College Futures Foundation

Consolidated Financial Statements

December 31, 2015 and 2014

College Futures Foundation

Contents

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
College Futures Foundation

We have audited the accompanying consolidated financial statements of College Futures Foundation (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 the 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 College Futures Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Burr Pilger Mayer, Inc.

San Francisco, California
September 28, 2016

College Futures Foundation

Consolidated Statements of Financial Position

December 31, 2015 and 2014

(in thousands)

	2015	2014
ASSETS		
Cash and cash equivalents	$ 4,958	$ 6,385
Investments, at fair value	455,828	460,868
Net receivables from unsettled trades	17,500	21,000
Student loans receivable, net	1,586	2,298
Fixed assets, net	1,011	553
Other assets	696	672
Total assets	$ 481,579	$ 491,776
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 813	$ 969
Grants payable, net	10,098	10,017
Deferred federal excise tax liability	1,183	1,512
Total liabilities	12,094	12,498
Net assets - unrestricted	469,485	479,278
Total liabilities and net assets	$ 481,579	$ 491,776

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

College Futures Foundation

Consolidated Statements of Activities and Changes in Net Assets

For the years ended December 31, 2015 and 2014

(in thousands)

	2015	2014
Revenue:		
Investment income, net	$ 12,742	$ 44,389
Student loan related revenue, net	145	271
Net revenue before excise and income tax expense	12,887	44,660
Less excise and income tax expense	200	960
Net revenue after excise and income tax expense	12,687	43,700
Expenses:		
Program expenses:		
Grants awarded and direct charitable activities	18,038	16,834
Program-related expenses	2,465	2,314
Total program expenses	20,503	19,148
Management and general expenses	1,977	1,842
Total expenses	22,480	20,990
Change in net assets	(9,793)	22,710
Net assets, beginning of year	479,278	456,568
Net assets, end of year	$ 469,485	$ 479,278

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

COLLEGE FUTURES FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

(in thousands)

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ (9,793)	$ 22,710
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation of fixed assets	206	71
Net realized and unrealized gain on investments	(11,273)	(40,626)
Provision for loan losses	(30)	33
Deferred federal excise tax	(329)	77
Changes in operating assets and liabilities:		
Net decrease in student loans receivable	743	722
Net (increase) decrease in other assets	(24)	171
Net (decrease) increase in accounts payable and accrued liabilities	(155)	118
Net increase in grants payable	81	635
Net cash used in operating activities	(20,574)	(16,089)
Cash flows from investing activities:		
Proceeds from sale of investments	39,902	49,313
Purchases of investments	(23,592)	(29,946)
Net receivables from unsettled trades	3,500	(1,000)
Purchases of property and equipment	(663)	(480)
Net cash provided by investing activities	19,147	17,887
Net (decrease) increase in cash and cash equivalents	(1,427)	1,798
Cash and cash equivalents, beginning of year	6,385	4,587
Cash and cash equivalents, end of year	$ 4,958	$ 6,385
Supplemental disclosure of cash flow information:		
Cash paid for excise and income taxes	$ 731	$ 664

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

1. Organization and Business

College Futures Foundation ("College Futures") is a private foundation working to help qualified low-income students in California attend and graduate from college.

College Futures is committed to the California dream of college degrees for all our young people. College Futures believes that investing in more college degrees is both the right thing to do and key to our economic future. By identifying and making an impact at key inflection points in the systems of college access and persistence—points at which dramatic positive change can result—the Foundation is helping to remove barriers to college success and produce more college graduates for a thriving California.

Each year, College Futures awards grants to dozens of partner organizations throughout California, funding and supporting:

- Local and regional collaborations that include school districts, community colleges, four-year institutions, and business and civic leaders working to improve college access and graduation in their communities.
- Programs and organizations that offer financial aid advising and specialized support services to low-income and underrepresented students.
- Technical assistance, training, professional learning communities, promotion of best practices, and development of tools and resources for counselors and other practitioners in the field of college access and success as well as students and their families.
- College scholarships, which College Futures uses as incentives to encourage partners and other stakeholders to engage with and address College Futures' priority strategies and issues.

Established in 2005, College Futures and its wholly-owned subsidiary, CEFI Corporation ("CEFI"), together referred to as the "Foundation," are the result of a series of corporate restructurings that were completed in 2006. The Foundation was funded with the proceeds from the wind down of the nonprofit student loan company Chela Education Financing, Inc.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying Consolidated Financial Statements of the Foundation have been prepared on the accrual basis of accounting and are presented on the basis of unrestricted, temporarily restricted, or permanently restricted net assets. At December 31, 2015 and 2014, the Foundation had no temporarily or permanently restricted net assets. The Consolidated Financial Statements include the accounts of College Futures and CEFI. All significant intercompany accounts and transactions have been eliminated.

Continued

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Cash equivalents consist of demand deposits in banks and money market funds with original maturities of 90 days or less.

Investments

Investments are stated at fair value. Net realized and unrealized gains or losses on investments are reflected as increases or decreases in unrestricted net assets. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses are calculated based on purchase prices. Dividend income is recorded on ex-dividend dates. Interest income from investments is recorded on an accrual basis.

Debt and equity securities with readily determinable fair values are carried at estimated fair value, based on quoted market prices. The Foundation invests in limited partnerships including diversified inflation hedges, fixed income and bond funds, multi-strategy endowment pools, and private equity funds that may not be immediately liquid nor have readily determinable fair values. These investments are valued at amounts reported to the Foundation by the general partners of such entities, in accordance with their established guidelines. Further, management reviews the annual forms K-1, the audited financial statements for the partnerships, reviews investment managers' valuation policies, monitors news in the public domain in connection with its investment managers, meets periodically with investment managers, and participates in quarterly investor calls. Management believes these methods provide a reasonable basis for the fair value. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and the differences could be material.

Net Receivables from Unsettled Trades

Receivables from unsettled trades are amounts due from pending investment redemption requests made before December 31, 2015 and 2014. These trades were settled in January 2016 and January 2015, respectively.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various valuation approaches. In accordance with Generally Accepted Accounting Principles ("GAAP"), a hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Continued

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

The Foundation classifies its financial assets and liabilities according to the following hierarchy, from (1) highest to (3) lowest in the use of observable inputs, and minimizes the use of unobservable inputs when measuring fair value:

Level 1 – quoted prices in active markets for identical investments. The types of investments in Level 1 include listed equities held in the name of the Foundation.

Level 2 – pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment.

In May 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share (or its equivalent) practical expedient. For private entities, the new guidance is effective for interim and annual reporting periods that begin after December 15, 2016, with early adoption permitted. The Foundation elected to early adopt ASU 2015-07. As a result of the early adoption of ASU 2015-07, these investments are not categorized within the fair value hierarchy.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these financial instruments. Student loans receivable are approximately equivalent to net realizable value because the allowance for loan losses is included in the carrying amount. The carrying amount of grants payable approximates fair value because such liabilities are recorded at estimated net present value based on anticipated future cash flows.

Continued

2. Summary of Significant Accounting Policies, continued

Grants

Unconditional grants are recognized as grant expense and a liability when the Foundation's Board of Directors (the "Board") approves the grants or the Chief Executive Officer and President authorizes grants in accordance with her Board-approved authority. Unconditional grants that are expected to be paid in less than one year are measured at net settlement value. Unconditional grants that are expected to be paid in more than one year are measured at the present value of the estimated future cash flows. Grant refunds are recorded as a reduction of grant expense at the time the Foundation becomes aware the grant will be refunded.

Income Taxes

College Futures is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and Section 23701(d) of the Revenue and Taxation Code of the State of California. Since the beginning of fiscal year 2010, College Futures has been classified as a private foundation within the meaning of Section 509(a) of the Code. As such, College Futures is still exempt from federal income taxes under Section 501(c)(3) of the Code and is exempt from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code. However, College Futures is subject to federal excise taxes as well as federal and state unrelated business income tax.

As a for-profit Delaware corporation, CEFI uses the liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Foundation recognizes interest and penalties accrued related to unrecognized tax benefits in "Management and general expenses" on the Consolidated Statements of Activities and Changes in Net Assets. No interest or penalties have been accrued as of December 31, 2015 and 2014. The Foundation follows guidance for the recognition of uncertain tax positions. Management has concluded there are no uncertain tax positions at December 31, 2015 and 2014.

Continued

2. Summary of Significant Accounting Policies, continued

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets. Student loan related expenses and investment related expenses are included in “Student loan related revenue, net” and “Investment income, net”, respectively, on the Consolidated Statements of Activities and Changes in Net Assets. Directly identifiable expenses, such as grants awarded, certain grant-making expenses, and other costs, are charged to program and management and general expenses. Expenses related to more than one function are charged to programs, management and general expenses, student loan related expenses, direct charitable activities and investment related expenses on the basis of periodic time studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

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. These estimates and assumptions 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

For comparative purposes, certain amounts in the prior year’s Consolidated Financial Statements have been reclassified to conform to the current year presentation.

Significant Accounting Policies Associated with Student Loans

As outlined in Note 1, between 2004 and 2006, there was a corporate restructuring, sale of assets, and a wind-down of operations associated with student loans. Listed below are the significant accounting policies associated with the remaining student loan portfolio.

Student loans receivable held are carried at the principal amount outstanding, net of unamortized premiums or discounts, deferred loan fees and costs, and acquisition fair value adjustments, if any. Write-downs of the loans’ carrying values attributable to credit quality are charged to the allowance for loan losses. Additionally, from time to time, certain student loans receivables that have previously been written off and deemed uncollectible are recovered.

The allowance for loan losses is maintained at a level to provide for probable losses inherent in the consumer education loan (“CEL”) portfolio as of the reporting date and is established through a provision charged to student loan expenses. Management considers historical portfolio data, student loan default rates published in market reports and general economic conditions to estimate the allowance for loan losses. Loans are charged off when the collection of principal and interest is 180 days past due.

Continued

2. Summary of Significant Accounting Policies, continued

Significant Accounting Policies Associated with Student Loans, continued

Student loan related revenue, net includes collections on previously written off loans and interest income, offset by internal and external costs directly attributable to the management and oversight of the student loan portfolio.

3. Fair Value Measurements and Investments

The following table presents investment income for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014
Interest, dividends, and other	$ 10,033	$ 12,148
Realized gains, net	27,769	34,481
Unrealized (losses) gains, net	(16,496)	6,145
Investment related fees and expenses	(8,564)	(8,385)
Total investment income, net	$ 12,742	$ 44,389

The following tables summarize the valuation of the Foundation's assets and liabilities measured on a recurring basis as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Fair value measurements:		
Cash equivalents—money market (Level 1)	$ 1,578	$ 3,579
Investments:		
Balanced global mutual fund (Level 1)	3,110	2,108
Investments measured using NAV:		
Fixed income and bond funds	10,359	6,843
Multi-strategy endowment pool	409,989	417,126
Diversified inflation hedges	9,566	11,879
Private equity funds	22,804	22,912
Total investments, at fair value	455,828	460,868
Net receivables from unsettled trades (Level 2)	17,500	21,000
Total	$ 474,906	$ 485,447

There were no significant transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during 2015 and 2014. The Foundation recognizes transfers into and out of levels on their respective transaction dates.

Continued

3. Fair Value of Measurements and Investments, continued

The Foundation uses NAV to estimate the fair value of underlying investments which a) do not have readily determinable fair values and b) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists investments in other investment companies (in partnership or trust format) by major class as of December 31, 2015 (in thousands):

	Strategy	NAV in Funds	Number of Funds	Remaining Life	Unfunded Commitments	Redemption Notice Period	Redemption Restrictions
Assets:							
Fixed income and bond funds	Short-term fixed income	$ 10,359	1	NA	$ -	10 days	Redemptions only on last business day of any month.
Multi-strategy endowment pool	Multi-strategy[(a)]	409,989	1	NA	-	120 days	Full fund redemptions permitted annually, subject to a 10% holdback. The Foundation has a standing redemption request of 7% annually, which is not subject to any additional restrictions.
Diversified inflation hedges	Natural resources and real estate	9,566	4	0–9 years	781	NA	NA*
Private equity funds	Venture and buyout U.S. and international	22,804	6	4–10 years	3,313	NA	NA*
Total		$ 452,718			$ 4,094		

* Private equity fund structures with no ability to redeem.

Continued

3. Fair Value Measurements and Investments, continued

(a) The Multi-strategy endowment pool is one fund that includes investments in equities, real assets, commodities, natural resources, credit, fixed income, hedge funds and direct hedges. Equity investments strategies include long-only and long-biased, public and private equities in both domestic and international markets. Real asset investment strategies include investments in real estate, power, infrastructure, and non-resource real assets. Commodities and natural resources investment strategies are focused on liquid commodities such as metals and agricultural products and private natural resources such as timber and mining interests. Credit investment strategies are primarily non-investment grade and distressed credit. Fixed income investment strategies are United States Treasuries and Treasury Inflation Protected securities, other sovereign debt and investment grade credit. Hedge fund strategies include those that are event-driven, such as corporate merger activity and the use of long and offsetting short positions. Finally, the strategies for direct hedges include investments in currencies, gold and options such as puts and calls.

The liquidity profile for the multi-strategy endowment pool is actively managed to maintain sufficient liquidity for limited partners. At December 31, 2015, 56.7% and 66.4% of the pool was convertible to cash within one year and three years, respectively, and at December 31, 2014, 59.4% and 68.3% of the pool was convertible to cash within one year and three years, respectively.

4. Items Associated with Student Loans

The Consolidated Financial Statements of the Foundation reflect the following items associated with the student loan operations.

A. Student Loans Receivable

The Foundation classifies the CEL portfolio as a portfolio segment, as defined in the Accounting Standards Codification ("ASC"), and evaluates the adequacy of the allowance for loan losses for the CEL portfolio as a whole. Accordingly, the portfolio segment basis disclosures required by the ASC are presented in this note for the CEL portfolio. In addition, as of December 31, 2015 and 2014, the Foundation does not have any impaired loans as defined in the accounting standards.

The following is a schedule of student loans receivable at December 31, 2015 and 2014 (in thousands):

	2015	2014
CEL loans receivable	$ 1,663	$ 2,394
Allowance for loan losses	(77)	(96)
Student loans receivable, net	$ 1,586	$ 2,298

The CEL loans have an average time to maturity of approximately six years.

Continued

4. Items Associated with Student Loans, continued

B. Allowance for Loan Losses

The table below summarizes the changes in the allowance for loan loss reserve for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014
Balance at beginning of the year	$ 96	$ 129
Provision for possible losses	(1)	(31)
Charges to allowance	(18)	(2)
Balance at end of the year	$ 77	$ 96

Total recoveries were approximately $44,000 and $82,000 for the years ended December 31, 2015 and 2014, respectively.

C. Aging of Student Loan Receivables

The majority of student loan receivables are current, with approximately $1,594,000 and $2,331,000 of the balance being current as of December 31, 2015 and 2014, respectively. The remaining balances of $69,000 and $63,000 as of December 31, 2015 and 2014, respectively, were 30 or more days past due.

5. Grants Payable

Future minimum unconditional grants payable as of December 31, 2015 are scheduled as follows (in thousands):

2016	$ 8,397
2017	1,798
Total unconditional grants payable	10,195
Less discounts to net present value	(97)
Net unconditional grants payable	$ 10,098

6. Employee Benefits

College Futures sponsors a 403(b) plan to which eligible employees may voluntarily contribute a percentage of their compensation. College Futures also contributes matching amounts. College Futures' 403(b) plan expense was $167,000 and $212,000, respectively, for the years ended December 31, 2015 and 2014. Beginning in 2014, College Futures also provides a contributory money purchase 401(a) plan for all eligible employees. The 401(a) plan is funded by College Futures only. College Futures' 401(a) plan expense was $174,000 and $59,000, respectively, for the years ended December 31, 2015 and 2014. Both plans are maintained by an independent trustee.

Continued

6. Employee Benefits, continued

College Futures also has an unfunded deferred compensation plan for a select group of highly compensated or management level employees under Section 457(b) of the Code. Eligible employees may voluntarily contribute a percentage of their compensation to the plan. In addition, College Futures contributes to the plan on behalf of eligible employees that did not receive their full contributions through the 403(b) or 401(a) plans due to Internal Revenue Service ("IRS") limits covering those plans. At December 31, 2015 and 2014, respectively, College Futures held $290,000 and $220,000 in "Other assets" which are designated to pay an offsetting deferred compensation liability that is included in "Accounts payable and accrued liabilities" on the Consolidated Statements of Financial Position.

7. Excise and Income Taxes

Excise Taxes

In accordance with the applicable provisions of the Code, College Futures is required to distribute 5% of the average fair market value of its investment assets annually. However, College Futures may incrementally achieve the 5% threshold during its first five years as a private foundation. As such, College Futures was required to pay out 5% and 4% for the years ended December 31, 2015 and 2014, respectively. College Futures met this minimum pay out requirement.

Deferred federal excise taxes arise primarily from unrealized gains on investments and have been accrued based on a 2% rate. Unrelated business income taxes arise primarily from income generated from certain types of investments, such as particular kinds of real estate investments. If taxes are due, current federal excise taxes payable and federal and state unrelated business income taxes payable are included in "Accounts payable and accrued liabilities" on the Consolidated Statements of Financial Position. Conversely, if a refund is due, these accounts are included in "Other assets" on the Consolidated Statements of Financial Position. For the years ended December 31, 2015 and 2014, current federal excise taxes payable were included in "Accounts payable and accrued liabilities" and unrelated business income tax refunds were included in "Other assets."

As of December 31, 2015, College Futures had federal net operating loss carryforwards associated with unrelated business income of approximately $2,900,000. There is no limitation on the use of these net operating losses and, if not utilized, the net operating loss carryforwards begin expiring in 2032. College Futures' ability to utilize the net operating losses or realize any benefit is uncertain; therefore a full valuation allowance has been applied against the associated deferred tax asset.

Continued

7. Excise and Income Taxes, continued

Excise Taxes, continued

The provision for federal excise taxes and unrelated business income taxes at December 31, 2015 and 2014 (in thousands) are:

	2015	2014
Current	$ 529	$ 883
Deferred	(329)	77
Total	$ 200	$ 960

Income Taxes

CEFI realized a pre-tax loss of ($15,000) in 2015 and pre-tax income of $12,000 in 2014. CEFI recognized $800 as income tax expense in 2015 based on California regulatory minimum payment requirements. Although CEFI realized pre-tax income in 2014, the only income tax expense recognized as of December 31, 2014 was $800, as CEFI utilized operating loss carryforwards to offset income.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. CEFI's deferred tax asset balances at December 31, 2015 and 2014, respectively, were $7,377,000 and $7,371,000 and are comprised entirely of net operating loss carryforwards. Based on the available objective evidence at December 31, 2015 and 2014, CEFI does not believe it is more likely than not that the net deferred tax assets will be fully realizable. Accordingly, CEFI has provided a full valuation allowance against its net deferred tax assets at December 31, 2015 and 2014. The valuation allowance increased by $6,000 for the year ended December 31, 2015 and decreased by $5,000 for the year ended December 31, 2014.

As of December 31, 2015, CEFI had federal and state net operating loss carryforwards of approximately $18,640,000 and $15,025,000 respectively. If not utilized, the federal net operating loss carryforwards begin expiring in 2025. State net operating loss carryforwards began expiring in 2015; approximately $2,800,000 in state net operating loss carryforwards expired in the current year.

Utilization of net operating losses may be subject to a substantial annual limitation due to the "change of ownership" provisions of the Code Section 382. The annual limitation may result in the expiration of net operating losses before utilization.

Continued

8. Commitments, Contingencies, and Concentrations of Risk

Premises and Equipment Lease Commitments

The Foundation has a lease agreement for office space expiring in February 2019. Total rental expense for the years ended December 31, 2015 and 2014 was $212,000 and $210,000, respectively. Future minimum lease commitments under the noncancelable operating lease are (in thousands):

2016	$ 240
2017	246
2018	253
2019	42
Total	$ 781

Contingencies

From time to time, the Foundation may be involved as a party to certain legal proceedings and other claims arising in the normal course of its business. While litigation and claims resolution are subject to many uncertainties and cannot be predicted with assurance, it is management's opinion that any resulting losses would not have a material effect on the Foundation's Consolidated Financial Statements.

Concentrations of Risk

Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, net receivables from unsettled trades, investments, and student loan receivables. The Foundation maintains cash and cash equivalents with two major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits.

The Foundation's credit risk is inherent principally in its investments. Adverse economic conditions either nationwide or internationally may result in a reduction of the investments carrying amount. The maximum loss on the investments would be the carrying amount in the Consolidated Financial Statements.

As of December 31, 2015 and 2014, the Foundation held investments in excess of the Securities Investor Protection Corporation ("SIPC") insurance limits. To address the risk of investments, the Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines, and requires review of the investment manager's performance. Investments are managed by investment managers who have responsibility for investing the funds in various investment classes. An investment advisor is also utilized. This entire process is actively overseen by the Investment Committee of the Board.

The Foundation's credit risk is also inherent in its student loans receivable. Adverse economic conditions either regionally or nationwide may result in an increase in student loan borrower defaults.

Continued

9. Subsequent Events

The Foundation evaluated subsequent events for recognition and disclosure through September 28, 2016, the date which these financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in the Consolidated Financial Statements.