Exhibit 17

Action Item

Consent Calendar

Ratification of a contract with Stanfield Systems Incorporated for $153,450 for information consulting services to upgrade the Grant Delivery System (DGS) from Oracle 10g to Oracle 11g and to conduct an assessment of the GDS and its applications

At its June 21, 2013 meeting, the Commission authorized the Executive Director to enter into a contract of up to $150,000 in 2012-13 with a selected vendor to upgrade the Grand Delivery System (DGS) from Oracle 10g to Oracle 11g and to conduct an assessment of the GDS and its applications. At that time, we informed the Commission that three vendors had responded to our Request for Offer (RFO) and that it appeared likely that the actual amount of the contract would exceed $150,000. However, because of the Bagley-Keene Open Meeting Act, we were not able to request authority for an amount higher than the $150,000 indicated in the meeting notice and that we may need to bring the contract back a the next meeting for ratification.

The staff completed their review of the RFO responses and awarded the contract to Stanfield Systems, Incorporated for a total of $153,450 on June 28, 2013. On July 2, 2013, the Executive Director, Diana Fuentes-Michel, notified the Commission of the increase in the contract amount and that she had signed the contract.

The Executive Director must obtain approval from the Commission before entering into a new contract over $100,000, or executing a contract amendment that results in a total contract amount of over $100,000. However, in the event an emergency approval is necessary for a contract of over $100,000, the Executive Director may approve the contract with a simultaneous notice to the Commission. The emergency approval must be ratified at the next regularly scheduled Commission meeting, and if not ratified, the contract must be canceled.

Recommended Action: Ratify the $153,450 contract with Stanfield Systems, Incorporated.

Responsible Person(s): Janet McDuffie, Chief
Administration and External Affairs Division

Chris Edwards, Chief
Information Technology Division

California Student Aid Commission

Acceptance of the September 30, 2012 Audited Financial Statements for EdFund

Education Code section 69527 requires that a certified public accountant be selected to audit all funds of the Commission's auxiliary, EdFund, in accordance with applicable auditing and reporting procedures. The audit is required to be submitted to the Commission and the Department of Finance and must also be made publicly available.

Crowe-Horwath LLP has completed its independent audit of the EdFund Financial Statement for the year ended September 30, 2012. A copy of the audit report may be found at Exhibit 17.1. Upon the Commission's acceptance of this audit, a copy will be submitted to the Department of Finance and posted on EdFund's website.

Recommended Action: Accept the audit of the EdFund financial statement for the year ended September 30, 2012.

Responsible Person(s): Janet McDuffie, Chief
Administration and External Affairs Division

EDFUND

FINANCIAL STATEMENTS
September 30, 2012 and 2011

EDFUND
Rancho Cordova, California

FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011

CONTENTS

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
EdFund
Rancho Cordova, California

We have audited the accompanying financial statements of EdFund, a component unit of the California Student Aid Commission, as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of EdFund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 EdFund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EdFund as of September 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2013 on our consideration of EdFund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

As discussed in Note 1, effective November 1, 2010, Educational Credit Management Corporation (ECMC) became the designated guaranty agency for the Commission's Federal Family Education Loan (FFEL) Program portfolio. On November 2, 2010, EdFund remitted substantially all excess cash to the Commission's Operating Fund. Remaining EdFund cash and other current assets were used to pay the outstanding liabilities and obligations when due during the year. Other EdFund expenses were paid either from ECMC or from contingency funds retained by the Commission to cover federal policy and program expense and 2010-11 and 2011-12 FFEL Program wind-down costs.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
June 28, 2013

EDFUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

This financial audit report consists of four parts: *The Independent Auditors' Report, Management's Discussion and Analysis (this section), Financial Statements* (Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows), and *Notes to the Financial Statements* which explain in further detail information contained in the financial statements.

This section of EdFund's financial audit report presents management's discussion and analysis of its financial performance during the fiscal years ended September 30, 2012, 2011 and 2010. The information contained in management's discussion and analysis should be read in conjunction with the financial statements following this section.

EdFund, a nonprofit public benefit corporation, was created on January 2, 1997, as an auxiliary organization of the California Student Aid Commission (Commission) pursuant to Section 69522(a) of the California Education Code. The creation of EdFund was authorized by state legislation that empowered the Commission to establish a nonprofit auxiliary to carry out all activities associated with its participation in the Federal Family Education Loan (FFEL) Program. EdFund is a component unit of the Commission, and operates under terms and conditions set forth in an annual operating agreement between the two organizations. To fully understand the nature of and the expenses associated with administering the FFEL Program, the EdFund financial statements should be read in conjunction with the financial statements of the Commission's Federal Student Loan Reserve Fund (Federal Fund) and Student Loan Operating Fund (Operating Fund) as of and for the four months ended October 31, 2010 and the year ended June 30, 2010.

On July 20, 2010, the U.S. Department of Education (ED) informed the Commission that its guaranty agency agreement with the Commission would be terminated by no later than October 31, 2010. The U.S. Secretary of Education selected Educational Credit Management Corporation (ECMC) as the successor guaranty agency to assume California's Federal Fund assets and liabilities and the rights, obligations (including the continuing outstanding FFEL Program guarantees) of the Commission's guaranty agency activities, including administration of the Operating Fund.

In compliance with ED's directive, on October 29, 2010 the Commission and ECMC entered into an agreement to transfer and assign to ECMC the Commission's FFEL Program guarantee portfolio, Federal Fund and Operating Fund. Effective November 1, 2010, ECMC became the designated guaranty agency for the Commission's FFEL Program portfolio. The Commission worked with ED to structure a seamless transition to ECMC while maintaining a high level of support for students, borrowers and educational institutions. During the transition period, EdFund provided guarantor support services to ECMC and ECMC employees.

To facilitate the guaranty designation transfer, ECMC, the Commission and EdFund have entered into operating agreements for the periods October 1, 2011 through December 31, 2012 and November 1, 2010 through September 30, 2011. The agreements include provisions for EdFund to provide ECMC with access and use of certain equipment and assets while ECMC provides certain administrative services to the Commission. A new operating agreement becomes effective for the six month period January 1, 2013 through June 30, 2013 and provides for the transfer of certain EdFund-owned assets to ECMC along with similar provisions contained in the previous operating agreements. All other EdFund assets become the property of the Commission upon agreement termination and in the absence of a subsequent agreement. Between November 1, 2010 and December 6, 2010, all EdFund direct hire employees were either employed by ECMC or separated from EdFund, and the 10 civil service employees were reassigned to the Commission. The members of the EdFund Board of Directors tendered their resignation effective December 5, 2010. In an action taken December 7, 2010, the Commissioners appointed themselves as members of the EdFund Board of Directors.

EdFund and the Commission continue to maintain an operating agreement post guaranty transfer that is currently effective July 1, 2011 through June 30, 2013. This agreement no longer includes provisions addressing the FFEL Program, but states EdFund agrees to provide the Commission with services pursuant to the agreement and the Commission agrees to provide EdFund with support and services pursuant to the agreement. The agreement reiterates that EdFund assets become the property of the Commission upon agreement termination and in the absence of a subsequent agreement. Future services to be provided by EdFund to the Commission are still under review by the current EdFund Board of Directors and the Commission.

Financial Highlights

Financial activity in 2012 consisted of expenses incurred in the transition of data, services and operations related to the FFEL Program to ECMC (e.g. depreciation of fixed assets and amortization of prepaid assets), insurance premiums and support for the Commission's outreach programs.

Background Information

In administering the FFEL Program on behalf of the Commission, EdFund managed cash activity related to lender claim payments, collection recoveries from defaulted loans, and federal default fee payments. In addition, EdFund's bank accounts were used to deposit funds associated with FFEL Program administrative fees paid by the U.S. Department of Education. These cash transactions were verified, recorded, and transferred to or reimbursed from the Commission's Student Loan Operating Fund or Federal Fund. As a result of this arrangement, historically the EdFund Balance Sheets and Statements of Cash Flows reflect substantial fluidity from one accounting period to another depending on the timing of these transactions.

Passage of the Health Care and Education Affordability Reconciliation Act of 2010 (H.R. 4872) on March 30, 2010 significantly changed the FFEL Program structure by eliminating new lending under the FFEL Program effective July 1, 2010 and moving all federal student loan funding to the Direct Loan Program, thus removing private banks from student lending and expanded the role of government contractors in administering student loans. While H.R. 4872 discontinued new FFEL Program loan guarantees, the other guaranty agency functions of default aversion, prevention, claims processing and collections for the outstanding FFEL Program portfolio remain the responsibility of the guaranty agency.

Background Information (Continued)

Prior to the transfer of the guaranty designation, EdFund's Statements of Revenues, Expenses, and Changes in Net Assets primarily reflect expenses incurred by EdFund on behalf of the Commission, and their subsequent reimbursement called program service fees. The nature of the operating agreement between the Commission and EdFund calls for reimbursement of operating costs incurred by EdFund while administering all FFEL Program guaranty agency functions consistent with its auxiliary responsibilities. Also specified in the operating agreement is the process where EdFund initially invests in capital asset purchases and is reimbursed by the Commission as the assets are used in the daily operations of the FFEL Program.

Following the transfer of the guaranty designation from the Commission to ECMC, EdFund's efforts included facilitating the transition of all FFEL Program functions to ECMC, transferring substantially all excess cash to the Commission's Operating Fund in the State Treasury, and handling the extinguishing of EdFund's financial liabilities and obligations during the year. Ongoing services are provided through provisions in the operating agreement between ECMC, the Commission and EdFund, and the operating agreement between the Commission and EdFund.

Condensed Financial Statements and Financial Analysis

The following tables provide a summary of EdFund's balance sheets and statements of revenues, expense and changes in net assets as of and for the fiscal years ended September 30, 2012, 2011 and 2010.

Assets	**2012**	**2011**	**2010**
Cash and cash equivalents	$ 88,044	$ 10,001	$ 122,075,546
Accounts receivable	82,574	443,354	11,225
Due from and other assets	2,219	48,695	8,445,883
Capital assets, net of accumulated depreciation	296,703	1,131,443	3,297,371
Total assets	$ 469,540	$ 1,633,493	$ 133,830,025
Liabilities and Net Assets			
Due to lending institutions	$ -	$ -	$ 48,663,496
All other current liabilities	170,618	441,734	57,754,908
Noncurrent liabilities	-	-	5,963,212
Total liabilities	170,618	441,734	112,381,616
Net assets:			
Invested in capital assets	296,703	1,131,443	3,297,371
Unrestricted	2,219	60,316	18,151,038
Total net assets	298,922	1,191,759	21,448,409
Total liabilities and net assets	$ 469,540	$ 1,633,493	$ 133,830,025

Condensed Financial Statements and Financial Analysis (Continued)

- Total assets exceed total liabilities by $298.9 thousand, $1.2 million, and $21.4 million at the end of the fiscal years 2012, 2011 and 2010, respectively. The decrease in 2012 is associated with the depreciation and amortization of remaining EdFund assets used in support of the transition of the FFEL Program to ECMC. The decrease in the prior year, 2011, is a direct result of EdFund no longer administering the FFEL Program following the transfer of the guaranty agency designation from the Commission to ECMC effective November 1, 2010, the subsequent return of cash to the Commission and the payment of outstanding liabilities over the course of the year.

- Cash and cash equivalents increased $78.0 thousand, or 780.4 percent, in 2012 compared to a decrease of $122.1 million, or 91.8 percent, in 2011. The current year increase reflects transfers of contingency funds held by CSAC with the state of California to EdFund for operating liquidity. The 2011 decrease reflects EdFund no longer handling the FFEL Program cash transactions of claim payments and collection recoveries on behalf of the Commission and the return of $28.2 million in cash to the Commission's Operating Fund on November 2, 2010.

- Accounts receivable balances in 2012 and 2011 reflect a receivable due from ECMC to cover certain estimated EdFund obligations incurred as part of the FFEL Program wind-down, as outlined in the operating agreement between ECMC, EdFund and the Commission.

- Due from and other assets decreased $46.5 thousand in 2012 compared to an $8.4 million decrease in 2011. The decrease in 2012 reflects the amortization of prepaid expenses for computer maintenance and software service agreements for assets used during the transition of data, services and operations related to the FFEL Program to ECMC. The decrease in 2011 reflects the elimination of FFEL Program services provided by EdFund and the associated receivable from the Commission's Operating Fund for their reimbursement. The balance in 2010 primarily represents the receivable due from the Commission's Operating Fund for EdFund operating expense reimbursements. The balance fluctuated according to the timing of when reimbursement payments were paid by the Commission.

- Due to lending institutions was zero in 2012 and at September 30, 2011, down from $48.7 million in 2010, consistent with EdFund no longer performing FFEL Program activities for the Commission.

- All other current liabilities reflect EdFund's obligation to return remaining contingency funds to ECMC's Operating Fund following the termination of the new operating agreement, and the remaining unemployment insurance obligation at September 30, 2012 and 2011. The 2010 balances reflect the FFEL Program claim payment obligations to lenders no longer applicable in 2011 due to the guaranty agency designation transfer to ECMC.

- Noncurrent liabilities was zero in 2012 and at September 30, 2011, down from $5.9 million in 2010, due to the EdFund Board terminating the 457 Plan and the post-retirement plan.

Condensed Financial Statements and Financial Analysis (Continued)

- Capital assets, net of accumulated depreciation, decreased 73.8 percent to $296.7 thousand in 2012, and decreased 65.7 percent to $1.1 million in 2011, from $3.3 million in 2010, due to the continued depreciation of existing capital assets in 2012 and 2011 and the write-down of assets no longer in service in 2011.

	2012	2011	2010
Operating revenues:			
Program service fees	$ 55,462	$ 10,910,354	$ 78,170,830
Operating expenses:			
Salaries and benefits	-	6,068,796	43,823,685
External agency commissions	-	1,488,561	15,844,811
Consulting and professional fees	6,863	478,612	2,627,489
Facilities operations	2,873	915,750	5,830,768
Computer expenses	46,808	1,305,129	2,983,216
Depreciation expense	834,740	1,599,508	2,203,848
Other operating expenses	45,394	1,149,301	5,349,272
Total operating expenses	936,678	13,005,657	78,663,089
Operating loss	(881,216)	(2,095,303)	(492,259)
Nonoperating revenues (expenses):			
Grant administrative service fees	56,968	61,660	433,283
Interest income	3	1,671	19,182
Grant administrative costs	(56,968)	(61,660)	(433,283)
Net (loss) gain on disposal of capital assets	-	(570,921)	3,612
Total nonoperating revenues (expenses), net	3	(569,250)	22,794
Special items:			
Gain from plan termination and settlement	-	5,562,265	-
Guaranty agency transfer expense	(11,624)	(23,154,362)	-
Total special items (expenses), net	(11,624)	(17,592,097)	-
Change in net assets	(892,837)	(20,256,650)	(469,465)
Net assets, beginning of year	1,191,759	21,448,409	21,917,874
Net assets, end of year	$ 298,922	$ 1,191,759	$ 21,448,409

Comparison of 2012 and 2011

- EdFund's total 2012 operating revenues decreased $10.9 million, or 99.5 percent, from 2011. This decrease reflects EdFund no longer providing FFEL Program services as these fees represent reimbursements to EdFund for managing FFEL Program operational activities early in 2011.

Condensed Financial Statements and Financial Analysis (Continued)

- Total operating expenses for 2012 decreased 12.1 million, or 92.8 percent, compared to 2011. As stated above, this decrease reflects EdFund no longer providing FFEL Program services. Expenses in 2012 are associated with depreciation of fixed assets and amortization of prepaid expenses for assets used by ECMC in the performance of guarantor activities for the FFEL Program, and insurance premiums.

- Grant administrative service fees of $56,968 in 2012 and $61,660 in 2011 represent costs incurred by EdFund, as directed by the Commission, to support outreach and grant administrative efforts. Most of the costs are reimbursed from the Commission's Federal Trust Fund and General Fund.

- The decrease in interest income in 2012 reflects elimination of interest-bearing accounts in 2012. The decrease in interest income returns in 2011 reflects the transfer of cash balances to the Operating Fund.

- Gain from plan termination and settlement was zero in 2012. The $5.6 million reported in 2011 is from the elimination of the remaining liability for EdFund's post-retirement healthcare plan net of settlement distributed to qualifying employees.

- Guaranty agency transfer expense of $11.6 thousand in 2012 includes a transfer of funds due to the ECMC Operating Fund at September 30, 2011. The $23.2 million reported in 2011 reflects the disposition of certain asset and liability accounts associated with the transfer of the guaranty agency designation from the Commission to ECMC and the termination of operational activities at EdFund for managing the FFEL Program. Activities recognized as a net transfer expense include the $28.2 million excess cash transferred to the Commission's Operating Fund, liquidation of the $20 million advance from the Commission to EdFund for beginning working capital and clearing the $19.4 million receivable from the Commission's Operating Fund for reimbursement of EdFund expenses.

<u>Comparison of 2011 and 2010</u>

- EdFund's total 2011 operating revenues decreased $67.3 million, or 86.1 percent, from 2010. This decrease reflects EdFund no longer providing FFEL Program services as these fees represent reimbursements to EdFund for managing FFEL Program operational activities.

- Total operating expenses for 2011 decreased $65.7 million, or 83.5 percent, compared to 2010. Significant operating expense variances from prior year activity are as follows:

  - Salaries and benefits decreased $37.7 million, or 86.1 percent, compared to the prior year. This decrease reflects EdFund staff either being hired by ECMC, or separation from EdFund, in October and December 2010 in response to the guaranty agency designation transferring from the Commission to ECMC.

Condensed Financial Statements and Financial Analysis (Continued)

- External agency commissions decreased $14.3 million, or 90.5 percent, compared to 2010. External agency commission expense was incurred for only one month in 2011 and then assumed by ECMC, compared to twelve months in 2010.

- Consulting and professional fees decreased $2.1 million in 2011, compared to prior year, due to the transfer of the FFEL Program activities to ECMC early in the fiscal year which eliminated the need for consulting and temporary agency services.

- Facilities operations decreased by $4.9 million, or 84.5 percent, compared to 2010 as a result of terminating the facilities leases following the transfer of the guaranty agency designation from the Commission to ECMC.

- Computer expenses decreased $1.7 million, or 56.7 percent, compared to 2010. The decrease in computer expenses does not mirror the same magnitude of decrease as other expense categories because EdFund continued to incur computer maintenance costs on its capital assets made available to ECMC under the terms of operating agreement between ECMC, the Commission and EdFund.

- Other operating expenses, which include postage, communications, travel, staff development, equipment and depreciation and loss on capital asset disposition, decreased by $4.9 million, or 64.5 percent, compared to 2010 as many of these activities were eliminated following the transfer of the guaranty agency designation from the Commission to ECMC.

Significant Known Facts, Decisions, or Conditions

<u>Litigation</u>

In November, 2010, EdFund notified the lessor that it was terminating the main office (Mather) operating lease effective December 31, 2010. While the lessor did not accept the termination, it subsequently leased to other parties the two buildings that comprise the Mather premises. On January 14, 2011 the lessor filed suit against EdFund and its Board of Directors citing, among other things, breach of contract for the Mather lease and is seeking damages. A settlement was reached with the State of California for $4.2 million from the State's General Fund. There is no impact on these financial statements.

EDFUND
BALANCE SHEETS
September 30, 2012 and 2011

		2012		2011
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	$	88,044	$	10,001
Accounts receivable		82,574		443,354
Prepaid and other assets		2,219		48,695
Total current assets		172,837		502,050
Capital assets, net of accumulated depreciation (Note 4)		296,703		1,131,443
Total assets	$	469,540	$	1,633,493
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	$	–	$	3,534
Accrued expenses and other liabilities (Note 5)		170,618		438,200
Total current liabilities		170,618		441,734
Net assets:				
Investment in capital assets (Note 4)		296,703		1,131,443
Unrestricted		2,219		60,316
Total net assets		298,922		1,191,759
Total liabilities and net assets	$	469,540	$	1,633,493

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

EDFUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Program service fees	$ 55,462	$ 10,910,354
Operating expenses:		
Salaries and benefits (Notes 6 and 7)	–	6,068,796
External agency commissions	–	1,488,561
Consulting and professional fees	6,863	478,612
Facilities operations (Note 5)	2,873	915,750
Computer expenses	46,808	1,305,129
Depreciation expense (Note 4)	834,740	1,599,508
Travel expenses	–	16,939
Other operating expenses	45,394	1,132,362
Total operating expenses	936,678	13,005,657
Operating loss	(881,216)	(2,095,303)
Nonoperating revenues (expenses):		
Grant administrative service fees	56,968	61,660
Interest income, net (Note 3)	3	1,671
Grant administrative costs	(56,968)	(61,660)
Net loss on disposal of capital assets (Note 4)	–	(570,921)
Total nonoperating revenues (expenses), net	3	(569,250)
Special items:		
Gain from plan termination and settlement (Note 6)	–	5,562,265
Guaranty agency transfer expense, net	(11,624)	(23,154,362)
Total special items expenses, net	(11,624)	(17,592,097)
Change in net assets	(892,837)	(20,256,650)
Net assets, beginning of year	1,191,759	21,448,409
Net assets, end of year	$ 298,922	$ 1,191,759

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

EDFUND
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 55,462	$ 6,540,797
Cash paid to suppliers and vendors	34,202	(8,760,929)
Cash paid to employees for services	–	(8,079,513)
Net cash provided by (used in) operating activities	89,664	(10,299,645)
Cash flows from noncapital financing activities:		
Purchase of defaulted loans	–	(116,730,855)
Reimbursements from the Commission of defaulted loans	–	116,730,855
Receipts from ED	–	77,284,150
Reimbursements to the Commission of amounts received from ED	–	(150,415,570)
Cash receipts from repurchased loans	–	2,527,234
Cash remitted to the Commission for repurchased loans	–	(5,248,145)
Cash receipts from collections	–	43,717,026
Cash remitted to the Commission for collections	–	(50,631,953)
Cash receipts from federal default fees	–	244,655
Cash remitted to the Commission for federal default fees	–	(913,028)
Cash receipts from borrower counseling services	–	1,325,714
Cash remitted to the Commission for borrower counseling services	–	(1,325,714)
Cash remitted to the Operating Fund	(11,624)	(28,331,940)
Net cash used in noncapital financing activities	(11,624)	(111,767,571)
Cash flows from investing activities:		
Interest received	3	2,220
Remittances to the Commission of interest received	–	(549)
Net cash provided by investing activities	3	1,671
Net increase (decrease) in cash and cash equivalents	78,043	(122,065,545)
Cash and cash equivalents, beginning of year	10,001	122,075,546
Cash and cash equivalents, end of year	$ 88,044	$ 10,001
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ (881,216)	$ (2,095,303)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	834,740	1,599,508
Special items, non-cash	–	10,721,412
Change in assets and liabilities:		
Due from Operating Fund and accounts receivable	360,780	13,820,319
Due from Federal Fund	–	736,008
Due from General Fund	–	80,208
Prepaid and other assets	46,476	993,389
Accounts payable	(3,534)	(692,357)
Accrued payroll	–	(1,693,902)
Accrued expenses and other liabilities	(267,582)	(27,805,715)
Noncurrent liabilities	–	(5,963,212)
Net cash provided by (used in) operating activities	$ 89,664	$ (10,299,645)

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

NOTE 1 - ORGANIZATION AND OPERATIONS

EdFund, a nonprofit public benefit corporation, was created on January 2, 1997 as an auxiliary organization of the California Student Aid Commission (the "Commission") pursuant to Section 69522(a) of the California Education Code. Additionally, EdFund is a component unit of the Commission created to administer, operate, and provide services essential to the Commission's participation as a designated guaranty agency in the Federal Family Education Loan (FFEL) Program.

On July 20, 2010, the U.S. Department of Education (ED) informed the Commission that its guaranty agency agreement with the Commission would be terminated by no later than October 31, 2010. The U.S. Secretary of Education selected Educational Credit Management Corporation (ECMC) as the successor guaranty agency to assume California's Federal Fund assets and liabilities and the rights, obligations (including the continuing outstanding FFEL Program guarantees) of the Commission's guaranty agency activities, including administration of the Operating Fund.

In compliance with ED's directive, on October 29, 2010 the Commission and ECMC entered into an agreement to transfer and assign to ECMC the Commission's FFEL Program guarantee portfolio, Federal Student Loan Reserve Fund (Federal Fund) and Student Loan Operating Fund (Operating Fund). The Commission's Operating Fund included the funds in the State Treasury and the EdFund auxiliary and equity accounts. Both EdFund accounts were initially established from Commission Operating Fund transfers and, therefore, subject to the federally authorized uses of an Operating Fund.

To facilitate the guaranty designation transfer, ECMC, the Commission and EdFund have entered into operating agreements for the periods October 1, 2011 through December 31, 2012 and November 1, 2010 through September 30, 2011. The agreements include provisions for EdFund to provide ECMC with access and use of certain equipment and assets while ECMC provides certain administrative services to the Commission. A new operating agreement becomes effective for the six month period January 1, 2013 through June 30, 2013 and provides for the transfer of certain EdFund-owned assets to ECMC along with similar provisions contained in the previous operating agreements. All other EdFund assets become the property of the Commission upon agreement termination and in the absence of a subsequent agreement.

Effective November 1, 2010, ECMC became the designated guaranty agency for the Commission's FFEL Program portfolio. On November 2, 2010, EdFund remitted substantially all excess cash to the Commission's Operating Fund. Remaining EdFund cash and other current assets were used to pay the outstanding liabilities and obligations when due during the year. Other EdFund expenses were paid either from ECMC, as outlined in the operating agreement, or from contingency funds retained by the Commission, per ED's authorization, to cover federal policy and program expense and 2010-11 and 2011-12 FFEL Program wind-down costs.

Between November 1, 2010 and December 6, 2010, all EdFund direct hire employees were either employed by ECMC or separated from EdFund, and the 10 civil service employees were reassigned to the Commission. Members of the EdFund Board of Directors tendered their resignation effective December 5, 2010, and in an action taken December 7, 2010, the Commissioners appointed themselves as members of the EdFund Board of Directors.

(Continued)

NOTE 1 - ORGANIZATION AND OPERATIONS (Continued)

Prior to the guaranty designation transfer to ECMC on November 1, 2010, EdFund operated under the terms and conditions set forth in an operating agreement between the Commission and EdFund that was renewed or extended annually on July 1. Under the agreement, EdFund was reimbursed for expenses incurred on behalf of the Commission in administering the FFEL Program. Most of the expenses incurred for administering the FFEL Program were recorded in EdFund's financial records while other expenses incurred for administering the FFEL Program were recorded in financial statements of the Commission. In order to fully understand the nature of and the expenses associated with administering the FFEL Program, the EdFund financial statements should be read in conjunction with the financial statements of the Commission's Federal Fund and Operating Fund for the four months ended October 31, 2010, prior to guaranty transfer, and the prior year ended June 30, 2010, respectively.

EdFund and the Commission continue to maintain an operating agreement post guaranty transfer that is currently effective July 1, 2011 through June 30, 2013. This agreement no longer includes provisions addressing the FFEL Program, but states EdFund agrees to provide the Commission with services pursuant to the agreement and the Commission agrees to provide EdFund with support and services pursuant to the agreement. The agreement reiterates that EdFund assets become the property of the Commission upon agreement termination and in the absence of a subsequent agreement. Future services to be provided by EdFund to the Commission are still under review by the current EdFund Board of Directors and the Commission.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of EdFund have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of the Governmental Accounting Standards Board (GASB), as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. EdFund has not applied accounting standards issued after November 30, 1989 by the FASB. The accounts of EdFund are maintained in accordance with the principles of fund accounting. Fund accounting is a system under which resources are classified for accounting and reporting purposes into funds established according to their purpose.

EdFund is a proprietary fund component unit of the Commission. Financial statements for proprietary funds are based on the flow of economic resources measurement focus and the accrual basis of accounting. As such, revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow.

(b) Tax-Exempt Status

EdFund qualifies as a tax-exempt organization under Section 501(c)(3) of the United States Internal Revenue Code and corresponding provisions of California law and, accordingly, is not subject to federal or state income taxes.

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Capital Assets

Capital assets are those assets purchased or acquired with an original cost of $5,000 or more. Additions, improvements or other capital outlays that significantly extend the useful life of an asset are capitalized. These assets are reported at historical cost and are depreciated using the straight-line method over their estimated useful lives of three to ten years (term of lease for leasehold improvements). Costs incurred for repairs and maintenance are expensed as incurred.

(d) Revenue Recognition

Program service fee revenue is recognized when the related expense is incurred on behalf of the Commission. During the period November 1, 2010 through September 30, 2011 program service fee revenue was recognized for services provided to ECMC as addressed in the operating agreement. Prior to the transfer of the guaranty designation to ECMC, program service fee revenue represented an amount equal to the expenses incurred by EdFund in administering the FFEL Program on behalf of the Commission.

Operating revenues and expenses result from exchange transactions associated with the principal activities of EdFund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues and expenses, such as interest income, net gain on disposal of capital assets and grant administrative service fees and costs, result from revenues and expenses not earned or incurred in administering the FFEL Program and/or nonexchange transactions.

(e) Salaries

EdFund had two types of employees: employees directly hired by EdFund and civil service employees of the Commission who were assigned to work for EdFund (assigned employees). Salary expense includes the salaries, wages, and related benefits of both EdFund directly hired employees and assigned employees. The salaries, wages and related benefits of assigned employees were paid by the Commission and EdFund reimbursed the Commission for those amounts. Between November 1, 2010 and December 6, 2010, all EdFund direct hire employees were either employed by ECMC, or separated from EdFund. The civil service employees were reassigned to the Commission effective November 1, 2010.

(f) Related Party Transactions

On January 2, 1997, the Commission advanced $20,000,000 to EdFund for operating capital. Interest income earned on the unused portion of the advance was reimbursed monthly to the Commission. As of September 30, 2010, no payments were required and on November 2, 2010, the $20,000,000 advance was repaid. Additional information is addressed in Note 3.

As described more fully in Note 1 and the Revenue Recognition accounting policy above, the majority of EdFund's revenues are earned under an operating agreement with the Commission, and effective November 1, 2010, an operating agreement with ECMC, the Commission and EdFund.

(Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Use of Estimates

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 3 - CASH AND CASH EQUIVALENTS

At September 30, 2012 and 2011, EdFund maintained cash and cash equivalents of $88,044 and $10,001, respectively, in non-interest bearing bank accounts.

On November 2, 2010, EdFund was directed to remit substantially all excess cash totaling $28,216,702 to the Commission's Operating Fund in the State Treasury. Part of this cash transfer cleared EdFund's $20,000,000 liability due to the Operating Fund that was advanced at EdFund's inception for use as operating capital. Any remaining cash is subject to subsequent transfer to the Operating Fund at ECMC.

At September 30, 2012 and 2011, the carrying value of the cash and cash equivalents approximated its market value because of its short-term maturity. Interest earned for the year ended September 30, 2012 totaled $3, of which none was allocated to the Commission. Interest earned for the year ended September 30, 2011 totaled $2,220, of which $549 was allocated to the Commission.

Custodial credit risk is the risk that in the event of a bank failure, EdFund's deposits may not be returned. EdFund does not have a deposit policy for custodial credit risk. EdFund maintains cash and cash equivalent accounts which are insured by either the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC). The California Government Code requires California banks and savings and loan associations to secure EdFund's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits, and collateral is considered to be held in the name of EdFund. All cash held by financial institutions is entirely insured or collateralized. As of September 30, 2012 and 2011, all of EdFund's cash and cash equivalent balances were insured.

As a component unit of the Commission, EdFund conforms to the investment policy of the State Treasurer and the Federal regulatory FFEL Program fiscal requirements which govern reserve fund investments. Additional information on the State Treasurer's investment policy, including investment credit type, interest rate risk and concentration of credit risk, is available at the State Controller's website (www.sco.ca.gov).

(Continued)

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Disposals	Ending Balance
Vehicles	$ 19,522	$ -	$ -	$ 19,522
Computer equipment	3,925,301	-	(35,605)	3,889,696
Computer software	7,385,618	-	-	7,385,618
Equipment, furniture and fixtures	3,179,249	-	(4,004)	3,175,245
	14,509,690	-	(39,609)	14,470,081
Less accumulated depreciation:				
Vehicles	(19,522)	-	-	(19,522)
Computer equipment	(3,788,572)	(120,134)	35,605	(3,873,101)
Computer software	(7,166,710)	(213,707)	-	(7,380,417)
Equipment, furniture and fixtures	(2,403,443)	(500,899)	4,004	(2,900,338)
	(13,378,247)	(834,740)	39,609	(14,173,378)
Capital assets, net	$ 1,131,443	$ (834,740)	$ -	$ 296,703

Capital asset activity for the year ended September 30, 2011 is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Disposals	Ending Balance
Vehicles	$ 19,522	$ –	$ –	$ 19,522
Computer equipment	4,009,942	–	(84,641)	3,925,301
Computer software	7,910,726	–	(525,108)	7,385,618
Equipment, furniture and fixtures	3,981,147	–	(801,898)	3,179,249
Leasehold improvements	452,518	–	(452,518)	–
	16,373,855	–	(1,864,165)	14,509,690
Less accumulated depreciation:				
Vehicles	(19,522)	–	–	(19,522)
Computer equipment	(3,444,985)	(428,228)	84,641	(3,788,572)
Computer software	(7,200,674)	(491,144)	525,108	(7,166,710)
Equipment, furniture and fixtures	(2,280,945)	(656,145)	533,647	(2,403,443)
Leasehold improvements	(130,358)	(23,991)	154,349	–
	(13,076,484)	(1,599,508)	1,297,745	(13,378,247)
Capital assets, net	$ 3,297,371	$ (1,599,508)	$ (566,420)	$ 1,131,443

(Continued)

NOTE 4 - CAPITAL ASSETS (Continued)

During the year ended September 30, 2011, EdFund wrote-off $298,169 in leasehold improvements when the associated lease was terminated and $272,752 in equipment, furniture and fixtures no longer in service.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Accrued Expenses and Other Liabilities

When EdFund was established it elected the reimbursable method of paying for unemployment insurance benefits, an option the state of California Employment Development Department (EDD) offers to public employers and nonprofit organizations. Under this method employers are required to reimburse EDD for benefits paid to former employees covered under the plan for a period of three calendar years. The liability for projected unemployment insurance obligations at September 30, 2012 and 2011, was approximately $79,000 and $438,000, respectively.

Operating Leases

EdFund maintained no operating leases in 2012 and one operating lease for its main office in 2011. This lease was terminated by EdFund effective December 31, 2010. There was no rental expense for operating leases for the year ended September 30, 2012. Rental expense for the year ended September 30, 2011 was $801,695.

Litigation

In November 2010, EdFund notified the lessor that it was terminating the main office (Mather) operating lease effective December 31, 2010. While the lessor did not accept the termination, it subsequently leased to other parties both of the buildings that comprise the Mather premises. At January 2011, the gross remaining lease obligation under dispute for the two buildings is $37,817,000, without any offset for the buildings leased to other parties. On January 14, 2011 the lessor filed suit against EdFund and its Board of Directors citing, among other things, breach of contract for the Mather lease and is seeking damages. A settlement was reached with the State of California for $4.2 million from the State's General Fund. There is no impact on these financial statements.

NOTE 6 - RETIREMENT BENEFITS

EdFund Employees

There were no employees of EdFund during the year ended September 30, 2012.

For the EdFund employees prior to December 6, 2010, EdFund established a defined contribution retirement savings plan in 1997 which comprised a retirement plan and a contribution plan. The retirement plan became the EdFund 401(k) Plan (the 401(k) Plan). The contribution plan was frozen in 2003 and terminated effective July 1, 2009. The 401(k) Plan was a defined contribution plan funded from employer and employee contributions. On December 3, 2010, the EdFund Board of Directors voted to terminate the 401(k) Plan and freeze all contributions effective December 31, 2010, followed by a full distribution of assets to plan participants. All plan asset distributions were completed by July 6, 2011. Prior to December 5, 2010, EdFund made a non-elective contribution of 5 percent of eligible compensation on behalf of each employee and contributed a percentage match up to 4 percent of deferred salary for each employee's contribution. The 401(k) Plan was administered by Fidelity Investments. Amendments to the 401(k) Plan were subject to approval and ratification by EdFund's Board of Directors.

(Continued)

NOTE 6 - RETIREMENT BENEFITS (Continued)

Total covered payroll was zero and $4,016,081 for the years ended September 30, 2012 and 2011, respectively. Total employer contributions and employee contributions were zero for the year ended September 30, 2012 and $89,478 and $657,298, respectively, for the year ended September 30, 2011.

Post-Retirement Healthcare Benefits

For the EdFund employees prior to December 6, 2010, EdFund also provided post-retirement benefits through the EdFund Post-retirement Medical and Life Plan (the Plan). The Plan provided for medical, dental, vision and life insurance benefits to employees based on age upon retirement and length of service. The Plan was a single-employer plan administered by EdFund. Amendments to the Plan were subject to approval and ratification by EdFund's Board of Directors.

At its meeting on November 2, 2010, the EdFund Board of Directors voted to terminate the Plan. Employees eligible under the Plan for post-retirement medical coverage, known as the Pioneer Group, were separately offered a lump-sum payout in exchange for a release of plan benefits. The resulting obligation, including applicable employer payroll expenses, for the 41 eligible employees totaled $701,264. The remaining liability was eliminated and a gain from plan termination of $5,562,265 was recognized for the year ended September 30, 2011.

NOTE 7 - DEFERRED COMPENSATION

EdFund offered certain employees a deferred compensation plan "rabbi trust" created in accordance with Internal Revenue Code Section 457. The Plan, made available to select employees permitted them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the Plan were placed in trust for participants and their beneficiaries.

At its November 15, 2010 meeting the EdFund Board of Directors voted to terminate the 457 deferred compensation plan. Plan funds were fully disbursed in March, 2011; accordingly, there was no obligation at September 30, 2012 and 2011.

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

Board of Directors
EdFund
Rancho Cordova, California

We have audited the financial statements of EdFund as of and for the year ended September 30, 2012, and have issued our report thereon dated June 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of EdFund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered EdFund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EdFund's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of EdFund's internal control over financial reporting.

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

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

(Continued)

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than those specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
June 28, 2013