NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARY

Eagan, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2015 and 2014

Northstar Education Finance, Inc. and Subsidiary

TABLE OF CONTENTS

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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 subsidiary, which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated financial position of Northstar Education Finance, Inc. and its subsidiary as of September 30, 2015 and 2014 and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
December 7, 2015

Northstar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2015 and 2014
(in thousands)

ASSETS

	2015	2014
ASSETS		
Cash and cash equivalents (Note 2)	$ 8,324	$ 7,391
Loans, net (Notes 2, 3, and 4)	3,287,674	3,643,951
Interest receivable	39,652	49,587
Servicer receivable (Note 2)	13,343	11,106
Restricted cash and cash equivalents (Note 2)	103,442	120,792
Restricted Investments (Note 2)	19,639	-
Prepaid expenses and other assets	222	68
TOTAL ASSETS	$ 3,472,296	$ 3,832,895

LIABILITIES AND NET ASSETS

	2015	2014
LIABILITIES		
Accounts payable and accrued liabilities	$ 12,285	$ 7,940
Government payable (Note 2)	8,249	9,715
Long-term debt (Note 5)		
Principal	3,236,355	3,601,673
Less: unamortized debt issuance costs (Note 2)	(9,861)	(11,530)
Long-term debt less unamortized debt issuance costs	3,226,494	3,590,143
Total Liabilities	3,247,028	3,607,798
NET ASSETS		
Net assets - unrestricted	225,268	225,097
TOTAL LIABILITIES AND NET ASSETS	$ 3,472,296	$ 3,832,895

See accompanying notes to consolidated financial statements.

Northstar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2015 and 2014
(in thousands)

	2015	2014
OPERATING REVENUE		
Student loan interest income (Note 2)	$ 75,833	$ 99,373
OPERATING EXPENSES		
Interest expense	29,497	31,237
Financing expense	1,992	2,290
Loan servicing fees	17,243	18,987
Loan consolidation fees	24,397	26,169
Recovery of provision for loan losses (Note 4)	(789)	(5,757)
Federal loan default expense	386	471
Legal expenses (Note 8)	2,492	170
Professional services	796	246
Grants and other donations	819	800
Other	148	152
Total Operating Expenses	76,981	74,765
OTHER INCOME		
Sub-servicing fees	231	232
Interest income	111	109
Other income	977	12
Total Other Income	1,319	353
CHANGE IN NET ASSETS	171	24,961
NET ASSETS, BEGINNING OF PERIOD	225,097	200,136
NET ASSETS, END OF PERIOD	$ 225,268	$ 225,097

See accompanying notes to consolidated financial statements.

Northstar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 171	$ 24,961
Adjustments to reconcile change in net assets to cash flows from operating activities		
Amortization of debt issuance costs	1,669	2,424
Recovery of provision for loan losses	(789)	(5,757)
Loan premium amortization	10,797	10,029
(Increase) decrease in assets		
Interest receivable	9,935	14,416
Servicer receivable	(2,237)	(1,170)
Prepaid expenses	(154)	(1)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	4,345	(2,007)
Government payable	(1,466)	(1,053)
Net Cash Flows From Operating Activities	22,271	41,842
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from payments on student loans	346,269	313,499
Purchases of restricted investments	(19,639)	-
Net change in restricted cash	17,350	2,713
Net Cash Flows From Investing Activities	343,980	316,212
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(365,318)	(360,351)
Net Cash Flows Used in Financing Activities	(365,318)	(360,351)
Net Increase (Decrease) in Cash and Cash Equivalents	933	(2,297)
CASH AND CASH EQUIVALENTS - Beginning of Year	7,391	9,688
CASH AND CASH EQUIVALENTS - End of Year	$ 8,324	$ 7,391
CASH PAID FOR INTEREST	$ 27,785	$ 28,799

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 and 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 of 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 NEF's 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 student loans have been pledged under indentures and are held by trusts specific to the respective securities issues.

NEF's Board of Directors provides oversight to the Company, but as NEF has no employees, management and administrative operations are performed by a third party pursuant to a Master Services Agreement ('MSA') between NEF and Northstar Capital Market Services, Inc. ('NCMS') and a Subservicing Agreement between NCMS and Northstar Education Services, LLC ('NES'), a wholly-owned subsidiary of Great Lakes Education Loan Servicing, Inc. The MSA will expire in August 2017. The Subservicing Agreement is in effect until the expiration or termination of the MSA.

All T.H.E Loan Program loans, related financial assets and associated liabilities are assets or liabilities of NEF, either directly or through its wholly-owned limited liability company subsidiary, Northstar Education Funding, I, LLC. Any potential claims against or liabilities of the 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 a checking account and a short-term investment in commercial paper. The amounts may exceed federally insured limits. Cash pledged as collateral for securities included in long-term debt is excluded from cash and cash equivalents and presented in these consolidated financial statements as restricted cash and cash equivalents.

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

Student loans and allowance for loan losses

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

Federal loans are recorded at cost, and are presented net of unamortized premium costs on the Consolidated Statements of Financial Position. The Company utilizes the interest method to amortize these costs, taking into account actual loan prepayments.

Federal student loans are guaranteed by the Department of Education ("DOE"), with reimbursement rates ranging from 97% to 100% of principal and related accrued interest balances. Pursuant to federal regulations, the Company is required to repurchase (from the respective guarantor) a loan that was paid as a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or, as a result of the hearing, the loan is considered non-dischargeable and the borrower is responsible for repayment of the loan. Due to management's historical experience with its portfolio of federal loans and the guarantee, no provision for federal student loan losses has been provided for by management in the consolidated financial statements.

Private loans are recorded at cost and reported net of the allowance for loan losses ("allowance") on the Consolidated Statements of Financial Position. The Company's allowance represents a reserve for the probable and inherent losses on the Company's private student loans. Following the guidance under Accounting Standard Codification (ASC) 450-20, management evaluates the allowance on a quarterly basis to ensure the reserve is adequate to reflect any potential losses to be incurred. As all private loans are considered as having similar risk characteristics (the majority were originated under the same stringent underwriting guidelines, to similar high quality schools, etc.), the evaluation and analysis is performed on the entire pool of private loans. The evaluation includes a review of historical losses and any new trends and conditions (including the general economic environment) that may impact the Company's ability to collect on its portfolio of private loans. The evaluation and analysis resulting from these reviews are used in management's determination of the amount of the allowance. During the fiscal year ended September 30, 2014, management implemented an enhanced approach to the manner in which historical losses are incorporated into the estimate of the allowance for loan losses. This enhancement, which uses a more recent lookback period for reviewing historical loss patterns, results in an estimate that is more reflective of the probable performance of the underlying loans as of the respective reporting period (see Note 4).

Defaulted loans are charged off to the allowance when a loan is greater than 180 days delinquent and after consideration has been made regarding the borrower's financial condition and collection efforts have been exhausted. Subsequent recoveries of accounts previously charged off are recorded to the allowance.

Management believes the allowance for loan losses is adequate as of September 30, 2015 and 2014. While management used available information to estimate losses on private loans, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions.

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

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 necessary as of September 30, 2015 and 2014.

Restricted cash and cash equivalents

The Company's restricted cash and cash equivalents include cash pledged as collateral for securities included in long-term debt. Cash pledged as collateral is held by a trustee in various accounts subject to use restrictions imposed by trust indentures and agreements specific to each of the Company's security issues. Pursuant to stipulations in these indentures and agreements, cash held in trust funds must be used for distributions as required under the specific financing obligations. Restricted cash and cash equivalents consist of accounts invested in highly liquid financial instruments with stated maturities of three months or less. The amounts may exceed federally insured limits.

Restricted investments

Restricted investments represent restricted cash which has been invested in government treasury notes with original maturities greater than three months. Maturities for these investments range from four months to five years. These are considered as held-to-maturity securities and are recorded at amortized cost. See Note 7 for fair values.

Government payable

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

Debt issuance costs

The Company's debt issuance costs are amortized at the rate the corresponding debt is paid down. During the fiscal year ended September 30, 2015, the Company early adopted Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,* or ASU 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. Additionally, amortization of debt issuance costs is to be reported as interest expense. See *Recently Issued Accounting Pronouncements* below. As a result, debt issuance costs are shown net of long-term debt on the Statement of Financial Position as of September 30, 2015 and 2014, and amortization of debt issuance costs is reported as interest expense on the Statement of Activities for the same periods.

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

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 tax years after 2010 remain subject to examination by the Internal Revenue Service.

Net assets

Net assets and revenues are classified based on the existence or absence of restrictions. Accordingly, net assets of the Company are classified and reported as follows:

Unrestricted net assets include net assets which are not subject to any restrictions.

Principles of consolidation

The consolidated financial statements for the years ended September 30, 2015 and 2014 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 two trusts specific to NEF's 2012 financings (see Note 5).

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 is based on 1-month London Inter Bank Offered Rate (LIBOR). If the floating rate exceeds the borrower rate, the DOE makes a payment directly to the Company based upon SAP formulas 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. The interest rates on the majority of the Company's federal loans are fixed to term, with a small number of others with variable rates based on the 91-day U.S. Treasury bill.

Private loans

The Company's private student loans have variable interest rates that reset quarterly with the majority based on 3-month LIBOR.

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

Student loan premiums

Student 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 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 of $10,797 and $10,029 for the years ended September 30, 2015 and 2014, respectively, on the Consolidated Statements of Activities.

T.H.E. repayment bonus commitment

The T.H.E. Repayment Bonus commitment represents the Company's obligation to make payments on eligible borrower accounts to reduce the amount of interest due on their loans. The funding source for these bonus payments is excess cash released from the Company's secured bond financings pursuant to terms and conditions of trust indenture agreements. Once the funding source is available, the Company has an obligation to make these bonus payments, net of attorney fees, to eligible borrower accounts. See Note 8. Student loan interest income is shown net of T.H.E. Repayment Bonus commitments of $13,734 and $0 for the years ended September 30, 2015 and 2014, respectively, on the Consolidated Statements of Activities.

Interest expense

The Company has financed its student loan portfolio with securities which have interest rates that, based on contractual agreements, are indexed to U.S. Treasury bill rates or LIBOR.

Loan consolidation fees

Loan consolidation fees represent monthly rebate fees paid to the DOE which are required of lenders who hold 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.

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 2 - Summary of Significant Accounting Policies (cont.)

Recent accounting pronouncements

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,* or ASU 2015-03. ASU 2015-03 amends current presentation guidance by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as an asset in the balance sheet. Additionally, amortization of debt issuance costs is to be reported as interest expense. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016, and early adoption is permitted. The Company early adopted the provisions of ASU 2015-03 and prior period amounts have been reclassified to conform to the current period presentation.

In June 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-10, *"Technical Corrections and Improvements"*. The object of this update is to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Transition guidance varies based on the different amendments in this update beginning after December 15, 2015 and early adoption is permitted. The Company is in the process of evaluating this standard, but does not expect its adoption to have a material impact on its consolidated financial statements.

The Financial Accounting Standards Board (FASB) is in the process of improving current impairment models and is expected to issue new guidance which would significantly change how entities measure and recognize credit impairment for certain financial assets. The new accounting standard will impact all applicable institutions (specifically banks) and applicable asset portfolios (e.g., loans, leases, debt securities). This standard will impact an institution's current processes for establishing allowance for loan and lease losses (ALLL) and other than temporary impairment (OTTI). Today's incurred loss model would be replaced with one that requires management to estimate all contractual cash flows that it does not expect to collect over the lives of loans and other debt instruments measured at amortized cost. An entity would apply what the FASB calls the 'current expected credit loss' (CECL) model to most financial assets measured at amortized cost as well as certain other items. Under the CECL model, an entity would reserve for all contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit. The estimate of expected credit losses would consider all contractual cash flows over the life of the asset. The estimate would be developed based on historical loss experience for similar assets as well as management's assessment of current conditions and reasonable and supportable forecasts about the future. A final standard is tentatively expected to be released in Q1 2016 and, although the effective date is currently undecided, a long transition timeline is anticipated, so effective date likely to be no earlier than 2019.

Reclassifications

For comparability, certain 2014 amounts have been reclassified to conform to classifications adopted in 2015. This had no impact on the 2014 change in net assets or the net assets as of September 30, 2014.

(in thousands)

NOTE 3 - Loans, Net

Student loans, net, consisted of the following as of September 30, 2015 and 2014 :

	2015	2014
Federal guaranteed student loans	$ 2,885,408	$ 3,177,070
Private student loans	359,046	414,083
Unamortized loan premiums	48,650	59,447
Total	3,293,104	3,650,600
Allowance for loan losses on private student loans (Note 4)	(5,430)	(6,649)
Student loans, net	$ 3,287,674	$ 3,643,951

NOTE 4 - Allowance for Loan Losses

The change in the allowance for loan losses for the years ended September 30, 2015 and 2014 consisted of the following:

	2015	2014
Beginning balance	$ 6,649	$ 15,240
Recovery of provision for loan losses	(789)	(5,757)
Charge-offs, net of recoveries	(430)	(2,834)
Ending balance	$ 5,430	$ 6,649

The Company's allowance represents an allocation of net assets for the estimated losses on the Company's private student loans. Following the guidance under Accounting Standard Codification (ASC) 450-20, management evaluates the allowance on a quarterly basis to ensure the reserve is adequate to reflect any probable and inherent losses to be incurred. As all private loans are considered as having similar risk characteristics (the majority were originated under the same stringent underwriting guidelines, to similar high-quality schools, etc.), the evaluation and analysis is performed on the entire pool of private loans. The evaluation includes a review of historical losses and any new trends and conditions (including the general economic environment) that may impact the Company's ability to collect on its private loans. The evaluation and analysis resulting from these reviews are used in management's determination of the amount of the allowance.

During the fiscal year ended September 30, 2014, principally due to the fact that the Company's private loan portfolio, as a whole, is believed to be well-seasoned, management implemented an enhanced approach to the manner in which it incorporates historical losses into its estimate of the allowance for loan losses. A significant number of the private loans are now in repayment (over 95%), and over 78% of these have been in repayment for more than four years. The enhanced approach, which management believes accurately reflects the probability of repayment of the loans as of the reporting period, uses a more recent historical lookback period for applying historical loss patterns. The result of this enhancement was a reduction to the allowance of approximately $5 million during fiscal year ended September 30, 2014, which was recorded to the Recovery of Provision for Loan Losses in the Statement of Activities for the fiscal year ended September 30, 2014.

(in thousands)

NOTE 4 - Allowance for Loan Losses (cont.)

As of September 30, 2015 and 2014, student loans totaling approximately $33 and $36, respectively, were 91 days or more delinquent. Of these totals, approximately $29 and $31 were federal guaranteed student loans and approximately $4 and $5 were private student loans as of September 30, 2015 and 2014, respectively.

Information about the credit quality of private loans for the years ended September 30, 2015 and 2014 is as follows:

	2015		
	Outstanding balance	Percentage of repayment	Percentage of total
In school and grace	$ 1,596		0.4 %
Deferment	11,630		3.2
Forbearance	2,271		0.6
Repayment			
Current	329,323	95.9 %	
Delinquent 31-60 days	7,599	2.2	
Delinquent 61-90 days	2,226	0.6	
Delinquent 91 days or greater	4,401	1.3	
Total in repayment	343,549	100.0 %	95.8
Total	$ 359,046		100.0 %

	2014		
	Outstanding balance	Percentage of repayment	Percentage of total
In school and grace	$ 3,693		0.9 %
Deferment	21,769		5.3
Forbearance	4,337		1.0
Repayment			
Current	367,144	95.6 %	
Delinquent 31-60 days	8,961	2.3	
Delinquent 61-90 days	2,804	0.7	
Delinquent 91 days or greater	5,375	1.4	
Total in repayment	384,284	100.0 %	92.8
Total	$ 414,083		100.0 %

NOTE 4 - Allowance for Loan Losses (cont.)

The Company's private loans were originated using the Company's stringent 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 cosigner 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, NES performs additional collection activities through its Default Management Program.

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' private loan portfolio has been intentionally omitted.

NOTE 5 - 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. The securities issued under these two master trusts are secured by the respective federal and private loan portfolios, accrued interest on the loans, and other assets pledged as collateral in each of the respective trusts.

The notes issued by the Company included 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 senior 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 both September 30, 2015 and 2014, the Company held $798,000 of taxable auction rate notes. Beginning in February 2008, a disruption in the auction rate securities market resulted in failures in auctions on these notes. 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 $798,000 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.

NOTE 5 - Long-Term Debt (cont.)

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 3-month LIBOR plus 0.75 percent, until such time as the bonds are successfully remarketed or refinanced. As of September 30, 2015 and 2014, all three reset rate notes have gone through failed remarketing with interest rates remaining at 3-month LIBOR plus 0.75 percent.

Unamortized debt issuance costs associated with these financings were approximately $6,700 and $7,700, respectively, as of September 30, 2015 and 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 a fixed spread to 1-month LIBOR. NEF invested approximately $8,600 of its own funds to complete this transaction. Unamortized debt issuance costs associated with this refinance were approximately $200 and $300, respectively, as of September 30, 2015 and 2014.

Year 2012

On October 25, 2012, NEF completed two separate asset-backed refinancings totaling $785,300, for the purpose of using the proceeds to repay the Company's two lines of credit. The two refinancings included one structured issue totaling $686,600 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 $98,700 secured by a portfolio of private student loans and backed by a letter of credit ("LOC") issued by Royal Bank of Canada (NorthStar Student Loan Trust II, or the "2012A" Issue). The LOC had an initial term which ended September 15, 2015. In August 2015, the term of the LOC was extended through December 15, 2015. On November 19, 2015, the Company extended the LOC for an additional three months. See Note 9.

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. Notes issued in conjunction with the 2012-1 refinancing included senior LIBOR notes at a fixed spread to 1-month LIBOR, and a subordinate note at a fixed spread to 3-month LIBOR. Notes issued in conjunction with the 2012A refinancing included adjustable rate revenue bonds, with a variable interest rate based on 1-month LIBOR. NEF, as the Sponsor, invested approximately $8,900 in total to both issues to complete the refinancing transactions. Unamortized debt issuance costs associated with these refinancings were approximately $2,900 and $3,700, respectively, as of September 30, 2015 and 2014.

(in thousands)

NOTE 5 - Long-Term Debt (cont.)

The Company's outstanding balance of long-term debt by issue and type of security, and current interest rates consisted of the following as of September 30, 2015 and 2014:

LIBOR Notes	Final Maturity	2015	2014	2015 Current Interest Rate
Series 2004-2A-2	1/30/2017	$ -	$ 107,347	N/A
Series 2004-2A-3	7/30/2018	243,477	280,000	0.46 %
Series 2004-2A-4	7/28/2021	249,500	249,500	0.52
Series 2005-1A-1	10/28/2026	-	12,184	N/A
Series 2005-1A-2	7/28/2027	59,900	118,300	0.42
Series 2005-1A-3	10/30/2030	227,900	227,900	0.46
Series 2005-1A-4	4/28/2032	210,700	210,700	0.52
Series 2006A-A3	5/28/2026	-	31,621	N/A
Series 2006A-A4	8/28/2035	202,748	208,056	0.68
Series 2006A-B	11/28/2035	38,649	45,689	0.88
Series 2007-1A-1	4/28/2030	193,000	193,000	0.39
Series 2012-1A-1	12/26/2031	426,616	517,020	0.84
Series 2012-1B-1	1/25/2032	2,579	5,893	5.30
Total LIBOR Notes		$ 1,855,069	$ 2,207,210	

Reset Rate Notes	Final Maturity	2015	2014	2015 Current Interest Rate
Series 2005-1A-5	10/30/2045	$ 67,342	$ 67,342	1.04 %
Series 2007-1A-2	1/29/2046	200,000	200,000	1.04
Series 2007-1A-3	1/29/2046	235,000	235,000	1.04
Total Reset Rate Notes		$ 502,342	$ 502,342	

Auction Rate Notes	Final Maturity	2015	2014	2015 Current Interest Rate
Series 2000-B	11/1/2040	$ 9,500	$ 9,500	1.56 %
Series 2002-A	4/1/2042	233,500	233,500	1.51-2.17
Series 2002-B	4/1/2042	37,000	37,000	2.95
Series 2004-1B	12/1/2044	30,000	30,000	1.20
Series 2004-2B	2/28/2044	25,500	25,500	1.56
Series 2005-1B	10/30/2045	20,000	20,000	1.56
Series 2007-1A	1/29/2046	410,150	410,150	1.49-1.70
Series 2007-1B	1/28/2047	32,200	32,200	1.56
Total Auction Rate Notes		$ 797,850	$ 797,850	

(in thousands)

NOTE 5 - Long-Term Debt (cont.)

Loan Participation Promissory Notes	Final Maturity	2015	2014	2015 Current Interest Rate
Series 2011-A-L	10/25/2034	$ 11,775	$ 13,599	4.19 %

Adjustable Rate Revenue Bonds	Final Maturity	2015	2014	2015 Current Interest Rate
Series 2012A	10/1/2042	$ 69,319	$ 80,672	0.15 %
Total Long-Term Debt		$ 3,236,355	$ 3,601,673	

Pursuant to trust indentures and agreements associated with the specific issues, the Company is required, among other things, to maintain certain financial covenants and ratios.

NOTE 6 - 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, 2015, the Company's portfolio of student loans was comprised of approximately 89% federal and 11% 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 its 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 student loan payments are received by the contract loan servicer until the time they are remitted to the Company.

(in thousands)

NOTE 7 - Fair Value of Financial Instruments

As of September 30, 2015 and 2014, estimated fair values of the Company's financial instruments were as follows:

	2015		2014	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 8,324	$ 8,324	$ 7,391	$ 7,391
Loans, net	3,287,674	3,287,674	3,643,951	3,643,951
Interest receivable	39,652	39,652	49,587	49,587
Servicer receivable	13,343	13,343	11,106	11,106
Restricted cash and cash equivalents	103,442	103,442	120,792	120,792
Restricted investments	19,639	19,887	-	-
Financial liabilities				
Accounts payable and accrued liabilities	12,285	12,285	7,940	7,940
Government payable	8,249	8,249	9,715	9,715
Long-term debt	3,236,355	3,001,396	3,601,673	3,346,928

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.

Student loans: Because there is currently no transparency to the secondary market for student loans with characteristics similar to NEF's, it is not reasonably practical to determine the fair value of this portfolio. Because of the high level of credit quality of the portfolio as a whole and the current weighted average yield, it is most likely that, if sold, the portfolio would be valued at a modest premium, offset by the costs necessary to execute the transfer of this portfolio. Accordingly, for purposes of this disclosure, amortized cost is believed to approximate fair value.

Accrued interest on student loans: The carrying amount approximates fair value due to the short maturity of this instrument and the Company's experience in collecting this receivable.

Servicer receivable: The carrying amount approximates fair value due to the short maturity of this instrument 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.

Restricted investments: The estimate of fair value of restricted investments is based on unadjusted quoted prices for identical assets in active markets.

NOTE 7 - Fair Value of Financial Instruments (cont.)

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 instrument and the Company's experience in paying this liability.

Long-term debt: The estimate of fair value of long-term debt is based on market valuation data.

NOTE 8 - Commitments and Contingencies

Asserted claims

T.H.E. Repayment 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 Multi-district 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 and certification of the class, 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 $1,250 each year for five years after the effective date of the Settlement. Additional provisions of the Settlement included a requirement that the Company pay class counsel attorneys' fees over several years as follows:

> An amount of $1,000 within five business days of the signing of the Settlement agreement
> An amount totaling $250 on each anniversary date of the Settlement effective date in each subsequent year two through five. Pursuant to a letter agreement dated October 4, 2011, plaintiff's counsel agreed to accept $220 for the first payment
> An additional $2,500 in attorney's fees, which are not guaranteed, and which are based on excess cash releases pursuant to trust indentures and agreements, to begin in 2016, the sixth year after the effective date of the Settlement

As of September 30, 2014, $916 of the remaining guaranteed minimum bonus payments to be made under the Settlement, which were due in May 2015, were included in Accounts payable and accrued liabilities on the Consolidated Statement of Financial Position as of September 30, 2014.

NOTE 8 - Commitments and Contingencies (cont.)

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

During the fiscal year ended September 30, 2015, the Company met specific terms and conditions for releasing excess cash from two of its trusts. As a result and pursuant to Settlement provisions, the Company incurred commitments to make ninety percent of these funds available for making T.H.E. Repayment Bonus distributions to eligible borrower accounts to reduce the amount of interest due on their loans, net of amounts due to class counsel for litigation fees. During the year ended September 30, 2015, the Company paid approximately $2,400 of the $2,500 to class counsel based on excess cash releases made during the period. After paying attorney fees, the Company made approximately $8,100 of T.H.E. Repayment Bonus distributions to all eligible borrower accounts. The amount of funds remaining to be available for future T.H.E. Repayment Bonus distributions is approximately $5,700 and has been recorded as a liability and is included in Accounts payable and accrued liabilities on the Consolidated Statements of Financial Position as of September 30, 2015.

NOTE 9 - Subsequent Events

Management has evaluated subsequent events through December 7, 2015, the date which the consolidated financial statements were available to be issued.

On November 19, 2015, the Company received an executed Notice of Extension from RBC for an extension of the LOC from December 15, 2015 to March 15, 2016. No other subsequent events or transactions have occurred requiring adjustments to or disclosures in the consolidated financial statements.