NORTHSTAR EDUCATION FINANCE, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended
September 30, 2013 and 2012

Northstar Education Finance, Inc. and Subsidiaries

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Northstar Education Finance, Inc. and its subsidiaries, which comprise the consolidated statement of financial position as of September 30, 2013, and the related consolidated statement of activities, and cash flows for the year 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 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 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 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 auditor considers 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 Northstar Education Finance, Inc. and its subsidiaries as of September 30, 2013 and the results of their operations and their cash flows for the year then ended.

Other Matter - 2012 Financial Statements

The consolidated financial statements of Northstar Education Finance, Inc. and its subsidiaries, which comprise the consolidated statement of financial position as of September 30, 2012, and the related consolidated statement of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those statements on February 8, 2013.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
December 11, 2013

Northstar Education Finance, Inc. and Subsidiaries

Consolidated Statements of Financial Position
As of September 30, 2013 and 2012
(in thousands)

	2013	2012
ASSETS		
Cash and cash equivalents (Note 2)	$ 9,688	$ 18,587
Loans, net (Notes 2, 4, and 5)	3,961,722	4,287,461
Interest receivable	64,003	81,386
Servicer receivable (Note 2)	9,936	9,201
Restricted cash and cash equivalents (Notes 2 and 3)	123,505	127,507
Amortizable assets, net (Note 2)	13,954	9,907
Prepaid expenses	67	56
Total Assets	$ 4,182,875	$ 4,534,105
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$ 9,947	$ 11,670
Government payable (Note 2)	10,768	11,862
Escrow payable (Note 2)	-	1,172
Contingent gain (Note 6)	-	1,236
Draw against bank lines of credit (Note 7)	-	808,000
Long-term debt (Note 8)	3,962,024	3,517,278
Total liabilities	3,982,739	4,351,218
NET ASSETS		
Net assets - unrestricted	200,136	182,887
Total Liabilities and Net Assets	$ 4,182,875	$ 4,534,105

See accompanying notes to consolidated financial statements.

Northstar Education Finance, Inc. and Subsidiaries

Consolidated Statements of Activities
As of September 30, 2013 and 2012
(in thousands)

	2013	2012
INCOME		
Student loan interest income (Note 2)	$ 108,273	$ 115,843
OPERATING EXPENSES		
Interest expense	31,822	35,575
Financing expense	4,179	4,975
Loan servicing fees	20,465	20,580
Loan consolidation fees	27,800	29,763
T.H.E. bonus expense	3,420	981
Provision for loan losses (Note 5)	6,113	2,368
Federal loan default expense	549	642
Amortization	1,184	1,393
Professional services	519	486
Other	140	110
Total operating expenses	96,161	96,873
OTHER INCOME (EXPENSE)		
Grant revenue and related expenses, net	(231)	1,482
Other	(16)	20
Gain on sale of investment in subsidiary (Note 6)	3,987	-
Default collection revenue	1,316	1,111
Interest income	111	153
Total other income	5,167	2,766
Change in Net Assets	17,249	21,736
Net assets, beginning of period	182,887	161,151
Net Assets, end of period	$ 200,136	$ 182,887

See accompanying notes to consolidated financial statements.

Northstar Education Finance, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
As of September 30, 2013 and 2012
(in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 17,249	$ 21,736
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Amortization	1,184	1,393
Provision for loan losses	6,113	3,142
Loan premium expense	10,783	16,876
Gain on sale of investment in subsidiary	(3,987)	-
(Increase) decrease in assets:		
Interest receivable	17,383	54,548
Servicer receivable	(735)	5,353
Prepaid expenses	(11)	(56)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,723)	(489)
Government payable	(1,094)	(3,123)
Contingent gain	-	(1,076)
Net cash flows from operating activities	45,162	98,304
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from payments on student loans	308,843	493,002
Proceeds from sale of investment in subsidiary	2,751	-
Payments to prior shareholders of amounts held in escrow	(1,172)	(819)
Net change in restricted cash and cash equivalents	4,002	8,061
Net cash flows from investing activities	314,424	500,244
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on draw against bank lines of credit	(808,000)	(277,720)
Payments on long-term debt	(340,554)	(319,751)
Proceeds from long-term debt	785,300	-
Payments of financing costs	(5,231)	-
Net cash flows used in financing activities	(368,485)	(597,471)
Net increase (decrease) in Cash and Cash Equivalents	(8,899)	1,077
Cash and Cash Equivalents at beginning of year	18,587	17,510
Cash and Cash Equivalents at end of year	$ 9,688	$ 18,587

See accompanying notes to consolidated financial statements.

NOTE 1 – Business Operations

Northstar Education Finance, Inc. ("NEF" or the "Company") is a Delaware non-stock, nonprofit corporation that was incorporated in January 2000. NEF is a membership organization and its current members are its board of directors. NEF was formed to administer the student loan programs started by NorthStar Guarantee, Inc. Shortly after receiving a favorable determination from the Internal Revenue Service in March 2003 that NEF was an organization described in Section 501 (c) (3) of the Internal Revenue Code, NorthStar Guarantee, Inc. transferred beneficial ownership of all remaining assets (including all student loans) to NEF, and NEF assumed all associated liabilities. Effective July 1, 2010, federal legislation eliminated the authority to provide new loans under The Federal Family Education Loan Program ("FFELP") and required that all new federal loans be made through the Direct Student Loan Program ("DSLP"). Because of this and disruptions in the credit markets, the Company is no longer in the business of originating federal or private student loans, but continues to manage its historic loan portfolio.

The Company is dedicated to helping students obtain an affordable education and it continues to support its charitable purpose, which is to foster, aid, encourage and assist the pursuit of higher education. Supporting its mission, the Company provides students who have existing loans which were issued under its T.H.E. Loan Program, the lowest possible cost on their loans. In particular, the Company returns excess revenues to student borrowers in the form of the 'T.H.E. Bonus' program. NEF's primary charitable goals are to (a) continue servicing its outstanding student loans; (b) continue to provide education and assistance to student borrowers to enable them to successfully repay their loans; (c) manage its financings as necessary to maximize the T.H.E. Bonus paid to student borrowers; and (d) make grants to other organizations in furtherance of its educational mission.

The Company has financed its student loan portfolio through a series of student loan asset-backed note issues, beginning with the first issue in the year 2000. As a result, most of the Company's loans have been pledged under indentures and are held by trusts specific to the respective securities issues.

Master Servicing

NEF formed Northstar Capital Markets Services, Inc. ("NCMS"), a Delaware for-profit business corporation, to administer the T.H.E. Loan Program and provide services to other third-parties involved in education financial services. NEF owned 56% of NCMS's issued and outstanding capital stock and nine members of NCMS's management collectively owned 42%. The remaining 2% of outstanding stock was owned by a charitable foundation. On August 30, 2010, the Company increased its investment in NCMS by purchasing an additional 2% interest and simultaneously selling all of its then interests in NCMS to an unrelated party, liquidating all of the Company's investment and control in the subsidiary (see Note 6). Simultaneously, NCMS entered into a Master Servicing Agreement ("MSA") with NEF to provide services which include administrative and support for all of NEF's student loans and related programs, management of NEF's obligations under financing agreements, accounting, reporting and cash management for NEF, and other services as set forth in the MSA. The MSA will expire in August 2017.

NOTE 1 – Business Operations (cont.)

On October 1, 2012, NCMS entered into an Asset Purchase Agreement (or "APA") with Northstar Education Services, LLC, a Wisconsin limited liability company ("NES"). Pursuant to the APA, NCMS retains its master servicing business, including but not limited to the rights and obligations of NCMS under the MSA. As provided in Section 1.4 of the APA, NCMS and NES entered into a Subservicing Agreement dated October 1, 2012 (the "Initial Subservicing Agreement") to provide that NES shall, under NCMS's supervision and direction, perform certain of NCMS's responsibilities with respect to its master servicing business, including the responsibilities under the MSA. On October 25, 2012, the Initial Subservicing Agreement was amended and restated to incorporate terms required in connection with the 2012-1 and 2012A financings (See Note 8).

All T.H.E Loan Program loans, related financial assets and associated liabilities are assets or liabilities of NEF, either directly or through one wholly-owned limited liability company subsidiary. Any potential claims against or liabilities of a subsidiary would be payable only out of the assets of that subsidiary.

NOTE 2 – Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents consist of checking accounts, commercial paper and/or other operating accounts invested in short-term highly liquid investments with initial maturities of three months or less. Cash pledged as collateral for bank lines and long-term debt, as well as funds held in escrow accounts (see Note 7 and 8) are excluded from cash and cash equivalents and presented in these consolidated financial statements as restricted cash and cash equivalents.

Loans and allowance for loan losses

The Company's portfolio of student loans consists of federal and private student loans. Federal consolidation loans have an estimated twenty-five year life and the remaining loans have an estimated ten to fifteen year life.

Federal student loans are recorded at cost, and include unamortized premium costs on the Consolidated Statements of Financial Position. Premium costs are amortized using the interest method over the estimated principal life of the related loans.

Federal student loans are guaranteed by the Department of Education ("DOE") ranging from 97% to 100% of principal and related interest balances. Due to management's historical experience with these loan types and the guarantee, no provision for federal student loan losses has been provided for by management in the consolidated financial statements.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Private loans are recorded at cost and reported net of the allowance for loan losses on the Consolidated Statements of Position. The Company's allowance for loan losses represents a reserve for the estimated losses on the Company's student loans. Management evaluates the allowance for private student loans on a quarterly basis to ensure the reserve is adequate to reflect any potential losses to be incurred. Management considers the overall risk profile of its private loans including volume and type of loans, delinquencies, non-performing loans including those in forbearance, and default experience using a static pool migration analysis. In addition, management considers uncertainties related to loan concentrations and general economic conditions. Defaulted loans are written off to the allowance when a loan is >180 days delinquent and after consideration has been made of the borrower's financial condition and collection efforts have been exhausted. Recoveries of amounts written off are credited to the allowance for loan losses.

Management believes the allowance for loan losses is adequate as of September 30, 2013 and 2012. While management used available information to estimate losses on private loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions.

Loan premiums

Loan premiums consist of origination and lender fees paid to the DOE on federal loans originated by the Company, premiums paid in the acquisition of student loans and certain origination expenses incurred to originate student loans. The Company utilizes the interest method to amortize these costs, taking into account actual loan prepayments. Student loan interest income is shown net of amortization of premiums on the Consolidated Statements of Activities.

Servicer receivable

Servicer Receivable represents student loan principal and interest payments collected and applied to borrower balances by the Company's third party servicer (Great Lakes Educational Loan Services, Inc.) that have not yet been remitted to the Company. No allowance was deemed as necessary as of September 30, 2013 and 2012.

Restricted cash and cash equivalents

The Company's restricted cash and cash equivalents primarily include cash pledged as collateral for bank lines and long-term debt, and also include funds held in escrow accounts. Cash pledged as collateral for bank lines and long-term debt is held by a trustee in various accounts subject to use restrictions imposed by the indenture of trust. This cash must be used to make payments related to trust obligations. The indenture trustee may withdraw funds from certain restricted cash accounts when federal and private loans are 180 days or more delinquent. Restricted cash and cash equivalents consist of cash management accounts, money market funds, and other operating accounts invested in high quality short-term financial instruments. The amounts deposited in any financial institution may exceed federally insured limits.

Amortizable assets

The Company's amortizable assets consist of debt financing costs. The financing costs are amortized over the principal life of the corresponding debt.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Government payable

Government payable represents payments due to the DOE for borrower interest earned on federal loans which is in excess of Special Allowance Payments ("SAP") formula, as established under The Higher Education Act of 1965 (the "Act").

Escrow payable

Escrow payable represents funds held in escrow pursuant to the NCMS Shareholder Disbursement Trust Agreement and the Escrow Agreement associated with the sale and deconsolidation of NCMS. See Note 6.

Income taxes

The Company is a tax-exempt organization set up under the provisions of the Internal Revenue Code Section 501(c) (3).

Management accounts for uncertainty in income taxes based on a threshold of more-likely than-not for recognition of tax positions taken or expected to be taken in a tax return. The Company has no uncertain tax positions meeting the threshold. Federal returns for the tax years ended 2009, 2010, 2011 and 2012 remain subject to examination by the Internal Revenue Service.

Principles of consolidation

The consolidated financial statements for the year ended September 30, 2013 include the accounts of NEF and the accounts associated with the beneficial interests of its subsidiary (Northstar Education Funding I, LLC), the depositor entity which holds all beneficial interests in the loans pledged to the two trusts specific to NEF's financings in October 2012 (see Note 8) . The consolidated financial statements for the year ended September 30, 2012 include the accounts of NEF and its subsidiary (T.H.E. III), which was dissolved in 2013.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Student loan interest income

Federal loans

The Company's federally-guaranteed student loans were originated under the Federal Family Education Loan Program (FFELP). The Company earns interest at the greater of the borrower's rate or a floating rate which, prior to April 1, 2012, was determined by reference to the average of the 90-day financial commercial paper rate, plus a fixed spread which is dependent upon when the loan was originated. In March 2012, the Company filed an election with the DOE to have special allowance payments calculated using the average of the bond equivalent rates of the quotes of the 1-month London Inter Bank Offered Rate (LIBOR) for the calendar quarter beginning April 1, 2012 and each subsequent quarter. The request for election was approved by the DOE on March 23, 2012. If the floating rate exceeds the borrower rate, the DOE makes a payment directly to the Company based upon the SAP formula established under the Act. If the floating rate is less than the rate the borrower is obligated to pay, the Company earns interest at the borrower rate on all loans with first disbursements prior to April 1, 2006. For loans with first disbursements on or after April 1, 2006, the Company must remit back to the Department of Education on a quarterly basis any borrower interest in excess of the SAP formula. Interest rates on the Company's federal loans are either fixed to term or are reset annually on July 1 of each year depending on the loan type. Student loan interest income is shown net of amortization of premiums on the Consolidated Statements of Activities.

Private loans

The Company's private student loans have variable interest rates that reset quarterly.

Interest expense

The Company has financed its student loan portfolio with securities which have interest rates that, based on contractual agreements, are tied to United States Treasury Bill rates or LIBOR.

Loan consolidation fees

Loan consolidation fees represent monthly rebate fees paid to the DOE which are required by holders of consolidation loans. The rate used to calculate the fee is determined by the date the loan was disbursed and is applied to the principal amount plus accrued unpaid interest on the loan to calculate the amount of the monthly fees due.

Net assets

Included in Net assets - unrestricted on the Statement of Financial Position are approximately $8M of endowment funds designated by the Board of Directors to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including Board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

(in thousands)

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Reclassifications

For comparability, certain 2012 amounts have been reclassified to conform to classifications adopted in 2013. This had no impact on the 2012 change in net assets or the net assets as of September 30, 2012.

Use of estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – Restricted Cash and Cash Equivalents

Restricted and cash equivalents in the Consolidated Statements of Financial Position consisted of the following as of September 30, 2013 and 2012:

	2013	2012
Accounts pledged to financings	$ 123,505	$ 125,099
Accounts held in escrow for possible transfer to non-controlling interests from sale of subsidiary	-	266
Accounts held in escrow for possible future benefit of the Company from sale of subsidiary	-	2,142
Total	$ 123,505	$ 127,507

During the fiscal year ended September 30, 2013, the Company released all funds in escrow as a result of certain conditions being met pursuant to the NCMS Shareholder Disbursement and the Escrow Agreement that relate to the sale and deconsolidation of NCMS. See Note 6.

(in thousands)

NOTE 4 – Loans, Net

Loans, net, consisted of the following as of September 30, 2013 and 2012:

	2013	2012
Federal guaranteed student loans	$ 3,440,873	$ 3,708,666
Private student loans	466,567	511,566
Unamortized loan premiums	69,476	80,259
Loans and refunds in process, net	46	(23)
Total	3,976,962	4,300,468
Allowance for loan losses on private student loans (Notes 2 and 5)	(15,240)	(13,007)
Loans, net	$ 3,961,722	$ 4,287,461

NOTE 5 – Allowance for Loan Losses

Analysis of the change in the allowance for loan losses on private student loans for the years ended September 30, 2013 and 2012 is as follows:

	2013	2012
Beginning balance	$ 13,007	$ 16,149
Provision for loan losses	6,113	2,368
Charge-offs, net of recoveries	(3,880)	(5,510)
Ending balance	$ 15,240	$ 13,007

As of September 30, 2013, student loans totaling approximately $36 million were 91 days or more delinquent. Of the $36 million, approximately $31 million were federal guaranteed student loans and approximately $5 million were private student loans. As of September 30, 2012, loans totaling approximately $ 50 million were 91 days or more delinquent. Of these, approximately $45 million were federal guaranteed student loans and approximately $5 million were private student loans.

(in thousands)

NOTE 5 – Allowance for Loan Losses (cont.)

Information about the credit quality of private loans as of September 30, 2013 and 2012 is as follows:

As of September 30, 2013			
	Outstanding balance	Percentage of repayment	Percentage of total
In school and grace	$ 11,500		2.5%
Deferment	34,515		7.4
Forbearance	5,551		1.2
Repayment			
Current	395,624	95.3%	
Delinquent 31-60 days	10,388	2.5	
Delinquent 61-90 days	3,673	0.9	
Delinquent 91 days or greater	5,316	1.3	
Total in repayment	415,001	100.00%	88.9
Total	$ 466,567		100.0%

As of September 30, 2012			
	Outstanding balance	Percentage of repayment	Percentage of total
In school and grace	$ 33,662		6.6%
Deferment	44,628		8.7
Forbearance	5,641		1.1
Repayment			
Current	407,921	95.39%	
Delinquent 31-60 days	10,600	2.48	
Delinquent 61-90 days	3,879	0.91	
Delinquent 91 days or greater	5,235	1.22	
Total in repayment	427,635	100.00%	83.6
Total	$ 511,566		100.0%

The Company's private loans were originated using the Company's program guidelines, with loans being made only to eligible borrowers at eligible schools. Borrower eligibility was determined through a proprietary credit underwriting process utilizing credit scoring models, strict co-signer requirements and consideration of other factors such as school eligibility. School eligibility was determined by the Company, based on the school's historical default experience. All loan servicing functions are performed by Great Lakes Educational Loan Services, Inc. To supplement these services, NCMS performs additional collection activities through its Default Management Program. The result of the Company's underwriting guidelines and collection policies have resulted in positive performance of its private loan portfolio, which has been confirmed in recent rating agency reviews.

NOTE 5 – Allowance for Loan Losses (cont.)

Because each of the loans in the Company's federal loan portfolio are guaranteed at a level between 97% and 100% management believes the aggregate risk of loss is not meaningful to the financial condition of the Company. Accordingly, no allowance for loan losses has been established for these loans and the detailed credit quality information similar to that presented for the Company's private loan portfolio has been intentionally omitted.

NOTE 6 – Sale of Investment in Subsidiary

On August 30, 2010, the Company increased its investment in NCMS by purchasing an additional 2% interest from a non-controlling interest and simultaneously selling all of its then interests in NCMS to an unrelated party, liquidating all of the Company's investment and control in the subsidiary. See Note 1 for additional information on NCMS.

The general terms of the stock sale included a gross sales price of approximately $40 million for all outstanding shares of NCMS. Approximately $6.2 million of these funds were set aside and subject to certain contingent obligations. These funds were restricted until on or after February 28, 2013, subject to written request of the sellers' representative. Based on the terms of the agreement, the Company recorded a gain on the sale of approximately $14.7 million with an additional $3.5 million recorded as a contingent gain to be recognized when certain restrictions were released by the acquirer.

During the fiscal year ended September 30, 2013, certain conditions were met and restrictions released by the acquirer. As a result, a release was made from the restricted sellers' escrow funds and distributed to the sellers. Accordingly, the Company recorded a $1.9 million "Gain on sale of investment in subsidiary". Approximately $1.4 million was paid to the former non-controlling interests.

Additionally, pursuant to the terms of the stock sale, the Company met other conditions associated with the refinancing of its bank lines of credit (see Note 7). As a result, a distribution of approximately $2.1 million was made to NEF, which was recorded as a "Gain on sale of investment of subsidiary".

NOTE 7 – Draw Against Bank Lines of Credit

As of September 30, 2012, the Company had two lines of credit granting maximum credit of approximately $812 million with interest at varying rates (interest rates were 0.27% to 0.63% at September 30, 2012) depending on funding sources. The outstanding amounts due on the two lines of credit as of September 30, 2012 totaled approximately $808 million and the amounts were due on demand and secured by student loans. In connection with the line of credit agreements, the Company was required, among other things, to maintain certain financial covenants and ratios. On October 25, 2012, both lines of credit were paid in full in conjunction with the Company's 2012 financings. See Note 8.

NOTE 8 – Long-Term Debt

The Company has, from time to time, issued taxable student loan asset-backed notes to finance its student loans as follows:

Years 2000-2007

The Company issued a series of securities under two separate master trusts. One of the trusts is secured by a pool of federally-guaranteed student loans originated under the Federal Family Education Loan Program ("FFELP Master Trust").The other trust is secured by a pool of private student loans. All notes are secured by the student loan balances, accrued interest on the loans, and other assets pledged as collateral in each of the respective trusts.

The notes issued by the Company include senior and subordinate LIBOR rate notes and senior reset rate notes, all of which were issued at a fixed spread to 3-month LIBOR. The LIBOR rate notes issued under the FFELP Master Trust were issued at a fixed maturity with targeted amortization schedules. The Company also issued senior and subordinate auction rate notes with interest rates that are reset every 28 days based upon auction procedures. These securities have approximate forty year maturities with prepayment at the option of the Company.

As of September 30, 2013 and 2012, the Company held $798 million of taxable auction rate notes. Beginning in February 2008, a disruption in the auction rate securities market led to failures of the auctions. As a result, all of the Company's auction rate notes bear interest at the maximum rate allowable under their terms. The maximum allowable interest rate on the $798 million of taxable auction rate securities is based on the 91 day U.S. Treasury Bill plus 1.20% on the AAA rated securities and the 91 day U.S. Treasury Bill plus 1.50% on the A rated securities. The rates reset every 28 days. The maximum rate is based on a rolling 13-month reset period average.

The Company's reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. In the event a reset rate note cannot be remarketed on its remarketing date and is not repurchased, the interest rate generally steps up to and remains at LIBOR plus 0.75 percent, until such time as the bonds are successfully remarketed or refinanced. As of September 30, 2013 and 2012, $267 million and $280 million, respectively, of reset rate notes, representing two tranches of asset-backed securities, yielded interest rates at LIBOR plus 0.75 percent due to failed remarketing.

Until capital market conditions improve, it is possible additional reset rate notes will experience failed remarketing. As of September 30, 2013, the Company had $235 million reset rate notes due to be remarketed in 2014.

Year 2011

In May 2011, the Company completed a loan sale and refinance, which included the issuance of loan participation promissory notes which bear interest at the 1-month LIBOR plus 4.0%.

(in thousands)

NOTE 8 – Long-Term Debt (cont.)

Year 2012

On October 25, 2012, NEF completed two separate asset-backed financings totaling $785.3 million, for the purpose of using the proceeds to repay the Company's two lines of credit. The two financings included one structured issue totaling $686.6 million secured by a portfolio of federally insured FFELP student loans (NorthStar Student Loan Trust I, or the "2012-1" Issue), and one private issue totaling $98.7 million secured by a portfolio of private student loans and backed by a letter of credit issued by Royal Bank of Canada (NorthStar Student Loan Trust II, or the "2012A" Issue). The debt instruments offered in the two issues were as follows:

Issue	Notes	Amount	Interest rate	Maturity
2012-1	Senior Class A	$674.6 million	1-month LIBOR +0.7%	December 26, 2031
	Subordinate Class B	$12 million	3-month LIBOR +5.0%	January 25, 2032
2012A	Adjustable Rate Student Loan Revenue Bonds	$98.7 million	Weekly rates determined by RBC Capital Markets, LLC (Marketing Agent)	October 1, 2042

The notes and bonds issued under both the 2012-1 and 2012A issues are obligations of separate trusts, NorthStar Student Loan Trust I and NorthStar Student Loan Trust II, respectively. NEF, as the Sponsor, invested approximately $8.9 million in total to both issues to complete the refinancing transactions.

(in thousands)

NOTE 8 – Long-Term Debt (cont.)

The Company's long-term debt by issue and type of security, and current interest rates consisted of the following as of September 30, 2013 and 2012:

LIBOR Notes	Final Maturity	2013 Carrying Amount	2012 Carrying Amount	Interest Rate
Series 2004-1A-4	4/29/2019	$ 67,000	$ 167,000	0.45%
Series 2004-2A-1	4/28/2016	51,274	114,241	0.38%
Series 2004-2A-2	1/30/2017	150,000	150,000	0.40%
Series 2004-2A-3	7/30/2018	280,000	280,000	0.43%
Series 2004-2A-4	7/28/2021	249,500	249,500	0.49%
Series 2005-1A-1	10/28/2026	67,900	102,100	0.36%
Series 2005-1A-2	7/28/2027	118,300	118,300	0.39%
Series 2005-1A-3	10/30/2030	227,900	227,900	0.43%
Series 2005-1A-4	4/28/2032	210,700	210,700	0.49%
Series 2006-A3	5/28/2026	69,585	106,703	0.47%
Series 2006-A4	8/28/2035	208,056	208,056	0.61%
Series 2006-B1	11/28/2035	52,925	60,002	0.81%
Series 2007-1A-1	4/28/2030	193,000	193,000	0.36%
Series 2012-1A-1	12/26/2031	600,857	-	0.88%
Series 2012-1B-1	1/25/2032	8,603	-	5.27%
Total LIBOR Notes		2,555,600	2,187,502	
Reset Rate Notes				
Series 2005-1A-5	10/30/2045	67,342	80,000	1.01%
Series 2007-1A-2	1/29/2046	200,000	200,000	1.01%
Series 2007-1A-3	1/29/2046	235,000	235,000	0.32%
Total Reset Rate Notes		502,342	515,000	
Auction Rate Notes				
Series 2000-B	11/1/2040	9,500	9,500	2.37%
Series 2002	4/1/2042	233,500	233,500	2.11%
Series 2002-B	4/1/2042	37,000	37,000	2.88%
Series 2004-1B	12/1/2044	30,000	30,000	1.18%
Series 2004-2B	2/28/2044	25,500	25,500	1.39%
Series 2005-1B	10/30/2045	20,000	20,000	1.39%
Series 2007-1A	1/29/2046	410,150	410,150	1.63%
Series 2007-1B	1/28/2047	32,200	32,200	1.44%
Total Auction Rate Notes		797,850	797,850	

(in thousands)

NOTE 8 – Long-Term Debt (cont.)

Loan Participation Promissory Notes	Final Maturity	2013 Carrying Amount	2012 Carrying Amount	Interest Rate
Series 2011-A-L	10/25/2034	$ 15,462	$ 16,926	4.18%
Adjustable Rate Revenue Bonds				
Series 2012A	10/1/2042	90,770	-	.13%
Total Long-Term Debt		$ 3,962,024	$ 3,517,278	

Pursuant to indenture and other financing agreements specific to security issues, the Company is required, among other things, to maintain certain financial covenants and ratios.

NOTE 9 – Supplemental Disclosures of Cash Flow Information

	2013	2012
Cash paid for interest	$ 34,066	$ 34,883

NOTE 10 – Significant Risks and Concentrations

The Company's business is primarily focused on helping students obtain an affordable education, managing its portfolio of federal and private student loans, and overseeing its financings to maximize the T.H.E. Bonus paid to its student borrowers. Because of the Company's concentration in one industry, it is exposed to credit, legislative, operational, regulatory and liquidity risks associated with the student loan industry.

As of September 30, 2013, the Company's portfolio of student loans was comprised of approximately 88% federal and 12% private student loans. The Company's private loans are unsecured. The government subsidized loans are substantially guaranteed. As a result of legislation changes in 2010 (see Note 1), all federal loans are now made through the DSLP. The terms and conditions of the Company's FFELP loans were not affected by this legislation. However, Congress and the Administration still exercise significant authority over the servicing and administration of existing FFELP loans. Because of the ongoing uncertainty around efforts to reduce the federal budget deficit, the timing, method and manner of implementation of various education lending initiatives has become less predictable. This, and general economic conditions may impact the Company's ability to collect loans and interest from students.

The Company receives periodic payments from its primary contract loan servicer. These amounts are generally unsecured from the time the time student loan payments are received by the contract servicer until the time they are remitted to the Company.

(in thousands)

NOTE 10 – Significant Risks and Concentrations (cont.)

The Company is no longer originating federal or private student loans. As a result, the Company's portfolio of student loans continues to amortize over time and student interest income will continue to decline.

NOTE 11 – Fair Value of Financial Instruments

As of September 30, estimated fair values of the Company's financial instruments were as follows:

	2013		2012	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 9,688	$ 9,688	$ 18,587	$ 18,587
Loans, net	3,961,722	3,961,722	4,287,461	4,206,512
Interest receivable	64,003	64,003	81,386	79,930
Servicer receivable	9,936	9,936	9,201	9,201
Restricted cash and cash equivalents	123,505	123,505	127,507	127,507
Financial liabilities				
Accounts payable and accrued liabilities	9,947	9,947	11,670	11,670
Government payable	10,768	10,768	11,862	11,862
Draw against bank lines of credit	-	-	808,000	808,000
Long-term debt	3,962,024	3,589,083	3,517,278	3,517,278

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

As of September 30, 2013, the carrying value of loans is a reasonable estimate of fair value based on valuations of loans pledged to recent financings and the types and characteristics of these loans representative of the Company's entire portfolio of student loans. As of September 30, 2012, estimated fair value was based on loan portfolio valuation calculated by management.

NOTE 11 – Fair Value of Financial Instruments (cont.)

Interest receivable

Interest receivable is based on the fair value of the underlying loans listed above.

Servicer receivable

The carrying amount approximates fair value due to the short maturity of this receivable and the Company's experience in collecting this receivable.

Restricted cash and cash equivalents

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

Accounts payable and accrued liabilities

The carrying amount approximates fair value due to the short maturity of these instruments and the Company's experience in paying these liabilities.

Government payable

The carrying amount approximates fair value due to the short maturity of this liability and the Company's experience in paying this liability.

Draw against bank lines of credit

The carrying amount approximates fair value due to the short-term maturity and frequency of interest rate re-pricing structured in the financing arrangements.

Long-term debt

The estimate of fair value of long-term debt for the year ended September 30, 2013 was based on market valuation data provided by third-party financial institutions. For the year ended September 30, 2012, carrying amount was used to approximate fair value due to frequency of interest rate re-pricing structured in the financing arrangements.

NOTE 12 – Commitments and Contingencies

Donations and grants

As of September 30, 2013 and 2012, NEF had no outstanding commitments to provide donations or grants to organizations. See Subsequent Events Note 13.

NOTE 12 – Commitments and Contingencies (cont.)

Asserted claims

Bonus Suspension Litigation

The Company was a defendant in four similar nationwide class action cases which alleged that the Company's suspension of the "bonus" benefit of its student loans in February 2008 was unlawful. All four actions were consolidated by the United States Judicial Panel on Multidistrict Litigation, under the caption *In Re Northstar Education Finance, Inc., Contract Litigation,* MDL No. 1990 in the United States District Court for Minnesota on December 3, 2008.

Following consolidation, the Company entered into settlement negotiations with counsel for the plaintiffs in the MDL action. The Company and counsel for the plaintiffs negotiated a Stipulation for Class Action Settlement (the "Settlement"). The Settlement was preliminarily approved by the Court on December 21, 2009, notice of the Settlement was transmitted to all class members, and final approval of the Settlement was received on April 8, 2010. The time for an appeal of the final approval of the Settlement expired on May 10, 2010, without appeal. Accordingly, these claims have been resolved.

The provisions of the Settlement included a requirement that the Company guarantee a minimum distribution of bonus benefit payments to Settlement class members totaling $1.25 million each year for five years after the effective date of the Settlement. Additional provisions of the Settlement included obligations that the Company pay class counsel attorneys' fees over several years as follows:

- An amount of $1 million within five business days of the signing of the Settlement.
- An amount totaling $250 thousand on each anniversary date of the Settlement effective date in each subsequent year one through four. Pursuant to a letter agreement dated October 4, 2011, plaintiff's counsel agreed to accept $220 thousand for the first payment.
- An additional $2.5 million in attorney's fees, which are not guaranteed, are based on residual earnings from trusts specific to the Company's financings, and begin in 2016, the sixth year after the effective date of the Settlement.

As of September 30, 2013, remaining guaranteed payments to be made under the Settlement include $1.25 million of guaranteed bonus benefits and $250 thousand of attorney fees, both of which are due in May 2014, and $1.25 million of guaranteed bonus benefits due in May 2015. These guaranteed payments are included in Accounts payable and accrued liabilities on the Consolidated Statement of Financial Position as of September 30, 2013.

The Company was also required to reinstate its borrower benefit program, under the terms and conditions set forth in the Settlement as feasible, subject to requirements of its financing covenants and borrower eligibility.

NOTE 13 - Subsequent Events

On October 14, 2013, the Company announced grant award approvals for four organizations dedicated to promoting college readiness and access, and subsequently distributed grant funds totaling $350 thousand to these organizations.

Management has evaluated subsequent events through December 11, 2013, the date which the consolidated financial statements were available to be issued.