,663	\$ 24,587,408	\$ 164,645,903	\$ (10,163,694)	\$ 742,899,280

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION FOR THE YEAR ENDED JUNE 30, 2009

	Student Loan Programs — Unrestricted					KnowledgeWorks Foundation		KWI Unrestricted	Eliminations	Knowledge Works Consolidated	
	National Program	KWSL	KFO	SLW	Eliminations	Total	Unrestricted				Temporarily Restricted
REVENUES (EXPENSES):											
Income on investments	\$ 76,649	\$ -	\$ 948,547	\$ 20	\$ -	\$ 1,025,216	\$ 56,131	\$ 106,468	\$ 469,485	\$ -	\$ 1,657,300
Income on notes receivable						-			303,800	(303,800)	-
Interest and fees on student loans receivable	5,350,738		10,527,559	216,313	121,715	16,216,325	421,686				16,638,011
Gain on the sale of student loans				52,309	(52,309)	-					-
Grant revenue						-	152,221	5,697,465			5,849,686
Contract service revenue						-	319,354				319,354
Unrealized and realized gains (losses) on investment securities — net						-	73,973		(33,561,746)		(33,487,773)
Administrative fee income (expense)	(360,000)	2,512,984	(1,559,452)	(1,023,532)		(430,000)	505,721		(75,721)		-
Net assets released from restriction						-	8,868,271	(8,868,271)			-
Total revenues (expenses)	<u>5,067,387</u>	<u>2,512,984</u>	<u>9,916,654</u>	<u>(754,890)</u>	<u>69,406</u>	<u>16,811,541</u>	<u>10,397,357</u>	<u>(3,064,338)</u>	<u>(32,864,182)</u>	<u>(303,800)</u>	<u>(9,023,422)</u>
COST OF DEBT:											
Interest expense	4,698,580		11,289,357	247,608		16,235,545	303,800			(303,800)	16,235,545
Amortization of deferred costs	12,960		608,183			621,143					621,143
Other debt related costs				14,243		14,243					14,243
Remarketing expenses	178,163		26,640			204,803					204,803
Total cost of debt	<u>4,889,703</u>	<u>-</u>	<u>11,924,180</u>	<u>261,851</u>	<u>-</u>	<u>17,075,734</u>	<u>303,800</u>	<u>-</u>	<u>-</u>	<u>(303,800)</u>	<u>17,075,734</u>
Net revenue (expense) after cost of debt	<u>177,684</u>	<u>2,512,984</u>	<u>(2,007,526)</u>	<u>(1,016,741)</u>	<u>69,406</u>	<u>(264,193)</u>	<u>10,093,557</u>	<u>(3,064,338)</u>	<u>(32,864,182)</u>	<u>-</u>	<u>(26,099,156)</u>
PROVISION FOR STUDENT LOAN LOSS	<u>(54,261)</u>		<u>(588,232)</u>			<u>(642,493)</u>					<u>(642,493)</u>
UNREALIZED LOSS ON INTEREST RATE SWAP	<u>(1,118,584)</u>					<u>(1,118,584)</u>					<u>(1,118,584)</u>
PROGRAM AND SUPPORTING EXPENSES:											
Program services:											
High school redesign						-	9,020,486				9,020,486
New technology network						-	2,859,703				2,859,703
Strive						-	1,955,522				1,955,522
College access and success						-	332,536				332,536
Grantmaking						-	282,616				282,616
Institute for creative collaboration						-	989,390				989,390
Strategic advancement						-	1,325,227				1,325,227
Education policy institute						-	1,794,841				1,794,841
Student loan programs	272,966	2,539,241	851,617	155,588		3,819,412	699,237				4,518,649
General and administrative						-	5,071,268		6,000		5,077,268
Total program and supporting expenses	<u>272,966</u>	<u>2,539,241</u>	<u>851,617</u>	<u>155,588</u>	<u>-</u>	<u>3,819,412</u>	<u>24,330,826</u>	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>28,156,238</u>
TRANSFER OF NET ASSETS		(6,890,138)		6,890,138		-	12,507,012		(12,507,012)		-
INCREASE (DECREASE) IN NET ASSETS	(1,268,127)	(6,916,395)	(3,447,375)	5,717,809	69,406	(5,844,682)	(1,730,257)	(3,064,338)	(45,377,194)	-	(56,016,471)
NET ASSETS — Beginning of year	<u>1,586,791</u>	<u>3,558,029</u>	<u>(1,116,995)</u>	<u>(5,925,698)</u>	<u>(2,175,592)</u>	<u>(4,073,465)</u>	<u>2,260,697</u>	<u>10,255,104</u>	<u>164,504,229</u>		<u>172,946,565</u>
NET ASSETS — End of year	<u>\$ 318,664</u>	<u>\$ (3,358,366)</u>	<u>\$ (4,564,370)</u>	<u>\$ (207,889)</u>	<u>\$ (2,106,186)</u>	<u>\$ (9,918,147)</u>	<u>\$ 530,440</u>	<u>\$ 7,190,766</u>	<u>\$ 119,127,035</u>	<u>\$ -</u>	<u>\$ 116,930,094</u>

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

	Student Loan Programs — Unrestricted					KnowledgeWorks Foundation		KWI Unrestricted	Eliminations	Knowledge Works Consolidated	
	National Program	KWSL	KFO	SLW	Eliminations	TOTAL	Unrestricted				Temporarily Restricted
REVENUES (EXPENSES):											
Income on investments	\$ 664,397	\$ 38	\$ 8,320,345	\$ -	\$ -	\$ 8,984,780	\$ 267,986	\$ 277,598	\$ 1,127,010	\$ -	\$ 10,657,374
Income on notes receivable						-			325,137	(325,137)	-
Interest and fees on student loans receivable	6,371,749		14,653,412	73,245	130,629	21,229,035	486,019				21,715,054
Gain on the sale of student loans				999,865	(999,865)	-					-
Grant revenue						-	425,806	5,253,400			5,679,206
Contract service revenue						-	266,930				266,930
Unrealized and realized gains (losses) on investment securities — net						-	99,849		(18,923,566)		(18,823,717)
Administrative fee income (expense)	(360,000)	2,784,354	(1,174,877)	(1,679,781)		(430,304)	459,646		(29,342)		-
Net assets released from restriction						-	8,350,657	(8,350,657)			-
Total revenues (expenses)	<u>6,676,146</u>	<u>2,784,392</u>	<u>21,798,880</u>	<u>(606,671)</u>	<u>(869,236)</u>	<u>29,783,511</u>	<u>10,356,893</u>	<u>(2,819,659)</u>	<u>(17,500,761)</u>	<u>(325,137)</u>	<u>19,494,847</u>
COST OF DEBT:											
Interest expense	5,953,922		22,242,104	150,726		28,346,752	304,632			(325,137)	28,326,247
Amortization of deferred costs	12,960		72,120			85,080					85,080
Other debt related costs				27,346		27,346					27,346
Remarketing expenses	176,468		441,137			617,605					617,605
Total cost of debt	<u>6,143,350</u>	<u>-</u>	<u>22,755,361</u>	<u>178,072</u>	<u>-</u>	<u>29,076,783</u>	<u>304,632</u>	<u>-</u>	<u>-</u>	<u>(325,137)</u>	<u>29,056,278</u>
Net revenue after cost of debt	<u>532,796</u>	<u>2,784,392</u>	<u>(956,481)</u>	<u>(784,743)</u>	<u>(869,236)</u>	<u>706,728</u>	<u>10,052,261</u>	<u>(2,819,659)</u>	<u>(17,500,761)</u>	<u>-</u>	<u>(9,561,431)</u>
PROVISION FOR STUDENT LOAN LOSS	<u>(92,000)</u>		<u>(130,000)</u>			<u>(222,000)</u>					<u>(222,000)</u>
UNREALIZED LOSS ON INTEREST RATE SWAP	<u>(2,399,425)</u>					<u>(2,399,425)</u>					<u>(2,399,425)</u>
PROGRAM AND SUPPORTING EXPENSES:											
Program services:											
High school redesign						-	9,512,177				9,512,177
New technology network						-	119,874				119,874
Strive						-	1,127,951				1,127,951
College access and success						-	1,646,490				1,646,490
Grantmaking						-	847,838				847,838
Institute for creative collaboration						-	446,326				446,326
Strategic advancement						-	2,654,797				2,654,797
Education policy institute						-	2,692,277				2,692,277
Student loan programs	364,318	2,548,954	791,993	460,007		4,165,272	741,345				4,906,617
General and administrative						-	6,141,565		6,200		6,147,765
Total program and supporting expenses	<u>364,318</u>	<u>2,548,954</u>	<u>791,993</u>	<u>460,007</u>	<u>-</u>	<u>4,165,272</u>	<u>25,930,640</u>	<u>-</u>	<u>6,200</u>	<u>-</u>	<u>30,102,112</u>
TRANSFER OF NET ASSETS		<u>(823,600)</u>		<u>823,600</u>		<u>-</u>	<u>13,567,432</u>		<u>(13,567,432)</u>		<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(2,322,947)</u>	<u>(588,162)</u>	<u>(1,878,474)</u>	<u>(421,150)</u>	<u>(869,236)</u>	<u>(6,079,969)</u>	<u>(2,310,947)</u>	<u>(2,819,659)</u>	<u>(31,074,393)</u>	<u>-</u>	<u>(42,284,968)</u>
NET ASSETS — Beginning of year	<u>3,909,738</u>	<u>4,146,191</u>	<u>761,479</u>	<u>(5,504,548)</u>	<u>(1,306,356)</u>	<u>2,006,504</u>	<u>4,571,644</u>	<u>13,074,763</u>	<u>195,578,622</u>		<u>215,231,533</u>
NET ASSETS — End of year	<u>\$ 1,586,791</u>	<u>\$ 3,558,029</u>	<u>\$ (1,116,995)</u>	<u>\$ (5,925,698)</u>	<u>\$ (2,175,592)</u>	<u>\$ (4,073,465)</u>	<u>\$ 2,260,697</u>	<u>\$ 10,255,104</u>	<u>\$ 164,504,229</u>	<u>\$ -</u>	<u>\$ 172,946,565</u>