

**NORTHSTAR EDUCATION FINANCE, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003 and 2002**

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CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS & PERSONAL CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Northstar Education Finance, Inc.
St. Paul, Minnesota

We have audited the accompanying consolidated statements of financial position of Northstar Education Finance, Inc. and subsidiaries as of September 30, 2003 and 2002 and the related consolidated statements of activities and cash flows for the years ended September 30, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northstar Education Finance, Inc. and subsidiaries as of September 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years ended September 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

Baune Dose + Co. LLP

November 26, 2003
(except for Note 14, as to which
the date is December 16, 2003)
Minneapolis, Minnesota

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2003 and 2002
(in thousands)

	<u>2003</u>	<u>2002</u>
Assets		
Loans (Note 2, 3, 4 and 13)	\$1,908,284	
Interest receivable (Note 13)	55,445	
Cash and cash equivalents	1,135	\$ 287
Accounts receivable (no allowance deemed necessary)		562
Receivable from Great Lakes	4,778	
Government receivable	2,908	
Due from related party		18
Restricted cash	106,410	
Property and equipment, net	242	231
Other assets	821	53
Amortizable assets, net (Note 2)	<u>3,649</u>	<u>1,258</u>
Total assets	<u>\$ 2,083,672</u>	<u>\$ 2,409</u>

See accompanying notes to financial statements.

	<u>2003</u>	<u>2002</u>
Liabilities and net assets		
Accounts payable and accrued liabilities	\$ 10,794	\$ 79
Interest payable	308	239
Accrued salaries and benefits	780	515
Contract servicer payable	165	122
Due to related party		46
Capital lease obligation	7	31
Draw against bank lines of credit (Note 6)	1,517,000	
Noteholder loans (Note 7)	540,000	
Notes payable (Note 5)	<u>3,401</u>	<u>3,947</u>
 Total liabilities	 2,072,455	 4,979
Net assets		
Net assets - unrestricted	11,249	(2,751)
Additional paid-in capital - options and warrants		181
 Minority interest in subsidiary	 <u>(32)</u>	 <u> </u>
 Total net assets	 <u>11,217</u>	 <u>(2,570)</u>
 Total liabilities and net assets	 <u>\$ 2,083,672</u>	 <u>\$ 2,409</u>

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For The Years Ended September 30, 2003 and 2002
(in thousands)

	<u>2003</u>	<u>2002</u>
Income		
Servicing revenue		\$ 4,631
Loan interest income	\$ 25,816	
Expenses		
Loan financing expenses (Note 9)	13,540	
T.H.E. bonus expense	1,475	
Adjustment to allowance for credit losses	397	
Professional services	382	216
Promotion and marketing	849	
Amortization	821	
Salaries and benefits	5,193	3,218
Other	<u>1,679</u>	<u>1,528</u>
Total expenses	<u>24,336</u>	<u>4,962</u>
Change in net assets before other income (expense)	1,480	(331)
Other income (expense)		
Interest expense	(427)	(444)
Other revenue	1	
Derivative market value adjustment	(62)	
Interest income	<u>1,111</u>	<u>251</u>
Total other income (expense)	<u>623</u>	<u>(193)</u>
Change in net assets before income tax provision	2,103	(524)
Provision for income taxes on NCMS	731	
Minority interest in NCMS net income	<u>(37)</u>	<u> </u>
Change in net assets	2,797	(524)
Net assets, beginning of period	(2,751)	(2,227)
Net assets received on transfer	10,891	
Net asset adjustment from warrant cancellation and minority stock income	<u>312</u>	<u> </u>
Net assets, end of period	<u>\$ 11,249</u>	<u>\$ (2,751)</u>

See accompanying notes to financial statements.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2003 and 2002
(in thousands)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities		
Change in net assets	\$ 2,797	\$ (524)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Amortization	842	180
Depreciation	99	98
Issuance of stock options for services	63	67
Discount on notes payable	10	16
Loan premium expense	2,307	
(Increase) decrease in current assets:		
Accounts receivable	562	(186)
Interest receivable	(3,891)	
Receivable from Great Lakes	(450)	
Government receivable	(2,908)	
Due from related party	355	(2)
Other assets	(768)	(5)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	1,739	(141)
Accrued salaries and benefits	265	116
Contract servicer payable	43	31
Interest payable	69	77
Net cash flows from operating activities	1,134	(273)
Cash flows from investing activities		
Net increase in loans	(325,845)	
Decrease in restricted cash	60,744	
Purchases of property and equipment	(167)	(54)
Cash received on transfer	77	
Net cash flows from investing activities	(265,191)	(54)
Cash flows from financing activities		
Net change in draws against lines of credit	266,000	
Proceeds from notes payable		500
Payments on notes payable	(556)	
Payments on capital lease obligations	(24)	(22)
Proceeds from due to related parties		46
Financing costs	(501)	
Payments on due to related parties	(51)	
Minority interest	37	
Net cash flows from financing activities	264,905	524
Net increase in cash and cash equivalents	848	197
Cash and cash equivalents at beginning of year	287	90
Cash and cash equivalents at end of year	\$ 1,135	\$ 287

See accompanying notes to financial statements.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 1 BUSINESS OPERATIONS

Northstar Education Finance, Inc. (“NEF” or the “Company”) was organized and is operated exclusively for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The purposes for which NEF was formed are to foster, aid, encourage and assist the pursuit of higher education. NEF received a favorable determination from the Internal Revenue Service that it is an organization described in Section 501(c)(3) in March of 2003.

NEF accomplishes its mission and purpose of reducing the cost of higher education through the T.H.E. Loan Program, a trademarked suite of loan products. NEF formed Northstar Capital Markets Services, Inc., (“NCMS”) a Delaware for-profit business corporation to administer the T.H.E. Loan Program and potentially provide services to third parties. NEF currently owns 97% of NCMS’s issued and outstanding capital stock.

All T.H.E Loan Program loans, related financial assets and associated liabilities are assets or liabilities of NEF, either directly or through one or more wholly-owned limited liability company subsidiaries (Northstar T.H.E. Funding, LLC [T.H.E.], Northstar T.H.E. Funding II, LLC [T.H.E. II], and Northstar T.H.E. Funding III, LLC [T.H.E. III]). Any potential claims against or liabilities of a subsidiary would be payable only out of the assets of that subsidiary. Operating assets and associated liabilities are assets or liabilities of NCMS. NCMS has entered into Administration Agreements with NEF and its limited liability company subsidiaries to provide general management services, to originate, service and finance the T.H.E. Program Loans and to perform certain specific duties under the terms of certain contracts to which such entities are parties.

The T.H.E. Loan Program was originally created in and run by Northstar Guarantee Inc. Division B (Division B). Division B was created on August 1, 1997 as part of an Affiliation Agreement between Northstar Guarantee Inc., a Minnesota nonprofit corporation and Great Lakes Higher Education Corporation (Great Lakes). The Affiliation Agreement resulted in the creation of two divisions of Northstar Guarantee Inc. in order to separate the federal assets of Northstar Guarantee Inc. into Division A, a federal loan guarantor, and the nonfederal assets of Northstar Guarantee Inc. into Division B. Each division had a separate board of directors.

Division B and Great Lakes each agreed that the activities and assets of the student loan business would be contributed to a new nonprofit entity, when the business could sustain itself, and such entity, NEF, has been formed as described above. On April 1, 2003 all of the assets of Division B were transferred to NEF.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash equivalents

Short-term highly liquid investments with initial maturities of three months or less are presented in these financial statements as cash equivalents.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

Loans and allowance for credit losses

Investments in student loans, including premiums, are recorded at cost, net of premium amortization and the allowance for credit losses. Interest income is calculated by using the simple interest method on daily balances outstanding. Premiums are amortized using the interest method over the estimated ten-year principal life of the related loans. Premium amortization expense is offset against loan interest earnings when recording loan interest income.

In accordance with the indenture trust agreements, the allowance for credit losses is estimated and established by increasing restricted cash when private loans are disbursed and additional provisions as may be required. Loans are charged against the allowance when the loans are 180 days delinquent and the indenture trustee may withdraw funds from the restricted cash accounts. Recovery of amounts charged off are credited to the allowance for credit losses. The allowance for credit losses is estimated and based on management's evaluation of the loan portfolio, including such factors as the volume and type of loans outstanding, past loan loss experience, and general economic conditions.

Management believes that the allowance for credit losses is adequate. While management used available information to recognized losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions.

Restricted cash

The Company's restricted cash is held by the trustee in various accounts subject to use restrictions, imposed by the indenture of trust.

Amortizable assets

The Company's amortizable assets consist of financing costs and student loan servicing rights. The financing costs are amortized over the principal life of the corresponding debt. The servicing rights are amortized over fifteen years.

Derivative accounting

Derivative instruments that are used as part of the Company's interest rate risk management strategy include interest rate floor contracts with indices that relate to the pricing of specific statement of financial position assets. The Company follows Statement of Financial Accounting Standards ("SFAS") No. 133 which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the statement of financial position as either an asset or liability measured at its fair value. These amounts are currently presented in the statement of financial position caption "accounts payable and accrued liabilities". Under SFAS No. 133, if certain criteria are met, derivative instruments are classified and accounted for as either fair value or cash flow hedges. If these criteria are not met, the derivative financial instruments are accounted for as trading. The Company sells interest rate floors to partially offset the embedded floor income options in student loan assets. This relationship does not satisfy hedging qualifications under SFAS No. 133, but are considered economic hedges for risk management purposes. The Company uses this strategy to minimize its exposure to floating rate volatility.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

Income taxes

The Company is tax-exempt under the provisions of the Internal Revenue Code Section 501(c)(3). However, a provision for income taxes has been made in the accompanying financial statements for NCMS.

Principles of consolidation

The consolidated financial statements include the accounts of NEF and its subsidiaries (T.H.E. , T.H.E. II, T.H.E. III and NCMS). All significant intercompany transactions have been eliminated in consolidation.

Advertising

The Company expenses promotion and marketing costs as they are incurred.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Disclosures about fair value of financial instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Company disclose estimated fair values for its financial instruments.

The following methods and assumptions are used by the Company in estimating the fair value of its financial instruments.

Cash and cash equivalents: The carrying amount of cash and cash equivalents is a reasonable estimate of fair value.

Loans: The estimates of fair value on loans are based on collateral coverage certificate amounts as determined by the indenture of trust.

Interest receivable: Interest receivable is based on the loans listed above; therefore, the estimates of fair value are based on the collateral coverage certificate amounts.

Receivable from Great Lakes: The carrying amount approximates fair value due to the short maturity of this receivable.

Restricted cash: The carrying amount of restricted cash is a reasonable estimate of fair value.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

Accounts payable and accrued liabilities: The carrying amount approximates fair value due to the short maturity of these instruments.

Due to related party: The carrying amount approximates fair value due to the short maturity of this asset.

Draws against bank lines of credit: The fair value of the lines of credit approximate carrying value due to the variable interest rate nature of the financing arrangement.

Noteholder loans: The fair value of the noteholder loans approximate carrying value due to the variable interest rate nature of the financing arrangement.

Derivative financial instruments: The fair value of derivative financial instruments are determined through quoted market prices representing the amount at which the instruments can be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no public market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economics conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates. In addition, the tax ramifications related to the realization of the unrealized gains or losses can have a significant effect on fair value estimates and have not been considered in the estimates.

NOTE 3 LOANS

The components of loans in the statement of financial position at September 30, 2003 are as follows (in thousands):

	<u>2003</u>
Federal guaranteed student loans	\$ 1,616,794
Private student loans	261,112
Unamortized loan premium	42,995
Loans and refunds in process	<u>(4,623)</u>
Total	1,916,278
Allowance for credit losses	<u>(7,994)</u>
Net book value	<u>\$ 1,908,284</u>

As of September 30, 2003, the Company has committed to fund student loans totaling \$306.8 million.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 4 ALLOWANCE FOR CREDIT LOSSES

Analysis of the change in the allowance for credit losses for the year ended September 30, 2003 follows (in thousands):

	<u>2003</u>
Beginning balance, transferred in from Div. B	\$ 7,960
Provision for loan losses	4,745
Loans charged off, net of recoveries	<u>(4,711)</u>
Ending balance	<u>\$ 7,994</u>

At September 30, 2003 loans totaling \$9.6 million (including accrued interest) were 91 days or more delinquent. Of these, \$7.7 million were federally guaranteed loans.

NOTE 5 NOTES PAYABLE (IN THOUSANDS)

	<u>2003</u>	<u>2002</u>
Notes payable – private investors. These unsecured four year notes require monthly interest only payments at the higher of 12% or 4% (annual rate) over the prime rate (prime rate was 4.00% at September 30, 2003). These notes mature April, 2004.	\$ 745	\$ 738
Notes payable – company officers. These unsecured subordinated notes bear interest at 6% (annual rate) over the prime rate and require no interest payments to be made until maturity, which is April, 2004.	712	712
Note payable – bank, secured by servicing rights on loan portfolio. This note requires monthly payments at an (annual rate) of 1% over the prime rate. This note requires principal balance and accrued interest payable in full on April 15, 2005.	400	500
Note payable – private foundation. This unsecured note requires monthly payments at the higher of 12% or 4% (annual rate) over the prime rate. This note matures March, 2005.	<u>1,544</u>	<u>1,997</u>
Total	<u>\$ 3,401</u>	<u>\$ 3,947</u>

Maturities of the principal portion of long-term debt consist of the following at September 30, 2003 (in thousands):

2004	\$ 2,455
2005	<u>946</u>
Total due	<u>\$ 3,401</u>

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 6 DRAW AGAINST BANK LINES OF CREDIT

The Company has three lines of credit with interest at varying rates (interest rates were 1.04% to 1.12% at September 30, 2003) depending on funding sources. These lines grant maximum credit of \$1.55 billion. Amounts outstanding are due on demand, and are secured by student loans. The Company had amounts outstanding of \$1.52 billion at September 30, 2003.

In connection with the line of credit agreement, the Company is required, among other things, to maintain certain covenants and ratios. As of September 30, 2003, the Company was in compliance with these requirements.

NOTE 7 NOTEHOLDER LOANS

The Company periodically issues taxable student loan asset-backed notes to finance the acquisition of student loans. All notes are primarily secured by the student loans receivable, related accrued interest, and other property and funds held in trust. The notes are variable rate notes with interest rates reset periodically based upon auction procedures.

The table below summarizes outstanding notes payable at September 30, 2003 by issue (in thousands).

<u>2000 Auction Rate Student Loan Asset-Backed Notes</u>	<u>Maturity</u>	<u>Carrying Amount</u>	<u>Interest Rate</u>
Senior Series 2000A-1	11/1/2040	\$ 50,250	1.12%
Senior Series 2000A-2	11/1/2040	50,250	1.13%
Subordinate Series 2000B	11/1/2040	<u>9,500</u>	1.14%
		<u>\$ 110,000</u>	
<u>2002 Auction Rate Student Loan Asset-Backed Notes</u>	<u>Maturity</u>	<u>Carrying Amount</u>	<u>Interest Rate</u>
Senior Series 2002A-1	4/1/2042	65,500	1.11%
Senior Series 2002A-2	4/1/2042	65,500	1.15%
Senior Series 2002A-3	4/1/2042	65,500	1.16%
Senior Series 2002A-4	4/1/2042	65,500	1.14%
Senior Series 2002A-5	4/1/2042	65,500	1.15%
Senior Series 2002A-6	4/1/2042	65,500	1.13%
Subordinate Series 2002B-1	4/1/2042	<u>37,000</u>	1.20%
		<u>\$ 430,000</u>	
		<u>\$ 540,000</u>	

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 8 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2003</u>		<u>2002</u>
Cash paid for interest (in thousands)	\$ 11,849	\$	367

NOTE 9 LOAN FINANCING EXPENSES

Loan financing expenses consist of the following (in thousands)	<u>2003</u>
Interest expense	\$ 11,486
Program and commitment fees	<u>2,054</u>
	<u>\$ 13,540</u>

NOTE 10 CONCENTRATION OF CREDIT RISK

The Company receives program fees from their primary contract loan services. These amounts are generally unsecured.

The Company originates and holds student loans from students throughout the United States. The Company grants credit for loans provided and is generally unsecured and the government subsidized loans are substantially guaranteed. The Company's ability to collect loans and interest from students may be affected by general economic fluctuations.

NOTE 11 DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Strategy

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize the economic effect of interest rate volatility. The Company's goal is to manage interest rate sensitivity by entering into floor income contracts which partially offset the embedded floor income options in FFEL student loan assets. The result is more consistent cashflows received on student loans and a more consistent return or yield overall. The Company views this strategy as prudent management of interest rate sensitivity and overall cashflows. Management believes Floor Income Contracts are economically effective, however, those transactions do not qualify for hedge accounting under SFAS No. 133 (as discussed below) and thus may adversely impact earnings.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

By using derivative instruments, the Company is exposed to credit and market risk. However, management considers the credit risk to be minimal as the counterparty's liability for performance is at inception in delivering the initial premium to enter the transaction. After inception, the credit risk falls on the Company to perform in the event interest rates fall below the floor strike price. To minimize the credit risk to counterparties, the Company has pledged the student loans held in trust. In the event interest rates remain above the floor or move higher above the floor, the Company retains the original premium and no additional cashflows are required of the counterparty. In addition, the Company further minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically. The Company also requires all derivative contracts be governed by the International Swaps and Derivative Association Master Agreement.

Floor income contracts

The Company enters into Floor Income Contracts with third parties, under which the Company receives an upfront payment and agrees to pay the difference between a fixed rate, which is based on the minimum borrower interest rate less the applicable SAP rate ("the Strike Rate") and the average of LIBOR over the period of the contract. If the Strike Rate is less than the average LIBOR rate, then no payment is required.

During 2003 and 2002, the Company entered into Floor Income Contracts with notional principal balances of \$400 million and \$0, respectively, in exchange for upfront payments of \$174 thousand and \$0, respectively. For the periods ended September 30, 2003 and September 30, 2002, payments by the Company to Floor Income Contact counterparties under the contracts totaled \$334 thousand and \$0, respectively.

Summary of derivative financial statement impact

The following table summarizes the notional value of all derivative instruments at September 30, 2003, and their impact on earnings for the year then ended (in thousands). No derivative instruments existed as of September 30, 2002.

<u>Derivatives designated "Trading"</u>	<u>September 30, 2003</u>
<i>Notional Values</i>	
Floor income contracts	\$ 400,000
<i>Earnings summary</i>	
Mark-to-market earnings	<u>(62)</u>
Total earnings impact	<u><u>\$ (62)</u></u>

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 12 ASSET TRANSFER

On April 1, 2003, Division B transferred all of its assets and liabilities to NEF. The amounts transferred were as follows (in thousands):

Assets		Liabilities	
Cash and cash equivalents	\$ 77	Accounts payable and accrued liabilities	\$ 8,975
Loans	1,584,747	Due to related party	5
Interest receivable	51,554	Draw against bank line of credit	1,251,000
Due from related party	337	Noteholder loans	<u>540,000</u>
Receivable from Great Lakes	4,328	Total liabilities assumed	<u><u>\$ 1,799,980</u></u>
Restricted cash	167,153		
Amortizable assets, net	<u>2,675</u>		
Total assets acquired	<u><u>\$ 1,810,871</u></u>		

The following proforma information is presented below as if the asset transfer had taken place as of September 30, 2002 (in thousands):

Assets		Liabilities	
Cash and cash equivalents	\$ 391	Accounts payable and accrued liabilities	\$ 6,136
Loans	1,309,379	Draw against bank lines of credit	893,500
Interest receivable	49,893	Noteholder loans	540,000
Receivable from Great Lakes	5,215	Notes payable	<u>3,947</u>
Restricted cash	82,708	Total liabilities	<u><u>\$ 1,443,583</u></u>
Amortizable assets, net	3,553		
Property and equipment, net	231		
Other assets	<u>53</u>		
Total assets	<u><u>\$ 1,451,423</u></u>		

Operations for the year ended September 30, 2002

Total revenue	\$ 51,425
Total expenses	(42,375)
Total other income	<u>766</u>
Change in net assets	<u><u>\$ 9,816</u></u>

The accompanying financial statements include the operations of T.H.E., T.H.E. II, and T.H.E. III for the period April 1, 2003 through September 30, 2003.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 13 ESTIMATED FAIR VALUES

The Company, in accordance with SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," has estimated fair values of financial instruments as follows (in thousands):

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Carrying Amount</u>
Earning assets			
Loans	\$ 1,908,284	\$ 1,945,979	\$ 37,695
Interest receivable	55,445	56,615	1,170
Cash and cash equivalents	1,135	1,135	-
Receivable from Great Lakes	4,778	4,778	-
Government receivable	2,908	2,908	-
Restricted cash	106,410	106,410	-
Non-interest and interest-bearing liabilities			
Accounts payable and accrued liabilities	10,794	10,794	-
Interest payable	308	308	-
Accrued salaries and benefits	780	780	-
Contract servicer payable	165	165	-
Capital lease obligation	7	7	-
Draw against bank line of credit	1,517,000	1,517,000	-
Noteholder loans	540,000	540,000	-
Notes payable	3,401	3,401	-
Derivative financial instruments - liability			
Floor income contracts	274	274	-

NOTE 14 SUBSEQUENT EVENTS

T.H.E. increased its line of credit by \$100 million on October 1, 2003.

T.H.E. II increased its line of credit by \$100 million on November 1, 2003 and on December 16, 2003.