KnowledgeWorks Foundation

Consolidated Financial Statements and Supplemental Schedules as of and for the Years Ended June 30, 2013 and 2012, and Independent Auditors' Report

KNOWLEDGEWORKS FOUNDATION

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
KnowledgeWorks Foundation:

We have audited the accompanying consolidated financial statements of KnowledgeWorks Foundation and its subsidiaries (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of KnowledgeWorks Foundation and its subsidiaries as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 3 to the financial statements, the Foundation sold all loans held by KnowledgeFunding Ohio, Inc. (a wholly-owned subsidiary of the Foundation) during the year ended June 30, 2013. The gain on sale and results prior to the sale are included in income from discontinued operations in the accompanying financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note 3 to the financial statements, the Foundation sold all loans held under the National Program in September 2013. The loss on sale and results prior to the sale are included in income from discontinued operations in the accompanying financial statements. Our opinion is not modified with respect to this matter.

Report on Supplemental Schedules
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the Foundation's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules 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, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

October 22, 2013

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CASH AND CASH EQUIVALENTS	$ 15,213,449	$ 13,413,918
ACCOUNTS RECEIVABLE — Net	2,026,707	3,223,749
INTEREST RECEIVABLE:		
Investments	15,666	14,929
Student loans	2,493,564	6,863,030
GRANTS RECEIVABLE	2,619,862	1,795,271
INVESTMENTS — At fair value	122,474,114	106,099,090
RESTRICTED CASH AND CASH EQUIVALENTS	7,666,015	48,862,634
STUDENT LOANS HELD FOR SALE	64,831,632	
STUDENT LOANS RECEIVABLE — Net of allowance of $0 in 2013 and approximately $1.2 million in 2012	65,810,974	410,600,266
DEFERRED FINANCING COSTS	852,014	2,455,436
OTHER	536,404	574,898
PROPERTY AND EQUIPMENT — Net	1,536,987	1,845,268
TOTAL	$ 286,077,388	$ 595,748,489
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 7,359,993	$ 9,608,697
INTEREST PAYABLE	204,217	396,596
INTEREST RATE SWAP AGREEMENT	531,880	1,130,563
DEFERRED REVENUE	1,775,149	2,238,240
BONDS PAYABLE	128,170,970	459,503,381
COMMITMENTS AND CONTINGENCIES (Note 10)		
Total liabilities	138,042,209	472,877,477
UNRESTRICTED NET ASSETS	143,962,364	118,168,343
TEMPORARILY RESTRICTED NET ASSETS	4,072,815	4,702,669
Total net assets	148,035,179	122,871,012
TOTAL	$ 286,077,388	$ 595,748,489

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES:						
Income from investments — net	$ 775,164	$	$ 775,164	$ 1,498,659	$	$ 1,498,659
Interest and fees on student loans receivable — net	1,404,724		1,404,724	1,637,184		1,637,184
Other revenue	664,342		664,342	1,069,560		1,069,560
Grant revenue	219,976	3,240,799	3,460,775	172,922	4,288,809	4,461,731
Contract service revenue	13,495,614		13,495,614	11,360,570		11,360,570
Unrealized and realized gains (losses) on investment securities — net	11,907,931		11,907,931	(7,357,030)		(7,357,030)
Net assets released from restriction	3,870,653	(3,870,653)		3,775,529	(3,775,529)	
Total revenues	32,338,404	(629,854)	31,708,550	12,157,394	513,280	12,670,674
COST OF DEBT:						
Interest expense	851,844		851,844	1,046,953		1,046,953
Amortization of deferred costs	268,072		268,072	184,283		184,283
Total cost of debt	1,119,916		1,119,916	1,231,236		1,231,236
Net revenue after cost of debt	31,218,488	(629,854)	30,588,634	10,926,158	513,280	11,439,438
(PROVISION) BENEFIT FOR STUDENT LOAN LOSS	(72,122)		(72,122)	146,723		146,723
PROGRAM AND SUPPORTING EXPENSES:						
Operating programs	19,860,362		19,860,362	16,465,322		16,465,322
Student loan programs	581,585		581,585	633,916		633,916
Other programs	3,219,922		3,219,922	3,479,216		3,479,216
General and administrative	5,849,473		5,849,473	5,193,469		5,193,469
Total program and supporting expenses	29,511,342		29,511,342	25,771,923		25,771,923
INCREASE (DECREASE) IN NET ASSETS - from Continuing Operations	1,635,024	(629,854)	1,005,170	(14,699,042)	513,280	(14,185,762)
DISCONTINUED OPERATIONS						
Increase in net assets from KFO loan program operations	243,494		243,494	1,801,365		1,801,365
Net gain on disposal of KFO loan program	23,602,873		23,602,873			
Increase in net assets from National loan program operations	312,630		312,630	1,050,250		1,050,250
INCREASE (DECREASE) IN NET ASSETS - from Discontined Operations	24,158,997		24,158,997	2,851,615		2,851,615
INCREASE (DECREASE) IN NET ASSETS	25,794,021	(629,854)	25,164,167	(11,847,427)	513,280	(11,334,147)
NET ASSETS — Beginning of year	118,168,343	4,702,669	122,871,012	130,015,770	4,189,389	134,205,159
NET ASSETS — End of year	$ 143,962,364	$ 4,072,815	$ 148,035,179	$ 118,168,343	$ 4,702,669	$ 122,871,012

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Operating Programs	Student Loan Programs	Other Programs	Total Program Expenses	General and Administrative	Total Program and Supporting Expenses
Salaries and benefits	$ 10,995,869	$ 10,142	$ 1,499,028	$ 12,505,039	$ 3,025,156	$ 15,530,195
Grants made to other entities	223,010		398,612	621,622		621,622
Professional fees	3,093,830	399,376	933,981	4,427,187	1,002,382	5,429,569
Legal expense	159,601	14,295	2,077	175,973	161,698	337,671
Communications	384,833		2,854	387,687	57,905	445,592
Accounting/auditing fees	35,136	12,550		47,686	135,000	182,686
Travel	2,162,556		210,807	2,373,363	126,438	2,499,801
Meetings, conferences and convenings	1,227,458	301	74,843	1,302,602	47,153	1,349,755
Office administration	383,269		300	383,569	349,762	733,331
Telephone	90,365		10,028	100,393	32,051	132,444
Insurance	2,500			2,500	113,815	116,315
Technology support	267,784		53	267,837	144,521	412,358
Internet and network	236,307		6,913	243,220	168,146	411,366
Equipment leasing	54,173			54,173	30,092	84,265
Office supplies	105,496		3,920	109,416	55,115	164,531
Postage and delivery	16,427	551	20,529	37,507	5,495	43,002
Printing and copying	21,718		24,916	46,634	481	47,115
Depreciation	313,651	196		313,847	310,571	624,418
Training and development materials	35,227		3,695	38,922	25,554	64,476
Recruiting	7,659			7,659	14,400	22,059
Temporary help	11,963		1,361	13,324		13,324
Subscriptions	6,450		6,811	13,261	29,255	42,516
Dues and memberships	7,257		18,790	26,047	9,496	35,543
Other	17,823		404	18,227	4,987	23,214
Loan servicing fees		139,161		139,161		139,161
Trustee and admin fees		5,013		5,013		5,013
Total program and supporting expenses	$ 19,860,362	$ 581,585	$ 3,219,922	$ 23,661,869	$ 5,849,473	$ 29,511,342

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Operating Programs	Student Loan Programs	Other Programs	Total Program Expenses	General and Administrative	Total Program and Supporting Expenses
Salaries and benefits	$ 8,453,145	$ 38,240	$ 1,660,883	$ 10,152,268	$ 2,834,866	$ 12,987,134
Grants made to other entities	698,753		635,562	1,334,315		1,334,315
Professional fees	2,184,388	342,176	666,357	3,192,921	419,324	3,612,245
Legal expense	123,354	75,037	12,757	211,148	100,445	311,593
Communications	208,102		19,251	227,353	96,442	323,795
Accounting/auditing fees	24,905	20,696		45,601	149,685	195,286
Travel	1,817,666	1,412	239,896	2,058,974	138,365	2,197,339
Meetings, conferences and convenings	1,082,216	1,237	119,836	1,203,289	64,202	1,267,491
Office administration	324,416		30,200	354,616	294,617	649,233
Telephone	111,618		11,476	123,094	42,349	165,443
Insurance	833			833	112,076	112,909
Technology support	549,748		1,802	551,550	177,410	728,960
Internet and network	255,968		3,304	259,272	93,220	352,492
Equipment leasing	69,175		4,404	73,579	24,180	97,759
Office supplies	116,105		10,054	126,159	73,845	200,004
Postage and delivery	25,959	524	11,003	37,486	4,959	42,445
Printing and copying	11,144		2,942	14,086	1,041	15,127
Depreciation	280,287	350		280,637	507,912	788,549
Training and development materials	42,621		3,615	46,236	16,314	62,550
Recruiting	20,439			20,439	1,717	22,156
Temporary help	36,003		212	36,215		36,215
Subscriptions	5,474		4,630	10,104	14,086	24,190
Dues and memberships	4,170		38,091	42,261	14,658	56,919
Other	18,833		2,941	21,774	11,756	33,530
Loan servicing fees		145,847		145,847		145,847
Trustee and admin fees		8,397		8,397		8,397
Total program and supporting expenses	$ 16,465,322	$ 633,916	$ 3,479,216	$ 20,578,454	$ 5,193,469	$ 25,771,923

See notes to consolidated financial statements.

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 25,164,167	$ (11,334,147)
Adjustments to reconcile change in net assets to net cash flows used in operating activities:		
Depreciation and amortization	1,597,176	1,498,717
Unrealized and realized (gains) losses on investment securities — net	(11,907,931)	7,357,030
Provision for student loan loss	62,278	514,489
Unrealized gain on interest rate swap	(598,683)	(640,821)
Adjustment of students loans held for sale to fair value	687,650	
Change in arbitrage liability		(424,075)
Net gain on disposal of KFO loan program	(23,602,873)	
Change in operating assets and liabilities:		
Accounts receivable	1,197,042	(784,201)
Grants receivable	(824,591)	(600,282)
Interest receivable	965,323	520,811
Other assets	38,494	(271,796)
Interest payable	181,678	10,782
Deferred revenue	(463,091)	(1,032,510)
Accounts payable and accrued expenses	(3,119,399)	480,772
Net cash flows used in operating activities	(10,622,760)	(4,705,231)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of student loans	(504,069)	(500,266)
Principal repayments on student loans	36,919,845	56,138,807
Purchases of fixed assets	(316,171)	(1,484,234)
Purchases of investments	(31,678,967)	(10,685,045)
Proceeds from maturities and sales of investments	27,211,874	15,735,512
Investments in restricted cash and cash equivalents	(321,197,950)	(78,116,215)
Withdrawals of restricted cash and cash equivalents	362,394,569	57,012,014
Net cash flows provided by investing activities	72,829,131	38,100,573
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net cash outflow from disposal of KFO loan program	(39,516,092)	
Principal repayments on bonds payable	(20,890,748)	(37,369,956)
Net cash flows used in financing activities	(60,406,840)	(37,369,956)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,799,531	(3,974,614)
CASH AND CASH EQUIVALENTS — Beginning of year	13,413,918	17,388,532
CASH AND CASH EQUIVALENTS — End of year	$ 15,213,449	$ 13,413,918
SUPPLEMENTAL DISCLOSURE — Interest paid		
Continuing Operations	$ 1,044,223	$ 1,036,171
Discontinued Operations	$ 2,060,409	$ 3,252,099

See notes to consolidated financial statements.

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 seek 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; StriveTogether, LLC; New Technology Foundation; and New Technology Network, LLC, which conduct the Foundation's Program Operation activities; (2) KWI, which manages the Foundation's investment portfolio; and (3) KWSL, LLC; 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)). All intercompany transactions and balances have been eliminated.

Program and supporting expenses are classified in four categories in the consolidated statements of activities and the consolidated statements of functional expense, including operating programs, student lending programs, other programs and general and administrative. Operating programs include the school and community activities relating to EdWorks, LLC, New Technology Foundation, New Technology Network, LLC and StriveTogether, LLC. Other programs include national and local policy efforts, thought leadership and strategy and grant-making activities.

2. SUMMARY OF ACCOUNTING POLICIES

Cash and Cash Equivalents — Cash and cash equivalents consist of cash in checking and money market accounts. The Foundation maintains cash balances at financial institutions with strong credit ratings. At times, cash and money market balances may be in excess of the insurance coverage provided by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses in such accounts.

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 could occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements. Income from investments is reported net of related expenses of $610,000 and $758,000 for the years ended June 30, 2013 and 2012, respectively.

Restricted Cash and Cash Equivalents — Restricted cash and cash equivalents represent demand deposits and money market funds bearing interest at a variable rate. Such amounts are primarily restricted to paying debt obligations and program expenses or funding the acquisition of student loans. Included in restricted cash and cash equivalents as of June 30, 2012 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).

Accounts Receivable — Accounts receivable consists of fee for contract service revenues receivable. Management believes all receivables are collectible, except for $288,000 and $440,000 which has been recorded as an allowance for uncollectible accounts against accounts receivable in the accompanying consolidated statements of financial position as of June 30, 2013 and 2012, respectively. Management bases this assessment on specific analysis of outstanding balances at year-end.

Student Loans Held for Sale — Student loans held for sale represent loans that management has made a commitment to sell as of June 30, 2013, and are reported in the consolidated statements of financial position at the lower of amortized cost or fair value. These loans were sold to a third party subsequent to June 30, 2013. See Note 11 to the consolidated financial statements.

Student Loans Receivable — Student loans are reported in the consolidated statements of financial position at their unpaid principal balances plus unamortized loan origination costs and loan acquisition premiums and discounts. Costs related to loan originations and premiums and discounts 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 as of June 30, 2012 was 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 loans receivable 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.

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.

Deferred Revenue — Deferred revenue consists of amounts collected on fee for contract services that have not yet been earned. The majority of contracts have a contract term of three to four years beyond the planning and start-up period, and revenue is recognized as services are performed.

Unrestricted Net Assets — Unrestricted net assets are free from donor imposed restrictions. These funds are maintained and distributed at the discretion of the Board of Directors of the Foundation.

Temporarily Restricted Net Assets — Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. These funds include amounts temporarily restricted by donors for certain operating purposes.

Interest Rate Swap Agreement — The interest rate swap agreement is recorded at fair value in the accompanying consolidated statements of financial position. The agreement includes an option contract that allowed the Foundation to reduce the notional amount at certain option dates, the last of which occurred in December 2011. Unrealized changes in the fair value of the interest rate swap agreement are recorded as unrealized gains and losses in the accompanying consolidated statements of activities under discontinued operations.

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

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 revenue from grants when such grants are awarded by the donor. The Foundation receives fees for service provided to high schools, school districts and communities by providing technical assistance needed to implement new instructional approaches to learning and improve student achievement and opportunity. Fee for contract service revenues are recognized as services are performed.

Grant-Making Activities — Conditional promises to give are recorded as contributions made in the period that they become unconditional. As of June 30, 2013, the Foundation had made a future conditional promise to give $10,000 to one charitable organization in fiscal year 2014.

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 (IRS) and favorable determination letters have been obtained. The Foundation has also been recognized as a public charity as defined in Section 509(a) of the IRC by the IRS. Any income not substantially related to the Foundation's exempt purpose may be considered unrelated business taxable income under Section 511 of the IRC and, as such, subject to tax at normal corporate rates. Management believes that the Foundation has been operated consistent with the requirement to retain its tax-exempt status. No provision for income taxes is reflected in the consolidated financial statements. The Foundation believes it is no longer subject to examination by Federal and State taxing authorities for years prior to June 30, 2010.

The Foundation has analyzed tax positions taken for filing with the IRS and all state jurisdictions where it operates. The Foundation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Foundation's financial position, statement of activities, or cash flows. Accordingly, the Foundation has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at June 30, 2013 and 2012. In the event interest and penalties accrued on unrecognized tax benefits, the Foundation would recognize such amounts as a component of income tax expense.

3. DISCONTINUED OPERATIONS

During the fiscal year 2013, KFO entered into a series of transactions, outlined below, that effectively ceased all of the operations of KFO. In addition, the Foundation sold the National Program student loan portfolio to a third party subsequent to year end and redeemed all of the related debt (see Note 11 for discussion of the transaction). As such, activities of both KFO and the National Program for the years ended June 30, 2013 and 2012 have been recorded in the statements of activities as discontinued operations.

On November 8, 2012, approximately $200 million of KFO student loan receivables were sold to a third party in a transaction that both allowed and required KFO to redeem and defease $271.6 million of the senior and subordinate bonds. The third party purchaser of the loans was the sole holder of the subordinate series of the related bonds at the time of the transaction. The Foundation recorded a gain of $23.6 million on this transaction, which is reflected in the statements of activities in discontinued operations. The $7 million escrow fund held by KFO's custodian was released to the Foundation (see Note 6 for discussion of the escrow account).

On March 15, 2013, KFO made the 150(d)(3) election to terminate its status as a Qualified Scholarship Funding Corporation under the Internal Revenue Code. This action involved the transfer of the remaining assets and liabilities of KFO to KFO, Inc., a newly-formed for-profit subsidiary in exchange for all the Senior Stock of KFO, Inc. On March 21, 2013, KFO Financing, LLC, a subsidiary of KFO, Inc., exercised an existing option to put the remaining KFO student loan assets to the same third party from the November 2012 phase of the transaction that both allowed and required KFO to redeem the remaining outstanding bonds.

The following table shows the individual elements of the $23.6 million gain:

	November 2012	March 2013	Total
Par value of student loans	$ (199,737)	$ (44,698)	$ (244,435)
Unamortized (premium) discount on student loans	(218)		(218)
Accrued interest on student loans	(2,917)	(486)	(3,403)
Allowance for loan losses	760		760
Cash	(44,815)	5,299	(39,516)
Payables for remarketing expenses		871	871
Outstanding principal of KFO debt	271,600	39,000	310,600
Accrued interest on KFO debt	360	14	374
Deferred financing costs	(1,430)		(1,430)
Gain	$ 23,603	$	$ 23,603

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, discounts, 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 markups over a base rate 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. Prior to April 1, 2012, the base rate was tied to the bond equivalent rates of the average three-month Financial Commercial Paper rates in effect for each of the days in a quarter. Effective on April 1, 2012, the Foundation and KFO made an irrevocable election under an amendment to the Higher Education Act to have the calculation of SAP to be based on the one-month LIBOR rate. For the quarter ended June 30, 2013, the one month LIBOR rate in effect was .20%. 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. For loans first disbursed on or after April 1, 2006, 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 of continuing operations was approximately $1.4 million and $1.7 million during the year ended June 30, 2013 and 2012, respectively, and is included in the consolidated statements of activities as a component of interest and fees on student loans receivable. Accrued SAP was approximately $623,500 and $1.9 million as of June 30, 2013 and 2012, respectively, and is included in the consolidated statements of financial position as a component of accounts payable and accrued expenses.

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 $647,000 and $738,000 during 2013 and 2012, respectively, and is included in the consolidated statements of activities as a component of interest and fees on student loans receivable.

Student loans held for sale 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 (collectively the "Private 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 student loan receivable portfolio by program as of June 30 is as follows (amounts in thousands):

	2013	2012
Stafford	$ 4,127	$ 62,920
SLS		86
PLUS	1,560	6,097
Consolidation	57,827	335,396
Private loans		2,353
Net unamortized loan premium and acquisition costs	2,297	9,887
Net unamortized loan discounts		(4,989)
Total student loans receivable	65,811	411,750
Less allowance for loan losses		(1,150)
Student loans receivable — net	$ 65,811	$ 410,600

A summary of the loans held for sale by program as of June 30, 2013 is as follows (amounts in thousands):

	2013
Stafford	$ 29
SLS	32
Consolidation	62,723
Private loans	2,048
Student loans held for sale	$ 64,832

The following table provides information regarding the loan status and aging of the student loan receivable portfolio as well as the amount of unguaranteed loans as of June 30, 2013 (amounts in thousands):

	Balance at 6/30/13	**%**	**Unguaranteed Amount**
Loans in-school/grace/deferment	$ 8,205		$ 209
Loans in forbearance	5,712		146
Loans in repayment and percentage of each status:			
Loans current	38,091	77 %	972
Loans delinquent 31-60 days	5,581	11	143
Loans delinquent 61-90 days	1,523	3	39
Loans delinquent greater than 90 days	4,402	9	112
Total loans in repayment	49,597	100 %	1,266
Total loans — gross	63,514		$ 1,621
Unamortized loan premium	2,297		
Student loans receivable — net	$ 65,811		
Percentage of loans in repayment		78 %	
Delinquencies as a percentage of loans in repayment		23 %	
Loans in forbearance as a percentage of loans in repayment and forbearance		10 %	

Of the $64.8 million in student loans held for sale, approximately $3.6 million par value are greater than 90 days delinquent.

Under FFELP, the principal and accrued interest on student loans is 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, 2013, 55% of the FFELP loans were 97% guaranteed and 45% were 98% 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, 2013, the majority of FFELP student loans are guaranteed by The Pennsylvania Higher Education Assistance Authority, Great Lakes Higher Education Guaranty

Corporation, and American Student Assistance. The Private loans are not guaranteed by any party. Management has arranged for collection on defaulted Private loans through a third party collection agent. The extent of future recoveries on Private loans is not known.

The Foundation has entered into direct servicing agreements with four loan servicing agents, including American Education Services (AES), Student Assistance Foundation of Montana (SAF), Great Lakes Educational Loan Services, Sallie Mae Servicing, and ACS, Inc. AES services approximately 37% and Great Lakes services approximately 38% of the Foundation's loan portfolio as of June 30, 2013, while the percent serviced by the remaining agents range from 12% to 13% 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. Management believes that the Foundation and its servicers are in compliance with the applicable regulations at June 30, 2013.

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.

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, 2013 and 2012, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment as of June 30 are summarized as follows:

	2013	**2012**
Furniture and fixtures	$ 549,188	$ 642,029
Computer hardware and software	1,749,117	1,713,058
Equipment	1,334,145	1,337,547
Leasehold improvements	1,492,695	1,466,145
Total property and equipment	5,125,145	5,158,779
Less accumulated depreciation and amortization	(3,588,158)	(3,313,511)
Property and equipment — net	$ 1,536,987	$ 1,845,268

6. BONDS PAYABLE

Debt obligations as of June 30 are summarized as follows (dollars in thousands):

2013	Interest Rate at June 30	Total Outstanding
Variable rate taxable bonds maturing in fiscal year 2047	1.61%–2.18%	$ 69,500
LIBOR floating rate taxable bonds maturing in fiscal year 2042	1.24%	58,671
Total bonds and notes payable		$ 128,171

2012	Interest Rate at June 30	Total Outstanding
Variable rate tax-exempt bonds maturing in fiscal year 2042	0.42%–0.48%	$ 129,300
Variable rate tax-exempt bonds maturing in fiscal year 2041	0.53%–0.58%	181,300
Variable rate taxable bonds maturing in fiscal year 2047	1.62%–1.96%	79,000
LIBOR floating rate taxable bonds maturing in fiscal year 2042	1.42%	69,903
Total bonds and notes payable		$ 459,503

All bonds summarized in the table above were issued pursuant to master indentures of trust (the Indentures). The Indentures require that a trustee receives the cash flows from the related student loan portfolios and holds those cash flows in trust for the benefit of the bondholders. In addition to these cash flows, the assets pledged to the trustee as collateral for the repayment of the bonds consist of restricted cash and investments. All of such assets are included in the accompanying consolidated financial statements. As outlined in the Indentures, the bonds are collateralized by the student loans, the interest income thereon, and restricted cash, and the bondholders have no recourse to any assets of the Foundation that are outside of the Indentures. The variable taxable bonds are composed of senior bonds and subordinate bonds.

On September 16, 2010, the Foundation issued $83,622,000 of student loan backed bonds maturing February 25, 2042. These bonds (the LIBOR floating rate taxable bonds) bear interest at a variable rate equal to the three-month LIBOR plus 0.95% per annum. Interest on the bonds is payable on the 25th of each February, May, August and November.

Auction agents have been appointed for the variable rate bonds 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 variable rate bonds is payable semiannually.

Since February 12, 2008, significant disruptions in the U.S. capital markets have caused the auctions on the Foundation’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 Foundation’s bonds with maturities in 2047 requires that, when a failed auction occurs, the interest rate on the Senior Bonds and the Subordinate Bonds reset to the Maximum Auction Rate equal to one month LIBOR plus 1.50% and one month LIBOR plus 2.5%, respectively, not to exceed the one year rolling average of the 91-day Treasury bill plus 1.50%. The failed auctions have generally caused the interest rates on the Foundation’s bonds to increase and to significantly narrow its net interest margin on student loans.

To the extent that the principal balance on the student loan portfolio financed by the variable rate bonds is collected at a more rapid rate than debt service requirements, the Foundation's practice is to pay down the debt more rapidly. During fiscal years 2013 and 2012, the Foundation made principal payments totaling $20.9 million and $37.4 million, respectively. Additionally, during the year ended June 30, 2013, the Foundation extinguished $310.6 million of debt in the transaction described in Note 3.

In order to provide further security for the payment of principal and interest on the tax-exempt bonds issued by KFO, the Foundation entered into an Escrow and Pledge Agreement with the bond trustee and the escrow agent. This agreement established an escrow account, which was in custody of the bond trustee, to provide for the payment of debt obligations in the event that funds in tax-exempt bond financing were 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 was payable to the Foundation. On November 8, 2012, as a result of a transaction with a third party, the $7 million escrow fund was released to the Foundation (see Note 3 for discussion of the transaction).

The Foundation is subject to certain restrictive covenants under the indentures of trust related to the bonds. Among other requirements, the Foundation is required to do all things necessary to perfect its security interest and rights under the guarantee agreements with the guarantee agencies with respect to purchased student loans. As of June 30, 2013 and 2012, management believes the Foundation is in compliance with these requirements. The debt obligations are collateralized by certain of the Foundation's assets, primarily comprised at June 30, 2013 and 2012 of student loans receivable of $131.3 million and $410.6 million and of restricted cash and cash equivalents of approximately $7.7 million and $48.9 million, respectively.

At June 30, 2013 and 2012, the Foundation was a party to an interest rate swap agreement with a notional amount of $9.2 million and $14.1 million, respectively. The maturity date of the interest rate swap agreement is October 15, 2015. The Foundation receives monthly settlement payments based on one-month LIBOR (.19% at June 30, 2013 and 0.24% at June 30, 2012), while it pays a fixed rate of 5.64%. The fair value of the swap agreement as of June 30, 2013 and 2012 is a liability of $532,000 and $1.1 million, respectively, and is included in the accompanying consolidated statements of financial position.

The interest rate swap agreement in effect at June 30, 2013 will amortize down over the life of the agreement to a notional amount of $0 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 unrealized gains and losses on this interest rate swap agreement have been recorded as unrealized gains and losses on interest rate swaps in the accompanying consolidated statements of activities under discontinued operations.

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.

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 — see Note 6).

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation follows the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 on quoted market prices. These investments are classified as Level 1.

Common Trust Funds — The value of the Foundation's investments in common trust funds is based upon the per unit value of the fund as reported to the Foundation by the fund manager. These investments are classified as Level 2 based on the Foundation's ability to redeem its investment at the published net asset value within a reasonable period of time (three months or less).

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 fund managers. Due to contractual restrictions on redemptions, 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 a third party valuation specialist of the amount the Foundation would be required to pay or would receive, as of June 30, 2013 and 2012, in order to terminate the agreement. These values are based on inputs that are observable. The interest rate swap is classified as Level 2.

The following table sets 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, 2013 and 2012.

	2013	2012
Investments:		
Quoted Prices in Active Markets for Identical Assets (Level 1):		
U.S. equities:		
Mid cap core stock fund	$ 6,464,335	$ 5,419,717
Mid cap value stock fund	6,525,198	5,604,498
International equities:		
Developed country funds	16,463,648	10,032,810
Emerging market fund	5,047,283	4,806,328
Real assets:		
Commodities and real return fund	4,898,920	3,383,283
Global asset allocation:		
Opportunistic fund	5,734,077	3,025,701
Emerging markets:		
Emerging market local currency fund	5,758,987	5,616,359
	50,892,448	37,888,696
Significant Other Observable Inputs (Level 2):		
U.S. equities:		
Large cap growth stock fund (a)	10,288,169	11,406,862
Large cap value stock fund (a)	11,219,630	12,542,442
International equities:		
Developed countries (b)	3,665,581	
Emerging market fund (c)	6,337,675	6,096,916
Fixed income securities:		
High yield debt fund (d)	6,314,112	2,034,784
Real assets:		
Commodities and real return fund (e)		3,062,316
Global asset allocation:		
Opportunistic fund (f)	5,169,565	4,852,196
	42,994,732	39,995,516
Significant Other Unobservable Inputs (Level 3)		
Hedge funds and private equity:		
Distressed debt hedge fund (g)	6,740,197	5,953,146
Long/short hedge funds (h)	8,036,143	11,150,190
Multi-strategy hedge fund (i)	5,147,956	4,606,091
Fund of funds (j)	7,777,896	5,242,225
Private equity funds (k)	884,742	1,263,226
	28,586,934	28,214,878
	$ 122,474,114	$106,099,090
Liabilities:		
Significant Other Observable Inputs (Level 2)		
Interest rate swap agreement	$ (531,880)	$ (1,130,563)

(a) This class includes investments in common trust funds that invest primarily in U.S. common stocks. Management of these funds attempts to approximate as closely as practicable the investment performance of certain published indices. The fair value of the investments in this class has been estimated using the unadjusted net asset values provided by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. The redemption frequency for this class of investments is daily with a 2 day redemption notice period.

(b) This class invests in a diversified portfolio of small and mid-capitalization equity securities of companies located in any country other than the United States and Canada. The manager will generally invest in established international markets, but may invest a portion of the fund's assets in emerging markets. The fair value of the investments in this class is estimated using the unadjusted net asset value provided by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. The redemption frequency for this class of investments is monthly with a 6 day redemption notice period.

(c) This class invests in emerging market equity securities. The manager has the ability to make tactical shifts among securities to take advantage of mispricing and relationships between markets. The fair value of the investments in this class is estimated using the unadjusted net asset value provided by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. The redemption frequency for this class of investments is monthly with a 30 day redemption notice period.

(d) This class invests in short-term, low volatility, high yield debt and other fixed income securities. Investments have an expected maturity of twelve to twenty-four months. The fair value of the investments in this class has been estimated using the unadjusted net asset value per share of the investments as reported by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. The redemption frequency for this class of investments is monthly with a 30 day redemption notice period.

(e) This class invests in commodities, global companies focused on commodity production and US TIPS. The fund manager seeks a return of US CPI plus 5%. The fund manager has the discretion to make tactical trades within its asset classes seeking returns through security/commodity selection. The fair value of the investments in this class has been estimated using the unadjusted net asset value per share of the investments as reported by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. The redemption frequency for this class of investments ranges from daily to monthly with a redemption notice period ranging from 2 to 10 days.

(f) This class invests across a diverse set of asset categories, including foreign and domestic stocks and bonds, real assets and currencies. The fund manager has the ability to make tactical shifts among categories to take advantage of mispricing and relationships between global markets. The fair value of the investments in this class has been estimated using the unadjusted net asset value per share of the investments as reported by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. The redemption frequency for this class of investments is monthly with a redemption notice of 45 days.

(g) This class includes investments in hedge funds that invest in fixed income securities of distressed or out of favor industries and companies. The fund manager seeks opportunities in bankruptcies, restructurings, spin offs, and post-chapter 11 situations. The fair values of the investments in this category have been estimated using the unadjusted net asset value per share of the investments as reported by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. Liquidity in this class is restricted to 25% of the investment at any liquidity date. Withdrawals in excess of this amount are satisfied over succeeding liquidity dates, causing a full withdrawal to take up to a year. The redemption frequency for this class of investments is quarterly with a 65 day redemption notice period.

(h) This class includes investments in hedge funds that invest in both long and short positions primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the unadjusted net asset value per share of the investments as reported by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. The redemption frequency for this class of investments is quarterly with a redemption notice period of 30 days.

(i) This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds in this category invest in risk arbitrage, convertible arbitrage, relative value arbitrage (pairs trading), and distressed arbitrage. The fair values of the investments in this class have been estimated using the unadjusted net asset value per share of the investments as reported by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. The redemption frequency for this class of investments is quarterly with a 60 day redemption notice period.

(j) This class invests in funds consisting of hedge funds. Management of the funds has the ability to shift its investment among funds or into new funds. The fair values of the investments in this class have been estimated using the unadjusted net asset value per share of the investments as reported by the fund manager. No unobservable inputs internally developed by the Foundation have been applied. Investments representing approximately 50% of the value of the assets in this class cannot be redeemed because the investments include restrictions that do not allow for redemption during the first three years. The remaining restriction for these investments ranges from zero to thirty-one months at June 30, 2013. The redemption frequency for this class of investments ranges from monthly to annually with a redemption notice period ranging from 25 to 180 days.

(k) This class includes three private equity funds that invest primarily in start up or speculative opportunities. These investments cannot be redeemed. Rather, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. The fair values of these investments funds have been estimated using the unadjusted net asset value per share as reported by the fund managers. No unobservable inputs internally developed by the Foundation have been applied. As of June 30, 2013 and 2012, unfunded commitments for this class of investments were $49,638.

The following tables present a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3), as of June 30:

Hedge and Private Equity Funds	**2013**	**2012**
Beginning balance	$28,214,878	$32,557,270
Net realized and unrealized gains (losses) in operations	3,031,334	(1,920,698)
Purchases	2,000,000	2,219,159
Redemptions	(4,659,278)	(4,640,853)
Ending balance	$28,586,934	$28,214,878

Interest Rate Swap Agreement Liability	2013	2012
Beginning balance	$1,130,563	$ 1,771,384
Net realized and unrealized gains in operations	22,317	248,787
Receipts	24,456	39,650
Payments	(645,456)	(929,258)
Ending balance	$ 531,880	$ 1,130,563

There were no financial assets or liabilities transferred into or out of the Level 3 category for any of the periods presented.

As of June 30, 2013, total net realized and unrealized gains recorded in the consolidated statements of activities relating to hedge and private equity funds are $3 million, of which $893,900 are net unrealized gains. As of June 30, 2012, total net realized and unrealized losses recorded in the consolidated statements of activities relating to hedge and private equity funds are $1.9 million, of which $3.6 million are net unrealized losses.

The Foundation follows the provisions of FASB ASC 825, *Financial Instruments*, which requires disclosure of fair value information for both financial instruments to be 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 and Cash Equivalents and Restricted Cash and Cash Equivalents — Due to their short-term and liquid nature, cash and cash equivalents and restricted cash and cash equivalents have a fair value which approximates their carrying value.

Interest, Grants, and Accounts Receivable — The Foundation’s interest, grants, and accounts 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 based on the sale of loans that occurred subsequent to June 30, 2013.

Student Loans Receivable — Net — Loans are categorized by status (in-school, grace, repayment, and delinquent). The fair value was estimated as of June 30, 2013 and 2012 by reference to market bids for similar loans.

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 Payable — The Foundation’s bonds consist of variable rate debt. The fair value of the variable rate bonds with maturities in 2047 was based on the transaction that occurred subsequent to June 30, 2013 (see Note 11). The estimated fair value of the variable bonds with maturities in 2042 was determined by discounting the cash flows using current market rates.

Interest Rate Swap Agreement —The valuation of this instrument was determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the swap. This analysis reflected the contractual terms of the swap, including the period to maturity and used observable market-based inputs, including interest rate curves.

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

	2013		2012	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 15,213	$ 15,213	$ 13,414	$ 13,414
Accounts receivable	2,027	2,027	3,224	3,224
Interest receivable	2,509	2,509	6,878	6,878
Grants receivable	2,620	2,620	1,795	1,795
Investments	122,474	122,474	106,099	106,099
Restricted cash and cash equivalents	7,666	7,666	48,862	48,862
Student loans held for sale	64,832	64,832		
Student loans receivable — net	65,811	63,269	410,600	387,871
Financial liabilities:				
Bonds and notes payable — net	128,171	127,604	459,503	395,849
Interest payable	204	204	397	397
Interest rate swap agreement	532	532	1,131	1,131
Accounts payable and accrued expenses	7,360	7,360	9,609	9,609

8. EMPLOYEE BENEFIT PLANS

The Foundation 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 Foundation's profit sharing and 401(k) expense for the years ended June 30, 2013 and 2012, approximated $1.3 million and $1.1 million, respectively, and is included in the accompanying consolidated statements of functional expenses in salaries and benefits.

9. COMMITMENTS AND CONTINGENCIES

The Foundation leases office space and certain equipment under operating lease agreements, which expire between December 2014 and December 2021. Net rent expense for the office space and equipment operating leases amounted to approximately $637,000 and $609,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

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

2014	$ 693
2015	674
2016	658
2017	514
2018	390
Thereafter	1,433

The Foundation has entered into three investment subscription agreements totaling $3 million. As of June 30, 2013, the Foundation has funded $2,950,362 of these investments. The remaining $49,638 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. Management believes, after conversation with counsel, that no matters currently pending would have a material impact on the Foundation's consolidated financial position, activities or liquidity.

10. TEMPORARILY RESTRICTED NET ASSETS

During the years ended June 30, 2013 and 2012, the Foundation received contributions and grants that contained donor imposed restrictions on the use of the contributed funds. As of June 30, 2013 and 2012, the Foundation had temporarily restricted net assets totaling $4.1 million and $4.7 million, respectively, restricted for various programs (in thousands):

	2013	**2012**
EdWorks	$ 118	$ 11
New technology network	1,782	2,496
Strive	2,170	2,121
Education policy institute	3	75
Total temporarily restricted net assets	$ 4,073	$ 4,703

11. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through October 22, 2013, the date the consolidated financial statements were available to be issued, to determine if either recognition or disclosure of significant events or transactions is required. See below for disclosure of such items.

On September 19, 2013, the Foundation sold National Program student loans with a par value of $60.8 million for $61.7 million plus accrued interest. The proceeds of the sale were used to redeem debt with a carrying value of $69.5 million for $68.1 million.

As described in Note 6, the cash flows from the KWF 2010 Program student loans are held in trust and pledged to collateralize the debt related to the KWF 2010 Program. As of June 30, 2013, the Foundation held the rights to an administration fee from the trust, as well as the rights to the residual cash flows in the trust after the KWF 2010 Program debt is extinguished. On September 30, 2013, the Foundation sold its rights to cash flows from the trust, including rights to both the administration fee and to the residuals, to a third party for $3 million. As a result of the transaction, the Foundation will retain its roles as beneficial owner of the loans and as legal obligor of the related debt, but will effectively have no rights or responsibilities with regard to the future cash flows from either the loans or the related debt. The transaction will result in an immaterial loss.

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SUPPLEMENTAL SCHEDULES

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JUNE 30, 2013

	Student Loan Programs						Knowledge Works Foundation	Eliminations	Knowledge Works Consolidated
	National Program	KW2010	KWSL	KFO	Eliminations	Total			
ASSETS									
CASH AND CASH EQUIVALENTS	$	$	$2,413,910	$ 1,258,117	$	$ 3,672,027	$ 11,541,422	$	$ 15,213,449
ACCOUNTS RECEIVABLE		43,664	65,012		(67,476)	41,200	1,999,138	(13,631)	2,026,707
INTEREST RECEIVABLE:									
Investments							15,666		15,666
Student loans	1,273,685	1,219,879				2,493,564			2,493,564
GRANTS RECEIVABLE							2,619,862		2,619,862
INVESTMENTS — At fair value							122,474,114		122,474,114
RESTRICTED CASH AND INVESTMENTS	6,008,389	1,657,626				7,666,015			7,666,015
STUDENT LOANS HELD FOR SALE	64,831,632					64,831,632			64,831,632
STUDENT LOANS RECEIVABLE — Net		58,812,143			6,998,831	65,810,974			65,810,974
DEFERRED FINANCING COSTS — Net	282,297	569,717				852,014			852,014
OTHER							536,404		536,404
PROPERTY AND EQUIPMENT — Net							1,536,987		1,536,987
TOTAL	$72,396,003	$62,303,029	$2,478,922	$ 1,258,117	$6,931,355	$145,367,426	$140,723,593	$ (13,631)	$286,077,388
LIABILITIES AND NET ASSETS									
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 413,145	$ 415,761	$ 13,631	$	$ (67,476)	$ 775,061	$ 6,598,563	$ (13,631)	$ 7,359,993
INTEREST PAYABLE	136,455	67,762				204,217			204,217
INTEREST RATE SWAP AGREEMENT	531,880					531,880			531,880
DEFERRED REVENUE							1,775,149		1,775,149
BONDS AND NOTES PAYABLE — Net	69,500,000	58,670,970				128,170,970			128,170,970
COMMITMENTS AND CONTINGENCIES									
Total liabilities	70,581,480	59,154,493	13,631		(67,476)	129,682,128	8,373,712	(13,631)	138,042,209
UNRESTRICTED NET ASSETS	1,814,523	3,148,536	2,465,291	1,258,117	6,998,831	15,685,298	128,277,066		143,962,364
TEMPORARILY RESTRICTED NET ASSETS							4,072,815		4,072,815
Total net assets	1,814,523	3,148,536	2,465,291	1,258,117	6,998,831	15,685,298	132,349,881		148,035,179
TOTAL	$72,396,003	$62,303,029	$2,478,922	$ 1,258,117	$6,931,355	$145,367,426	$140,723,593	$ (13,631)	$286,077,388

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JUNE 30, 2012

	Student Loan Programs						Knowledge Works		Knowledge Works
	National Program	KW2010	KWSL	KFO	Eliminations	Total	Foundation	Eliminations	Consolidated
ASSETS									
CASH AND CASH EQUIVALENTS	$	$	$1,807,041	$	$	$ 1,807,041	$ 11,606,877	$	$ 13,413,918
ACCOUNTS RECEIVABLE			1,231,102	70,883	(209,825)	1,092,160	2,235,715	(104,126)	3,223,749
INTEREST RECEIVABLE:									
Investments							14,929		14,929
Student loans	1,337,083	1,399,776		4,126,171		6,863,030			6,863,030
GRANTS RECEIVABLE							1,795,271		1,795,271
INVESTMENTS — At fair value							106,099,090		106,099,090
RESTRICTED CASH AND INVESTMENTS	5,362,718	4,199,339		32,300,577		41,862,634	7,000,000		48,862,634
STUDENT LOANS RECEIVABLE — Net	75,289,414	66,568,999		262,182,085	6,559,768	410,600,266			410,600,266
DEFERRED FINANCING COSTS — Net	329,325	679,453		1,446,658		2,455,436			2,455,436
OTHER							574,898		574,898
PROPERTY AND EQUIPMENT — Net			230			230	1,845,038		1,845,268
TOTAL	$82,318,540	$72,847,567	$3,038,373	$300,126,374	$6,349,943	$464,680,797	$131,171,818	$(104,126)	$ 595,748,489
LIABILITIES AND NET ASSETS									
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 478,179	$ 556,586	$ 188,686	$ 2,548,184	$ (209,825)	$ 3,561,810	$ 6,151,013	$(104,126)	$ 9,608,697
INTEREST PAYABLE	157,939	101,807		136,850		396,596			396,596
INTEREST RATE SWAP AGREEMENT	1,130,563					1,130,563			1,130,563
DEFERRED REVENUE							2,238,240		2,238,240
BONDS AND NOTES PAYABLE — Net	79,000,000	69,903,381		310,600,000		459,503,381			459,503,381
COMMITMENTS AND CONTINGENCIES									
Total liabilities	80,766,681	70,561,774	188,686	313,285,034	(209,825)	464,592,350	8,389,253	(104,126)	472,877,477
UNRESTRICTED NET ASSETS	1,551,859	2,285,793	2,849,687	(13,158,660)	6,559,768	88,447	118,079,896		118,168,343
TEMPORARILY RESTRICTED NET ASSETS							4,702,669		4,702,669
Total net assets	1,551,859	2,285,793	2,849,687	(13,158,660)	6,559,768	88,447	122,782,565		122,871,012
TOTAL	$82,318,540	$72,847,567	$3,038,373	$300,126,374	$6,349,943	$464,680,797	$131,171,818	$(104,126)	$ 595,748,489

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

	Student Loan Programs — Unrestricted						KnowledgeWorks Foundation		Knowledge Works Consolidated
	National Program	KW2010	KWSL	KFO	Eliminations	Total	Unrestricted	Temporarily Restricted	
REVENUES (EXPENSES):									
Income on investments	$	$	$	$	$	$	$ 775,164	$	$ 775,164
Income on notes receivable									
Interest and fees on student loans receivable		2,379,090	247,572		(1,221,938)	1,404,724			1,404,724
Royalty fees on student loan servicing program			664,342			664,342			664,342
Grant revenue							219,976	3,240,799	3,460,775
Contract service revenue							13,495,614		13,495,614
Unrealized and realized gains on investment securities — net							11,907,931		11,907,931
Administrative fee income (expense)		(178,960)	178,960						
Net assets released from restriction							3,870,653	(3,870,653)	
Total revenues (expenses)		2,200,130	1,090,874		(1,221,938)	2,069,066	30,269,338	(629,854)	31,708,550
COST OF DEBT:									
Interest expense		851,844				851,844			851,844
Amortization of deferred costs		268,072				268,072			268,072
Total cost of debt		1,119,916				1,119,916			1,119,916
Net revenue (expense) after cost of debt		1,080,214	1,090,874		(1,221,938)	949,150	30,269,338	(629,854)	30,588,634
PROVISION FOR STUDENT LOAN LOSS		(72,122)				(72,122)			(72,122)
PROGRAM AND SUPPORTING EXPENSES:									
Program services:									
Operating programs							19,860,362		19,860,362
Student loan programs		145,349	436,236			581,585			581,585
Other programs							3,219,922		3,219,922
General and administrative							5,849,473		5,849,473
Total program and supporting expenses		145,349	436,236			581,585	28,929,757		29,511,342
TRANSFER OF NET ASSETS			(1,193,313)			(1,193,313)	1,193,313		
CHANGE IN NET ASSETS - continuing operations		862,743	(538,675)		(1,221,938)	(897,870)	2,532,894	(629,854)	1,005,170
DISCONTINUED OPERATIONS:									
Increase in net assets from KFO loan program operations			129,356	(7,568,583)	18,445	(7,420,782)	7,664,276		243,494
Net gain on disposal of KFO loan program				21,985,360	1,617,513	23,602,873			23,602,873
Increase in net assets from National loan program operations	262,664		24,923		25,043	312,630			312,630
CHANGE IN NET ASSETS - discontinued operations	262,664		154,279	14,416,777	1,661,001	16,494,721	7,664,276		24,158,997
INCREASE DECREASE IN NET ASSETS	262,664	862,743	(384,396)	14,416,777	439,063	15,596,851	10,197,170	(629,854)	25,164,167
NET ASSETS — Beginning of year	1,551,859	2,285,793	2,849,687	(13,158,660)	6,559,768	88,447	118,079,896	4,702,669	122,871,012
NET ASSETS — End of year	$ 1,814,523	$ 3,148,536	$ 2,465,291	$ 1,258,117	$ 6,998,831	$ 15,685,298	$ 128,277,066	$ 4,072,815	$ 148,035,179

KNOWLEDGEWORKS FOUNDATION

CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

	Student Loan Programs — Unrestricted						KnowledgeWorks Foundation		Knowledge Works Consolidated
	National Program	KW2010	KWSL	KFO	Eliminations	Total	Unrestricted	Temporarily Restricted	
REVENUES (EXPENSES):									
Income on investments	$	$	$	$	$	$	$ 1,498,659	$	$ 1,498,659
Interest and fees on student loans receivable		2,750,197	298,110		(1,411,123)	1,637,184			1,637,184
Royalty fees on student loan servicing program			1,069,560			1,069,560			1,069,560
Grant revenue							172,922	4,288,809	4,461,731
Contract service revenue							11,360,570		11,360,570
Unrealized and realized losses on investment securities — net							(7,357,030)		(7,357,030)
Administrative fee income (expense)		(199,145)	199,145						
Net assets released from restriction							3,775,529	(3,775,529)	
Total revenues (expenses)		2,551,052	1,566,815		(1,411,123)	2,706,744	9,450,650	513,280	12,670,674
COST OF DEBT:									
Interest expense		1,046,953				1,046,953			1,046,953
Amortization of deferred costs		184,283				184,283			184,283
Total cost of debt		1,231,236				1,231,236			1,231,236
Net revenue (expense) after cost of debt		1,319,816	1,566,815		(1,411,123)	1,475,508	9,450,650	513,280	11,439,438
RELEASE OF PROVISION FOR STUDENT LOAN LOSS		146,723				146,723			146,723
PROGRAM AND SUPPORTING EXPENSES:									
Program services:									
Operating programs							16,465,322		16,465,322
Student loan programs		157,051	476,865			633,916			633,916
Other programs							3,479,216		3,479,216
General and administrative							5,193,469		5,193,469
Total program and supporting expenses		157,051	476,865			633,916	25,138,007		25,771,923
TRANSFER OF NET ASSETS			(500,000)			(500,000)	500,000		
CHANGE IN NET ASSETS - continuing operations		1,309,488	589,950		(1,411,123)	488,315	(15,187,357)	513,280	(14,185,762)
DISCONTINUED OPERATIONS:									
Increase in net assets from KFO loan program operations			901,024	833,286	67,055	1,801,365			1,801,365
Increase in net assets from National loan program operations	861,983		160,208		28,059	1,050,250			1,050,250
CHANGE IN NET ASSETS - discontinued operations	861,983		1,061,232	833,286	95,114	2,851,615			2,851,615
INCREASE (DECREASE) IN NET ASSETS	861,983	1,309,488	1,651,182	833,286	(1,316,009)	3,339,930	(15,187,357)	513,280	(11,334,147)
NET ASSETS — Beginning of year	689,876	976,305	1,198,505	(13,991,946)	7,875,777	(3,251,483)	133,267,253	4,189,389	134,205,159
NET ASSETS — End of year	$ 1,551,859	$ 2,285,793	$ 2,849,687	$ (13,158,660)	$ 6,559,768	$ 88,447	$ 118,079,896	$ 4,702,669	$ 122,871,012