Connecticut Student Loan Foundation

Financial Statements
(With Supplementary Information)
and Independent Auditors' Report

September 30, 2012

Connecticut Student Loan Foundation

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Independent Auditors' Report

To the Board of Directors
Connecticut Student Loan Foundation

We have audited the accompanying statement of net assets of Connecticut Student Loan Foundation ("CSLF") as of September 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of CSLF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides 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 Connecticut Student Loan Foundation as of September 30, 2012, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, net assets as of September 30, 2011 have been restated.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the accompanying schedules of selected statement of net assets information and selected activities information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Farmington, Connecticut
February 11, 2013

Connecticut Student Loan Foundation

Management's Discussion and Analysis
Year Ended September 30, 2012

Fiscal 2012 highlights and events:

- In December 2011, Connecticut Student Loan Foundation ("CSLF") completed an Invitation to Tender Bonds pursuant to which it invited Bondholders to tender Auction Rate Certificates for purchase by CSLF at a discounted price. CSLF completed the purchase for cancellation of certain of the captioned series of its Student Loan Revenue Bonds ("Bonds") in the aggregate principal amount of $55.2 million.

- In September 2012, CSLF completed an Invitation to Tender Bonds pursuant to which it invited Bondholders to tender Auction Rate Certificates for purchase by CSLF at a discounted price. CSLF completed the purchase for cancellation of certain of the captioned series of its Bonds in the aggregate principal amount of $33.15 million.

- In addition to the two completed Invitation to Tender Bonds completed during the year ended September 30, 2012, CSLF completed secondary market trades to purchase Auction Rate Certificates at a discounted price. CSLF completed the purchase for cancellation of certain of the captioned series of its Bonds in the aggregate principal amount of $24.25 million.

- CSLF's student loan portfolio had a principal balance of nearly $494 million as of September 30, 2012. Bonds outstanding totaled $525.0 million with a parity ratio of 105.43%.

- During 2012, CSLF sold the majority of the Student Loan Marketing Association ("SLMA") serviced loans to SLM Credit Finance Corporation. As of September 30, 2012, $82.7 thousand remained on the statement of net assets. As of December 31, 2012, all assets had been sold to SLM Credit Finance Corporation. In accordance with the Indenture of Trust dated as of October 1, 2004, as amended, by and between the Connecticut Student Loan Foundation and The Bank of New York Mellon Trust Company, N.A. as trustee, the assets were sold with a premium that was no less than fifty one-hundredths of a percent.

- A special consolidation loan program was implemented in March 2012 by the U.S. Department of Education whereby borrowers who have Federal Family Education Loan Program ("FFELP") loans with private holders, such as CSLF, and certain loans originated under the Higher Education Act with the U.S. Department of Education as the lender, were able to consolidate their loans with the same terms and conditions as the converted loans except for a two percent reduction in principal balance owed by the borrower upon conversion. CSLF, as a FFELP holder, received principal payments for the U.S. Department of Education in the amount of $23.47 million during the year ended September 30, 2012.

Connecticut Student Loan Foundation

Management's Discussion and Analysis
Year Ended September 30, 2012

Overview of the financial statements:

CSLF's financial statements detail financial information using accounting principles generally accepted in the United States of America ("GAAP") for state and local governments used for specific business types similar to those used in the private sector (accrual accounting).

The statement of revenues, expenses and changes in net assets (i) provides information regarding CSLF's operations and (ii) reconciles the beginning and end of year net asset balances.

The balance sheet reports all of CSLF's assets, liabilities and net assets as of September 30, 2012.

The statement of cash flows provides additional information relating to CSLF's fiscal year cash receipts and cash payments.

The notes to the financial statements are an integral part of the financial statements and provide supplemental information to give the reader a more complete understanding of CSLF's operations.

Connecticut Student Loan Foundation

Management's Discussion and Analysis
Year Ended September 30, 2012

Summary of Revenues, Expenses and Changes in Net Assets

	2012	2011 (As Restated)
Operating revenues:		
Student loan interest	$ 17,780,929	$ 20,524,713
Other revenue	62,828	10,896
Total operating revenues	17,843,757	20,535,609
Operating expenses:		
Bond interest	9,356,354	10,728,700
Loan administration	5,707,716	6,424,315
Contracted services	700,384	691,368
Bad debt expense	1,400,000	--
Other operating expenses	72,427	68,174
Total operating expenses	17,236,881	17,912,557
Change in net assets from operations	606,876	2,623,052
Non-operating revenue:		
Grant income	22,733	--
Investment income	118,821	83,275
Gain on redemption of bonds	2,138,500	3,163,000
	2,280,054	3,246,275
Change in net assets from continuing operations	2,886,930	5,869,327
Discontinued operations	4,821,143	4,017,667
Change in net assets	7,708,073	9,886,994
Net assets - beginning of year	37,632,001	27,745,007
Net assets - end of year	$ 45,340,074	$ 37,632,001

Connecticut Student Loan Foundation

Management's Discussion and Analysis
Year Ended September 30, 2012

Revenues:

CSLF's fiscal year 2012 operations resulted in an increase in net assets of $7.7 million. CSLF generated approximately $17.8 million in operating revenues and $17.2 million in operating expenses. Other changes in net assets contributed $2.1 million from the gain on redemption of bonds and $4.8 million from discontinued operations. CSLF's fiscal year 2011 operations resulted in an increase in net assets of $9.9 million. During that fiscal year, CSLF generated $20.6 million in operating revenues and $17.9 million in operating expenses, with other changes in net assets contributing $3.2 million from the gain on redemption of bonds and $4.0 million from discontinued operations. The $2.2 million decrease in the change in net assets between the fiscal years is primarily driven by a reduction in interest income due to loan prepayment from the U.S. Department of Education special consolidation program, prepayments from claims paid and the sale of the Sallie Mae portfolio. Interest income represents the largest operating revenue component. CSLF earns interest income, interest subsidies and special allowance on student loans. All of these revenue sources are variable in nature and are a direct function of market conditions. Interest rates for new student loan borrowers have been fixed though the net interest to loan holders remains variable and, therefore, subject to market conditions. Lender yields are limited and vary as Congress and market conditions dictate. Loan interest revenue calculated to be in excess of congressionally established levels is paid back to the U.S. Department of Education.

Expenses:

CSLF's largest expense is debt payments on the Auction Rate Certificates ("ARCs") it issued to raise money to make student loans. The interest rate on the ARCs is variable and auctioned every seven to twenty-eight days. Investors are being paid at the maximum rates defined in each issuance of T-Bill plus 1.20% to 1.50%. In October 2012, CSLF was upgraded by Standard and Poor's and the subordinate bonds are now at maximum rates of 1.20%. In the event the bond ratings changes, the maximum rate calculation would revert to T-Bill + 1.50%. The interest expense paid to Bondholders decreased in fiscal year 2012 by approximately $1.4 million for a total of $9.3 million versus $10.7 million for fiscal year 2011. The expense decrease is primarily due to the reduction of bonds outstanding between the fiscal years.

Connecticut Student Loan Foundation

Management's Discussion and Analysis
Year Ended September 30, 2012

Summary of Net Asset Information:

Assets

	2012	2011 (As Restated)
Total current assets	$ 112,616,672	$ 121,223,541
Total non-current assets	458,249,597	555,912,529
Total assets	$ 570,866,269	$ 677,136,070

Liabilities and Net Assets

Total non-current liabilities	$ 522,145,383	$ 635,589,048
Total current liabilities	3,380,812	3,915,021
Total liabilities	525,526,195	639,504,069
Net assets:		
Restricted	22,861,606	22,115,367
Unrestricted	22,478,468	15,516,634
Total net assets	45,340,074	37,632,001
Total liabilities and net assets	$ 570,866,269	$ 677,136,070

Assets:

The cash and investments in the Trust Estate increased by $1.4 million to $53.5 million for fiscal year 2012 due to less bond redemption activity. Unrestricted cash and investments increased by $.5 million to $4.9 million primarily due to servicing and administrative fees paid to CSLF by the Trust (based on the bond indenture) exceeding the general operating expenses of CSLF.

Student loan receivable principle has decreased by $109.1 million related to the special consolidation loan program, student loan payments and the sale of the Sallie Mae portfolio.

Liability:

The long-term liability associated with education loans decreased by $112.6 million relating to the early redemption of bonds. Additional information is available in Note 5.

Net assets:

Restricted net assets increased by $.7 million during the fiscal year 2012 primarily due to the redemption of bonds, Collection Retention earnings and favorable performance of the Trust Estate as well as an allocation of trust assets available to be transferred to unrestricted net assets based on the bond indenture. Unrestricted net assets increased during the fiscal year $7.0 million due to the allocation of trust assets available to be transferred to CSLF as unrestricted net assets based on the bond indenture.

Currently known facts, decisions or conditions:

During 2013, CLSF entered into an agreement to participate in the not-for-profit servicer program established under the Health Care and Education Reconciliation Act of 2010 ("HCERA"), Public Law 111-152 set forth in Solicitation Number NFP-RFP-2010. The U.S. Department of Education approved CSLF's participation in the program.

Contacting CSLF's financial management:

This financial report is designed to provide a general overview of CSLF's finances. If you have questions about this report or need additional information, contact Education Solution Partners, LLC as Limited Agent for Connecticut Student Loan Foundation, c/o Pullman & Comley LLC, 90 State Street, Hartford, CT. 06103.

Connecticut Student Loan Foundation

Statement of Net Assets
September 30, 2012

Assets

Current assets:		
Unrestricted assets:		
Cash and cash equivalents	$	2,895,123
Investment - Other		2,026,024
Loan portfolio principal receivable - Trust estate, current portion		17,590,233
Other receivables		38,454
Total unrestricted assets		22,549,834
Restricted assets:		
Cash and cash equivalents		4,043,035
Investments - Trust Estate		53,558,550
Loan portfolio interest receivable - Trust estate		9,514,891
Loan portfolio principal receivable - Trust estate, current portion		18,129,219
Collection retention receivable		4,821,143
Total restricted assets		90,066,838
Total current assets		112,616,672
Non-current asset:		
Restricted assets:		
Loan portfolio receivable - Trust estate, net		458,249,597
Total assets	$	570,866,269

Liabilities and Net Assets

Current liabilities:		
Trust estate payables	$	425,159
U.S. Department of Education payable		2,806,825
Other accounts payable		148,828
Total current liabilities		3,380,812
Non-current liabilities:		
Bonds payable		525,000,000
Unamortized bond discount and other costs - Trust estate		(2,854,617)
Total non-current liabilities		522,145,383
Total liabilities		525,526,195
Net assets:		
Restricted		22,861,606
Unrestricted		22,478,468
Total net assets		45,340,074
Total liabilities and net assets	$	570,866,269

See Notes to Financial Statements.

Connecticut Student Loan Foundation

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2012

Operating revenues:		
Student loan interest	$	17,780,929
Other revenue		62,828
Total operating revenues		17,843,757
Operating expenses:		
Bond interest		9,356,354
Trust estate		5,707,716
Contracted services		700,384
Bad debt expense		1,400,000
Other operating expenses		72,427
Total operating expenses		17,236,881
Changes in net assets from operations		606,876
Non-operating revenue:		
Grant income		22,733
Investment income		118,821
Gain on redemption of bonds		2,138,500
Change in net assets from continuing operations		2,886,930
Discontinued operations:		
Changes in net assets from discontinued operations		4,821,143
Change in net assets	$	7,708,073
Net assets, beginning of year, as originally stated	$	36,233,588
Prior period adjustment		1,398,413
Net assets, beginning of year, as restated		37,632,001
Change in net assets		7,708,073
Net assets, end of year	$	45,340,074

See Notes to Financial Statements.

Connecticut Student Loan Foundation

Statement of Cash Flows
Year Ended September 30, 2012

Operating activities:		
Receipts from collection retentions	$	3,896,835
Receipts from loan portfolio - interest		20,572,143
Receipts from loan portfolio - principal		107,676,917
Other operating receipts		50,613
Payments for Trust Estate		(7,084,342)
Payments for contracted services		(700,384)
Payments to suppliers		(404,637)
Net cash provided by operating activities		124,007,145
Investing activities:		
Investment income		118,821
Net cash provided by investing activities		118,821
Noncapital financing activities:		
Payment for bond redemption		(110,461,500)
Grant received		22,733
Bond interest paid		(7,860,521)
Net cash used in noncapital financing activities		(118,299,288)
Net increase in cash and cash equivalents		5,826,678
Cash and cash equivalents, beginning of year		54,670,030
Cash and cash equivalents, end of year	$	60,496,708
Reconciliation of cash and cash equivalents to balance sheet:		
Cash and cash equivalents per above	$	60,496,708
Cash and cash equivalents reported as investments		(53,558,550)
Cash per balance sheet (unrestricted and restricted)	$	6,938,158
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets from operations	$	606,876
Adjustments to reconcile change in net assets from operations to net cash provided by operating activities:		
Bond interest paid		7,860,521
Bad debts		1,400,000
Amortization		460,119
Changes in operating assets and liabilities:		
Loan portfolio interest receivable - Trust estate		2,683,877
Loan portfolio principal receivable - Trust estate		107,676,917
Collection retention receivable		3,896,835
Other receivables		(43,792)
Trust estate payables and accrued expenses		(47,280)
U.S. Department of Education payable		(153,966)
Other accounts payable and accrued expenses		(332,962)
Net cash provided by operating activities	$	124,007,145

See Notes to Financial Statements.

Connecticut Student Loan Foundation

Notes to Financial Statements

Note 1 - Organization:

Connecticut Student Loan Foundation ("CLSF") is a Connecticut State-chartered nonprofit corporation established pursuant to State of Connecticut Statue Chapter 187a and governed by Title IV, Part B of the Higher Education Act of 1965 (the "Act"), as amended, for the purpose of improving educational opportunity. Generally, CSLF is empowered to achieve this purpose by guaranteeing student loans, originating and acquiring student loans and providing appropriate services incident to the administration of programs which are established to improve educational opportunities. CSLF no longer guarantees student loans, originates or acquires student loans.

Note 2 - Summary of significant accounting policies:

Measurement focus, basis of accounting and financial statement presentation:

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

CSLF follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989 to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. CSLF has the option of following subsequent private-sector guidance subject to this same limitation. CSLF has elected not to follow subsequent private-sector guidance.

CSLF distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with CSLF's principal ongoing operations. The principal operating revenues of CSLF consist of interest received on student loan receivables. Principal operating expenses consist of bond interest, servicing and consolidation fees, bad debts, debt issue costs and amortization of discount on the bonds payable. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is CSLF's policy to use restricted resources first, then unrestricted resources as they are needed.

Reclassification:

Certain amounts in the 2011 financials have been reclassified to conform to the 2012 presentation.

Net assets:

To ensure observance of limitations and restrictions placed on the use of resources available to CSLF, the net assets of CSLF are maintained as follows:

Unrestricted - This category presents the net assets that are not restricted, which includes collection and other general operating activities. Unrestricted net assets within the Trust Estate reflect amounts that are available to be released from the Trust Estate after operating expenses, based on calculations per the bond indenture.

The Bond Indenture requires that CSLF maintain a parity of 102.5% (Trust Estate asset to Trust Estate liability ratio). If parity exceeds 102.5%, CSLF is able, but not required, to transfer funds above the parity ratio to operations. At September 30, 2012, the ratio was 106.8%. At September 30, 2012, the Board has not authorized any funds to be transferred to operations; however, the amount available to transfer at September 30, 2012 is $17,918,628.

Restricted - This category presents the net assets restricted by external parties (creditors, grantors, contributors or laws and regulations). These funds include trust estate net assets and other net assets as follows:

Trust Estate - Includes assets and liabilities associated with the bond offerings as detailed in the bond indenture:

- Trust cash accounts - The indenture created special trust accounts to be held by the Trustee to be used for record keeping and reporting purposes as defined by the indenture.
- The bonds included in the Trust Estate are special and limited obligations of CSLF, secured by and payable from the Trust Estate held under the indenture, without recourse to any other assets of CSLF. The bonds are secured by eligible student loans as identified in the indenture.
- Release of amounts from the Trust Estate - The indenture provides that CSLF may withdraw amounts from the Trust Estate under certain limited circumstances as defined in the indenture.
- Redemption and acceleration provisions - The indenture sets forth provisions for the redemption and acceleration of the bonds prior to maturity under certain circumstances.

Restricted Other - Includes amount received for collection retentions which are to be used for a specific purpose.

At September 30, 2012, restricted net assets consist of the following:

Trust Estate	$ 13,997,428
Collection Retentions	8,864,178
	$ 22,861,606

Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Investments:

CSLF's investments are governed by State of Connecticut Statutes which, in general, allow CSLF to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interest in any custodial arrangement, pool or no-loan, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service.

Investments are reported at fair value.

State Treasurers Investment Fund ("STIF") is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statues 3-27c – 3-27e. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

Investments in equity securities are recorded at fair value based upon readily determinable fair values. Equity securities consist of an investment in a domestic corporate equity of $144,739 (original cost of $200,000, net of unrealized losses of $55,261).

Investments - Trust estate consist of deposits in money market funds and investments in short-term commercial paper with maturities of less than three months from time of purchase.

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

Income taxes:

CSLF is a nonprofit organization exempt from Federal and state income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes is provided in the financial statements.

CSLF has no unrecognized tax benefits at September 30, 2012. CSLF's Federal and state income tax returns prior to fiscal year 2008 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements and changes in tax law and new authoritative rulings.

If applicable, CSLF would recognize interest and penalties associated with tax matters as part of other operating expenses in the statement of revenues, expenses and changes in net assets and include accrued interest and penalties in accrued expenses in the statement of net assets. CSLF did not recognize any interest or penalties associated with tax matters for the year ended September 30, 2012.

Allowance for loan losses:

CSLF's allowance for Federal Education Loan Program loan losses has been provided through charges against operations based on management's evaluation of the loan portfolio. Loans are typically written off against the allowance for loan losses (net of loan recoveries) at the point in which it is determined that all recovery options have been exhausted and the loans have lost their Federal guarantee and are no longer eligible for reinstatement. Federal guarantees are reinstated if the lender or servicer successfully performs certain Federally prescribed "cure" procedures. In general, the lender has three years from the initial claim rejection date or the latest timely filing date if a claim has not been filed to cure a loan.

For Alternative Solutions Alternative Loans, periodic monitoring of loan performance has been established to ensure the adequacy of the reserve allowance.

Long-term obligations:

Long-term debt and other long-term obligations are reported as liabilities of the balance sheet. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Note 3 - Cash and investments:

CSLF's deposits of cash are classified in categories of "custodial credit risk." Custodial risk is the risk that, in the event of a bank failure, CSLF's deposits may not be returned to it. As of September 30, 2012, $6,438,159 of CSLF's bank balance of $6,938,159 was exposed to credit risk as follows:

Deposits which are uninsured and uncollateralized	$ 5,744,343
Deposits which are uninsured and collateral held by the the pledging financial institution's trust department or agent, not in CSLF's name	693,816
	$ 6,438,159

Financial instruments that potentially subject CSLF to significant concentrations of credit risk consist primarily of cash. From time to time, CSLF's cash account balances exceed the Federal Deposit Insurance Corporation limit. CSLF reduces its credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

At September 30, 2012, CSLF's investments (including restricted investments) consisted of the following types and maturities. Specific identification was used to determine the maturities.

			Investment Maturities in Years			
Type of Investment	Fair Value	N/A	Less Than 1	1-5 Years	5-10 Years	Over 10
Domestic corporate equities	$ 144,739	$ 144,739	$ -	$ -	$ -	$ -
Pooled investments - STIF	1,881,285	-	1,881,285	-	-	-
Money market funds - BNY	36,366	-	36,366	-	-	-
Money market funds - BNY	49,333,999	-	9,333,999	-	-	-
Money market funds - BNY	4,186,125	-	4,186,125	-	-	-
Money market funds - BNY	2,060	-	2,060	-	-	-
	$ 55,584,574	$ 144,739	$55,439,835	$ -	$ -	$ -

Interest rate risk - To minimize interest rate risk, CSLF's policy requires the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell investments on the open market prior to maturity. Operating funds are primarily invested in shorter-term securities, money market mutual funds or similar investment pools.

Credit risk - CSLF's policy states credit risk will be minimized by limiting investments to the safest type of securities and pre-qualifying the financial institutions with which CSLF will do business. The investment portfolio must be diversified so that potential losses on individual securities will be minimized.

Certain investments subject to credit risk had average ratings by Standards & Poor's as follows:

Pooled investments - STIF - AAA
Money market mutual funds - BNY - AAAm

Custodial risk – CSLF does not have a formal policy with respect to custodial credit risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, CSLF will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Certain investments are covered by the Securities Investor Protection Corporation ("SIPC") up to $500,000, including $100,000 of cash from sale or for purchase of investments but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds. The domestic equity totaling $144,739 was fully insured at September 30, 2012.

Note 4 - Loan portfolio receivable:

Federal Family Education Loan Program ("FFELP") loans are student loans financed by bond issues and insured by the U.S. Department of Education. FFELP loans are repaid by borrowers on a monthly basis for a term of up to thirty years. The interest rate on these loans varies and ranges from approximately 1.0% to 12%.

Solutions Alternative ("Alternative") loans are student loans financed by bond issues that are not insured by the U.S. Department of Education. Alternative loans are repaid monthly over a period of years ranging from 10 to 30 years. For loan applications received prior to April 1, 2008, the interest rate is variable, calculated to equal prime plus 2% with a 10% cap. Borrowers were charged a fixed non-refundable origination fee of $150 and a 2% reserve fee. For loan applications received on or after April 1, 2008, the interest rate and reserve fee varied depending on the borrowers' credit score. Interest rates range between prime and prime plus 4% with no cap and the reserve fee ranges from 2% to 6%. Interest rates on all Alternative loans are reset quarterly and origination fees, where applicable and reserve fees are withheld from loan proceeds.

Student loans are classified as being "In-school" status during the period from the date the loan is made until a student graduates or leaves school. Loans are classified as being "In-grace" status from the time the student leaves school until repayment begins six months later. Subsequent to this period, student loans are classified as being in "Repayment" status. "Deferral" and "Forbearance" status are periods during the life of the loan where repayment is suspended for authorized purposes.

Loan portfolio assets at September 30, 2012 are summarized as follows:

	FFELP	Alternative	Total
In School	$ 11,747,706	$ 589,688	$ 12,337,394
Grace	9,070,466	757,920	9,828,386
Deferment	60,078,704	768,414	60,847,118
Forbearance	61,541,587	719,017	62,260,604
Repayment	342,946,331	7,576,495	350,522,826
Totals	485,384,794	10,411,534	495,796,328
Allowance	(1,467,728)	(359,551)	(1,827,279)
	$483,917,066	$ 10,051,983	$ 493,969,049

Interest receivable at September 30, 2012 was $9,514,891.

Estimated future maturities of the student loan portfolio are as follows:

2013	$ 35,719,452
2014	32,335,075
2015	33,716,890
2016	35,362,454
2017	36,874,860
2018-2022	167,551,559
2023-2027	73,624,399
2028-2032	35,551,014
2033-2036	45,060,625
	$ 495,796,328

Note 5 - Bonds payable:

CSLF has issued the following bonds outstanding at September 30, 2012, to finance student loans:

	Beginning Balance	Redemption	Ending Balance
Senior Series 2004 A-1, dated October 15, 2004; comprised of auction variable rate bonds with principal due June 1, 2034. Interest is payable monthly at variable rates which ranged 0% to 1.742%.	$ 73,400,000	$ --	$ 73,400,000
Senior Series 2004 A-2, dated October 15, 2004; comprised of auction variable rate bonds with principal due June 1, 2034. Interest is payable monthly at variable rates which ranged 0% to 1.76%.	150,000	(150,000)	--
Senior Series 2004 A-3, dated October 15, 2004; comprised of auction variable rate bonds with principal due June 1, 2034. Interest is payable monthly at variable rates which ranged 0.070% to 1.741%.	70,600,000	(25,000)	70,575,000
Senior Series 2004 A-4, dated October 15, 2004; comprised of auction variable rate bonds with principal due June 1, 2034. Interest is payable monthly at variable rates which ranged 0.07% to 1.7418%.	54,100,000	(34,750,000)	19,350,000

	Beginning Balance	Redemption	Ending Balance
Senior Series 2004 A-5, dated October 15, 2004; comprised of auction variable rate bonds with principal due June 1, 2034. Interest is payable monthly at variable rates which ranged 0.0731% to 1.76%.	$ 38,200,000	$ (20,950,000)	$ 17,250,000
Senior Series 2004 A-6, dated October 15, 2004; comprised of auction variable rate bonds with principal due June 1, 2034. Interest is payable monthly at variable rates which ranged 0.076% to 1.729%.	52,850,000	(45,850,000)	7,000,000
Senior Series 2004 A-7, dated October 15, 2004; comprised of auction variable rate bonds with principal due June 1, 2034. Interest is payable monthly at variable rates which ranged 0.076% to 1.729%.	58,950,000	---	58,950,000
Subordinate Series 2004B, dated October 15, 2004; comprised of auction variable rate bonds with principal due June 1, 2034. Interest is payable monthly at variable rates which ranged 0.974% to 2.746%.	57,350,000	--	57,350,000
Subordinate Series 2006A-1, dated July 11, 2006; comprised of auction variable rate bonds with principal due June 1, 2046. Interest is payable monthly at variable rates which ranged 0.076% to 1.730%.	74,125,000	(1,200,000)	72,925,000
Subordinate Series 2006B-1, dated July 11, 2006; comprised of auction variable rate bonds with principal due June 1, 2046. Interest is payable monthly at variable rates which ranged 1.592% to 2.730%.	19,975,000	--	19,975,000
Subordinate Series 2006A-2, dated December 12, 2006; comprised of auction variable rate bonds with principal due June 1, 2046. Interest is payable monthly at variable rates which ranged 0.076% to 1.727%.	91,150,000	(9,675,000)	81,475,000
Subordinate Series 2007A-1, dated July 1, 2007; comprised of auction variable rate bonds with principal due June 1, 2047. Interest is payable monthly at variable rates which ranged 0% to 1.742%.	8,250,000	--	8,250,000

	Beginning Balance	Redemption	Ending Balance
Subordinate Series 2007A-3, dated December 1, 2007; comprised of auction variable rate bonds with principal due December 1, 2047. Interest is payable monthly at variable rates which ranged 0% to 1.742%.	$ 38,500,000	$ --	$ 38,500,000
	$ 637,600,000	$(112,600,000)	$ 525,000,000

The interest rate payable to the bondholders for these issues are variable auction rate certificates ("ARCs") which generally have interest rate reset periods of either 28 or 35 days. The interest rates associated with the various bond issues at the last reset period prior to the September 30, 2012 year end ranged from 0.07% to 2.728%.

The maximum rate on the ARCs is defined in each bond prospectus and is based on one of the following: the average of the 91 day United States Treasury Bill rate plus 1.2% or 1.5% or the LIBOR rate plus 1.5% depending on the bond's rating. It may not exceed 17.0%.

The capital markets for student loans have experienced a significant disruption resulting in decreased marketability of student loans and related ARCs.

At September 30, 2012, the outstanding principal balance due to all bondholders was $525,000,000. The approximate future annual principal and interest payments are as follows:

Date	Par Tendered	Cash Paid
12/2011	$ 55,200,000	$ 53,983,250
03/2012	10,250,000	10,023,250
05/2012	14,000,000	13,720,000
09/2012	33,150,000	32,735,000
	$ 112,600,000	$ 110,461,500

Fiscal Year	Principal Amount due	Interest Amount Due
2013	$ --	$ 5,160,541
2014	--	5,160,541
2015	--	5,160,541
2016	--	5,160,541
2017	--	5,160,541
2018-2022	--	25,802,706
2023-2027	--	25,802,706
2028-2032	--	25,802,706
2033-2037	303,875,000	14,977,373
2038-2042	--	9,564,706
2043-2047	221,125,000	7,392,559
	$ 525,000,000	$ 135,145,461

Note 6 - Contingencies:

Federal regulations require that CSLF comply with due diligence collection procedures for delinquent loans. Failure to comply with these regulations could result in questioned or disallowed revenues and costs. Management believes that any events of noncompliance have not been significant in nature and any noncompliance issues were resolved if questioned by the U.S. Department of Education. Consequently, no provision has been made for any liability in the financial statements relating to noncompliance issues.

Note 7 - Commitments:

CSLF has contracted with an unrelated organization to provide management and administrative services. The contract provides for a monthly administration fee as detailed in the contract plus certain additional fees based upon the activities of the organization. The contract continues until cancelled by either party. Total fees paid under the contract for the year ended September 30, 2012 were $491,082.

Note 8 - Discontinued operations:

Until January 2010, CSLF administered the FFELP in Connecticut as the State designated guarantee. CSLF's principal responsibilities as a guarantee agency included in making claim payments to lenders whose loans it had insured and collecting defaulted loans from borrowers. CSLF transferred its guarantor operations to a third party guarantor. Through 2014, CSLF has the right to 50% of collection retention revenues in excess of operating costs and liabilities paid by the third party guarantor on behalf of CSLF.

Funds available for CSLF are restricted and may only be used for those educational purposes as specified in 34 C.F.R. § 682,423 (c) and for the benefit of higher educational institutions located in the State of Connecticut and for supporting efforts in the State of Connecticut for the benefit of Connecticut students and their families for college access and completion. This restriction on the uses of funds distributed to CSLF applies regardless of whether the recipient of CSLF funds is a guaranty agency operating in the FFELP. Permitted uses of said CSLF funds would include but not be limited to default aversion activities, financial aid awareness and related outreach activities or other student financial aid-related activities for the benefit of students and boosting the college completion rates of low-income students. Any funds distributed to CSLF are to be distributed on an annual basis within 60 days of the end of each federal fiscal year by a third party guarantor. Collection retention revenue for the year ended September 30, 2012 was $4,821,143.

Note 9 - Prior period adjustment:

Net assets were restated as of October 1, 2011. The bond discounts and debt issue costs were not being amortized over the life of the bonds resulting in an understatement of the related asset. In addition, the liability related to the accrued post-retirement benefit was overstated based upon the estimated life of the beneficiary. The net effect of the changes on net assets is as follows:

Amortization of bond discount	$ 898,218
Amortization of debt issue costs	405,566
Other	94,629
	$ 1,398,413

The net effect on the change in net assets for year ended September 30, 2011 is an increase of approximately of $363,000.

Note 10 - Subsequent events:

During 2013, CLSF entered into an agreement to participate in the not-for-profit servicer program established under the Health Care and Education Reconciliation Act of 2010 ("HCERA"), Public Law 111-152 set forth in Solicitation Number NFP-RFP-2010. The U.S. Department of Education approved CSLF's participation in the program.

As of December 31, 2012, the remaining Student Loan Marketing Association ("SLMA") serviced loans balance of $82,700 were sold to SLM Credit Finance Corporation.

Between October and December 2012, CSLF completed secondary market trades to purchase Auction Rate Certificates at par. CSLF completed the purchase for cancellation of certain of the captioned series of its Bonds in the aggregate principal amount of $56.85 million.

Connecticut Student Loan Foundation

Schedule I - Selected Statement of Net Assets Information
September 30, 2012

Assets	Trust Estate	Restricted Other	General	Total
Current assets:				
Cash and cash equivalents	$ (2)	$ 4,043,035	$ 2,895,125	$ 6,938,158
Investments - Trust Estate	53,558,550	-	-	53,558,550
Investment - Other	-	-	2,026,024	2,026,024
Loan portfolio interest receivable - Trust Estate	9,514,891	-	-	9,514,891
Loan portfolio principal receivable - Trust Estate	35,719,452	-	-	35,719,452
Collection retention receivable	-	4,821,143	-	4,821,143
Other receivables	-	-	38,454	38,454
Total current assets	98,792,891	8,864,178	4,959,603	112,616,672
Noncurrent asset:				
Loan portfolio receivable - Trust estate, net	458,249,597	-	-	458,249,597
Total assets	$ 557,042,488	$ 8,864,178	$ 4,959,603	$ 570,866,269

Liabilities and Net Assets				
Current liabilities:				
Trust estate payables	$ 425,159	$ -	$ -	$ 425,159
U.S. Department of Education payable	2,806,825	-	-	2,806,825
Other accounts payable	-	-	148,828	148,828
Total current liabilities	3,231,984	-	148,828	3,380,812
Non-current liabilities:				
Bonds payable	525,000,000	-	-	525,000,000
Unamortized expenses - Trust estate	(2,854,617)	-	-	(2,854,617)
Total long-term liabilities	522,145,383	-	-	522,145,383
Total liabilities	525,377,367	-	148,828	525,526,195
Net assets:				
Restricted	13,997,428	8,864,178	-	22,861,606
Unrestricted	17,667,693	-	4,810,775	22,478,468
Total net assets	31,665,121	8,864,178	4,810,775	45,340,074
Total liabilities and net assets	$ 557,042,488	$ 8,864,178	$ 4,959,603	$ 570,866,269

Connecticut Student Loan Foundation

Schedule II - Selected Activities Information
Year Ended September 30, 2012

	Trust Estate	Restricted Other	General	Total
Operating revenues:				
Student loan interest	$ 17,780,929	$ -	$ -	$ 17,780,929
Other revenue	-	-	62,828	62,828
Transferring for servicing and administration	(1,204,286)	25,368	1,178,918	-
Total operating revenues	16,576,643	25,368	1,241,746	17,843,757
Operating expenses:				
Bond interest	9,356,354	-	-	9,356,354
Trust estate	5,707,716	-	-	5,707,716
Contracted services	-	-	700,384	700,384
Bad debt expense	1,400,000	-	-	1,400,000
Other operating expenses	-	-	72,427	72,427
Total operating expenses	16,464,070	-	772,811	17,236,881
Changes in net assets from operations	112,573	25,368	468,935	606,876
Non-operating revenue:				
Grant income	-	-	22,733	22,733
Investment income	107,337	-	11,484	118,821
Gain on redemption of bonds	2,138,500	-	-	2,138,500
Change in net assets from continuing operations	2,358,410	25,368	503,152	2,886,930
Discontinued operations:				
Changes in net assets from discontinued operations	-	4,821,143	-	4,821,143
Changes in net assets	$ 2,358,410	$ 4,846,511	$ 503,152	$ 7,708,073
Net assets, beginning of year, as originally stated	$ 28,002,927	$ 4,017,667	$ 4,212,994	$ 36,233,588
Prior period adjustment	1,303,784	-	94,629	1,398,413
Net assets, beginning of year, as restated	29,306,711	4,017,667	4,307,623	37,632,001
Change in net assets	2,358,410	4,846,511	503,152	7,708,073
Net assets, end of year	$ 31,665,121	$ 8,864,178	$ 4,810,775	$ 45,340,074