NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARY

Eagan, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2018 and 2017

NorthStar Education Finance, Inc. and Subsidiary

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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, 2018 and 2017, 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, 2018 and 2017 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 12, 2018

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2018 and 2017
(in thousands)

ASSETS

	2018	2017
ASSETS		
Cash and cash equivalents (Note 2)	$ 20,255	$ 9,381
Interest-bearing deposits (Note 2)	8,300	8,500
Unrestricted investments (Notes 2,3)	9,350	12,500
Student loans, net (Notes 2, 4, and 5)	2,223,058	2,539,733
Interest receivable	31,023	30,530
Servicer receivable (Note 2)	2,201	2,089
Government receivable (Note 2)	4,178	-
Restricted cash and cash equivalents (Note 2)	150,443	164,115
Restricted Investments (Notes 2,3)	16,205	16,150
Prepaid expenses and other assets	55	51
TOTAL ASSETS	$ 2,465,068	$ 2,783,049

LIABILITIES AND NET ASSETS

	2018	2017
LIABILITIES		
Accounts payable and accrued liabilities	$ 9,058	$ 7,385
T.H.E. repayment bonus liability (Note 2)	17,484	20,855
Government payable (Note 2)	-	159
Long-term debt (Note 6)		
Principal	2,274,073	2,586,022
Less: unamortized debt issuance costs and original issue discount (Note 2)	(8,818)	(10,977)
Long-term debt, net	2,265,255	2,575,045
Total Liabilities	2,291,797	2,603,444
NET ASSETS		
Net assets – unrestricted	173,271	179,605
TOTAL LIABILITIES AND NET ASSETS	$ 2,465,068	$ 2,783,049

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2018 and 2017
(in thousands)

	2018	2017
OPERATING REVENUE		
Student loan interest income (Note 2)	$ 104,060	$ 96,581
T.H.E. repayment bonus commitment (Note 2)	(14,347)	(8,100)
Loan premium amortization (Note 2)	(8,558)	(10,317)
Total Operating Revenue	81,155	78,164
OPERATING EXPENSES		
Interest expense	63,400	47,448
Financing expense	615	641
Loan servicing fees	1,733	12,349
Loan consolidation fees	18,476	20,368
Recovery of provision for loan losses (Note 5)	(1,334)	(483)
Federal loan default expense	193	277
Legal expenses	92	64
Professional services	3,983	1,232
Grants and other donations	1,917	2,397
Other	94	130
Total Operating Expenses	89,169	84,423
OTHER INCOME		
Sub-servicing fees	200	200
Interest income	1,480	704
Other income (Note 8)	-	2,977
Total Other Income	1,680	3,881
CHANGE IN NET ASSETS	(6,334)	(2,378)
NET ASSETS, BEGINNING OF PERIOD	179,605	181,983
NET ASSETS, END OF PERIOD	$ 173,271	$ 179,605

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2018 and 2017
(in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (6,334)	$ (2,378)
Adjustments to reconcile change in net assets to cash flows used in operating activities		
Amortization of loan premium costs	8,558	10,317
Other amortization	2,159	2,448
Recovery of provision for loan losses	(1,334)	(483)
(Increase) decrease in assets		
Interest receivable	(493)	2,465
Servicer receivable	(112)	(79)
Government receivable	(4,178)	-
Prepaid expenses and other assets	(4)	41
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	1,673	149
T.H.E. repayment bonus commitment	(3,371)	(11,990)
Government payable	(159)	(5,246)
Net Cash Flows Used In Operating Activities	(3,595)	(4,755)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from payments on student loans	309,451	351,473
Purchases of interest-bearing deposits	(2,000)	(8,500)
Proceeds from maturities of interest-bearing deposits	2,200	-
Purchases of unrestricted investments	(1,400)	(8,500)
Proceeds from maturities of unrestricted investments	4,550	-
Purchases of restricted investments	(4,944)	-
Proceeds from maturities of restricted investments	4,889	1,496
Net change in restricted cash	13,672	(5,473)
Net Cash Flows Provided By Investing Activities	326,418	330,496
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(311,949)	(333,502)
Net Cash Flows Used in Financing Activities	(311,949)	(333,502)
Net Increase (Decrease) in Cash and Cash Equivalents	10,874	(7,761)
CASH AND CASH EQUIVALENTS - Beginning of Year	9,381	17,142
CASH AND CASH EQUIVALENTS - End of Year	$ 20,255	$ 9,381
CASH PAID FOR INTEREST	$ 59,336	$ 43,707

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 supporting 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 eligible student borrowers in the form of the T.H.E. Repayment Bonus (“T.H.E. Bonus”). NEF’s primary charitable goals are to (a) continue servicing its outstanding student loans; (b) manage its financings as necessary to maximize the T.H.E. Bonus paid to student borrowers; and (c) 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 an outside third-party through an administrative agreement. Prior to February 2018, the Company’s third-party administrator was NorthStar Education Services, LLC (‘NES’), which was a wholly-owned subsidiary of Great Lakes Education Loan Servicing, Inc. (‘GLELSI’). In February 2018, Nelnet completed an acquisition of GLELSI, which included NES. Subsequent to and in conjunction with the acquisition, NES was dissolved; however, the same individuals (who are now Nelnet employees) continue to perform the same management and administrative services on behalf of NEF, including activities required to support NEF’s role as Master Servicer and Administrator for each of its financings (see Note 6). Through August 27, 2017, NEF had engaged an outside company, Northstar Capital Market Services, Inc., to serve as the Master Servicer and Administrator for NEF’s financings through a Master Servicing and Administration agreement (‘MSA’). The MSA expired on August 27, 2017 and was not renewed. Effective August 28, 2017, NEF became the new Master Servicer and Administrator for each of its financings.

The Company uses a third-party loan servicer to perform certain activities for supporting the administration of its outstanding student loan portfolio. These activities include collecting and processing borrower payments, responding to borrower and lender inquiries and requests, as well as processing changes to repayment plans, deferments and forbearances and other default prevention activities. In June 2018, the Company converted the servicing of its outstanding student loan portfolio from GLELSI to Nelnet Servicing, LLC. As noted above, GLELSI was acquired by Nelnet, but is now solely servicing federal student loans originated through the DSLP.

The Company uses a third-party collection agency to perform collections on private student loans which have defaulted due to delinquency.

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 and savings account. 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.

Interest Bearing Deposits

Interest bearing deposits are certificate of deposit investments of unrestricted cash made by the Company with a financial institution that are carried at cost with original maturities greater than three months. Balances over $250,000 in that institution are not insured by the FDIC and therefore pose a potential risk in the event the respective institution was to fail. As of September 30, 2018 and 2017, there were $8,050 and $8,250 in uninsured certificates of deposits, respectively.

Unrestricted investments

Unrestricted investments represent unrestricted cash which has been invested in United States Treasury Notes with original maturities greater than three months. As the Company has the ability and intent to hold these investments until their respective maturity dates, these are considered as held-to-maturity securities and are recorded at amortized cost (see Note 3).

Student loans and allowance for loan losses

The Company's portfolio of student loans consists of federal and private student loans. Federal Stafford, PLUS and GradPLUS loans have original terms of ten years and federal consolidation loans have terms ranging from ten to twenty five years. The Company's private loans have original terms of fifteen or twenty years. 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 reimbursed under 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 student 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 student loans are considered as having similar risk characteristics (the majority were originated under the same underwriting guidelines, to students attending similar high quality schools, etc.-see Note 4), the evaluation and analysis is performed on the entire pool of private student loans. The evaluation includes a review of historical losses and any new trends and/or conditions (including the general economic environment) that may impact the Company's ability to collect on its portfolio of private student loans. The evaluation and analysis resulting from these reviews are used in management's determination of the amount of the allowance.

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

Defaulted loans are charged off to the allowance generally when a loan is greater than 180 days delinquent and after consideration has been made regarding the borrower's financial condition and internal 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, 2018 and 2017. 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.

Servicer receivable

Servicer receivable represents student loan principal and interest payments collected and applied to borrower balances by the Company's third-party loan servicer that have not yet been remitted to the Company. No allowance was deemed necessary as of September 30, 2018 and 2017.

Government receivable

Government receivable represents an amount due from the DOE for borrower interest earned on federal student loans which is less than the floating rates as derived from the DOE's Special Allowance Payments ("SAP") formula, as established under The Higher Education Act of 1965 (the "Act"). The SAP formulas are based on type of loan and disbursement date, as well as (for Stafford loans only), repayment status. The rates derived from the DOE's SAP formula, which pertain to the Company's federal loans, are based on 1-month London Inter-Bank Offered Rate (LIBOR) or 91-day Treasury Notes. If the floating rate exceeds the borrower rate, the DOE makes a payment directly to the Company. Both LIBOR and the 91-day Treasury rate have increased significantly during the current fiscal year, resulting in an amount due from the DOE. See Student loan interest income - Federal loans below.

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 specific to each of the Company's security issues. Pursuant to stipulations in these indentures, cash held in trust funds must be used for distributions as required under the specific indenture 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.

The Company's restricted cash and cash equivalents also include cash that has been released from two of the Company's trusts (which allow such releases) and which the Company has an obligation under a certain settlement agreement (See Note 9) to use this cash to make T.H.E. Bonus distributions.

Restricted investments

Restricted investments represent restricted cash which has been invested in United States Treasury Notes with original maturities greater than three months. As the Company has the ability and intent to hold these investments until their respective maturity dates, these are considered as held-to-maturity securities and are recorded at amortized cost (see Note 3).

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

Other-than-temporary impairment (OTTI) of unrestricted and restricted investments: For held-to-maturity securities, declines in fair value below amortized cost that are considered other-than-temporary are charged to realized losses in the period when the determination is made. The assessment of OTTI of NEF's investments is performed on a security-by-security basis. In its assessment, management takes into consideration current market conditions, issuer rating changes and trends, the creditworthiness of the obligor of the security, current analysts' evaluations, failure of the issuer to make scheduled interest or principal payments, the lack of intent to sell the security, and whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery, as well as other qualitative factors. OTTI of debt securities is separated into credit and noncredit-related amounts when there are credit-related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the OTTI related to a credit loss is recognized in the period when the determination is made, and the amount of the OTTI related to other factors is recorded in other comprehensive income (loss). A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered, by comparing the present value of cash flows expected to be collected from the security, computed using original yield as the discount rate, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the "credit loss."

Government payable

Government payable represents payments due to the DOE for borrower interest earned on federal student loans which is in excess of the Special Allowance Payments ("SAP") formula, as established under The Higher Education Act of 1965 (the "Act"). SAP formulas are based on type of loan and disbursement date, as well as (for Stafford loans only), repayment status. The rates derived from the DOE's SAP formula which pertain to the Company's federal loans are based on 1-month London Inter-Bank Offered Rate (LIBOR) or 91-day Treasury Notes. For loans with first disbursements on or after April 1, 2006, the Company must remit back to the DOE on a quarterly basis any borrower interest in excess of the floating rate. See Student loan interest income - Federal loans below.

Debt issuance costs and original issue discount ("OID")

The Company's debt issuance costs related to a recognized debt liability are presented in the Statement of Financial Position as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of a debt discount. Amortization of debt issuance costs are reported as interest expense. Unamortized debt issuance costs of $6,328 and $7,613 as of September 30, 2018 and 2017, respectively, are presented as a deduction from long-term debt on the Statement of Financial Position, and amortization of debt issuance costs of $1,286 and $1,504, for the years ended September 30, 2018 and 2017, respectively, is reported as interest expense on the Statement of Activities.

The Company's OID, which is associated with its Series 2016A debt issue (see Note 5), is amortized and presented in the same manner as the Company's debt issuance costs, as described above. Unamortized OID of $2,490 and $3,364 as of September 30, 2018 and 2017, respectively, is presented as a deduction from long-term debt on the Statement of Financial Position, and amortization of OID of $874 and $955, for the years ended September 30, 2018 and 2017, respectively, is reported as interest expense on the Statement of Activities.

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), and therefore has made no provision for income taxes.

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, 2018 and 2017 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 a trust specific to NEF's 2016A financing (see Note 6).

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 determined by the DOE's SAP formula pursuant to the Act. The rates derived from the DOE's SAP formula, which pertain to the Company's federal loans, are based on 1-month LIBOR or 91-day Treasury Notes. If the floating rate exceeds the borrower rate, the DOE makes a payment directly to the Company. 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 DOE on a quarterly basis any borrower interest in excess of the floating rate. 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.

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 certain of the Company's secured bond financings which allow cash releases 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 to eligible borrower accounts. See Note 9. Cash that has been released which is in excess of T.H.E. repayment bonus payments made to eligible borrower accounts (and thus, available and to be used for future bonus payments) is reported as a liability on the Statement of Financial Position.

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.

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 DOE 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.

Recent accounting pronouncements-recently adopted

In January 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Liabilities".* The amendments in this ASU make targeted improvements to generally accepted accounting principles (GAAP) by addressing certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit organizations for fiscal years beginning after December 15, 2018. The new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Company early adopted this provision, and as a result, the fair values of the Company's financial instruments have not been disclosed for the years ended September 30, 2018 and 2017.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The Company adopted ASU No. 2016-14, and has applied the changes retrospectively to all periods presented. There was no material impact on its consolidated financial statements. Pursuant to the requirements of ASU No. 2016-14, the Company has provided disclosure on the functional nature of its operating expenses (see Note 7).

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

Recent accounting pronouncements-not yet adopted

In June 2016, the FASB issued ASU 2016-13*, "Measurement of Credit Losses on Financial Instruments".* The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The provisions of the ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The amendments in this ASU are an improvement because they eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit losses, which will be more decision useful to users of the financial statements. For all non-public entities, including not-for-profits, the amendments of this ASU are effective for fiscal years beginning after December 15, 2020. The Company is in the process of evaluating this ASU, but based on its current methodology for determining its allowance for credit losses, it does not expect its adoption to have a material impact on its consolidated financial statements.

In August, 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820)"—The ASU modifies disclosure requirements on fair value measurements. This ASU removes requirements to disclose, (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and (2) the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. ASU 2018-13 clarifies that, disclosure regarding measurement uncertainty, is intended to communicate information about the uncertainty in measurement, as of the reporting date. ASU 2018-13 adds certain disclosure requirements, including (1) disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2019. The amendments on (1) changes in unrealized gains and losses, (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and (3) the narrative description of measurement uncertainty, should be applied prospectively. All other amendments should be applied retrospectively for all periods presented. The Company does not expect adoption of this ASU to have a material impact on its consolidated financial position or results of operations.

(in thousands)

NOTE 3– Investments

The following is a summary of the Company's investments as of September 30, 2018 and 2017:

	2018			
Type of Investment	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity investments in:				
U.S. Treasury Notes				
Unrestricted	$ 9,350	$ -	$ 194	$ 9,156
Restricted	16,205	-	290	15,915
Total	$ 25,555	$ -	$ 484	$ 25,071

	2017			
Type of Investment	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity investments in:				
U.S. Treasury Notes				
Unrestricted	$ 12,500	$ -	$ 64	$ 12,436
Restricted	16,150	82	19	16,213
Total	$ 28,650	$ 82	$ 83	$ 28,649

There were investments with gross unrealized losses of $17,240 and $0, respectively, that have been in a continuous unrealized loss position greater than 12 months at September 30, 2018 and 2017.There was no other than temporary impairment recorded on any investments during the years ended September 30, 2018 and 2017.

NOTE 4– Student Loans, Net

Student loans, net, consisted of the following as of September 30, 2018 and 2017:

	2018	2017
Federal guaranteed student loans	$ 2,013,428	$ 2,270,128
Private student loans	194,435	246,417
Unamortized loan premiums	18,339	26,897
Total	2,226,202	2,543,442
Allowance for loan losses (Note 5)	(3,144)	(3,709)
Student loans, net	$ 2,223,058	$ 2,539,733

(in thousands)

NOTE 5 - Allowance for Loan Losses

The change in the allowance for loan losses for the years ended September 30, 2018 and 2017 consisted of the following:

	2018	2017
Beginning balance	$ 3,709	$ 4,481
Recovery of provision for loan losses	(1,334)	(483)
Charge-offs, net of recoveries	769	(289)
Ending balance	$ 3,144	$ 3,709

As of September 30, 2018 and 2017, student loans totaling approximately $26,555 and $26,169, respectively, were 91 days or more delinquent. Of these totals, approximately $21,914 and $22,319 were federal guaranteed student loans and approximately $4,641 and $3,850 were private student loans as of September 30, 2018 and 2017, respectively.

(in thousands)

NOTE 5 - Allowance for Loan Losses (cont.)

Information about the credit quality of the Company's private student loans for the years ended September 30, 2018 and 2017 is as follows:

	2018		
	Outstanding balance	Percentage of repayment	Percentage of total
Deferment	$ 2,890	-	1.5%
Forbearance	1,623	-	0.8
Repayment			
Current	179,013	94.3%	
Delinquent 31-60 days	4,295	2.3	
Delinquent 61-90 days	1,983	1.0	
Delinquent 91 days or greater	4,641	2.4	
Total in repayment	189,932	100.0%	97.7
Total	$ 194,435		100.0%

	2017		
	Outstanding balance	Percentage of repayment	Percentage of total
Grace	$ 100	-	0.0%
Deferment	4,514	-	1.8
Forbearance	2,236	-	0.9
Repayment			
Current	229,738	95.9%	
Delinquent 31-60 days	4,745	2.0	
Delinquent 61-90 days	1,234	0.5	
Delinquent 91 days or greater	3,850	1.6	
Total in repayment	239,567	100.0%	97.2
Total	$ 246,417		100.0%

NOTE 5 - Allowance for Loan Losses (cont.)

The Company's private student 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, 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 the Company's third-party loan servicer. To supplement these services, supplemental default aversion activities are performed by NEF's third-party administrator.

Because each of the loans in the Company's federal student loan portfolio is 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 6 - 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, the FFELP Master Trust, is secured by a pool of federally-guaranteed student loans originated under the Federal Family Education Loan Program. The other trust, the Private Master Trust (or 'Series 2006A) 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 student 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 approximately forty year maturities with prepayment at the option of the Company.

As of September 30, 2018 and 2017, the Company had outstanding taxable auction rate notes of $797,850. 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 rates on these 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, and uses a rolling 13-month reset period average to determine the actual interest rate. The rates reset every 28 days.

NOTE 6 - 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 increases 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, 2018 and 2017, 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 $4,724 and $5,360, respectively, as of September 30, 2018 and 2017.

Year 2012

In October 2012, the Company completed an asset-backed refinancing with debt issuance transactions totaling $686,600, which included a structured issue secured by a portfolio of federally insured FFELP student loans (NorthStar Student Loan Trust I, or the "2012-1" Issue).

The notes issued in conjunction with the 2012-1 refinancing are obligations of NorthStar Student Loan Trust I and included senior LIBOR notes at a fixed spread to 1-month LIBOR, and a subordinate note at a fixed spread to 3-month LIBOR. The subordinate note was paid off in full in October 2016. NEF, as the sponsor, invested approximately $8,900 in its 2012 refinancing transactions, which included the issue of the 2012-1 notes, as well as a series of notes secured by a portfolio of private student loans which were paid off in full in September 2016. Unamortized debt issuance costs associated with the 2012-1 refinancing transaction were approximately $801 and $1,142, respectively, as of September 30, 2018 and 2017.

Year 2016

On September 7, 2016, NEF completed an asset-backed refinancing with a debt issuance totaling $90,000 (par value), which included a structured issue secured by a portfolio of private student loans (NorthStar Student Loan Trust III, or the "2016A" Issue). The Company received proceeds of approximately $16,200 from overcollateralization on the transaction. These funds represent a return of the majority of the Company's investments in the re-financings in years 2011 and 2012 totaling approximately $18,000. The remaining investment of approximately $1,800 will be reimbursed to the Company when the outstanding notes have been paid in full. The notes issued in conjunction with the 2016A re-financing, which are obligations of NorthStar Student Loan Trust III, included senior and subordinate LIBOR notes at a fixed spread to 1-month LIBOR. The senior and subordinate notes were purchased at an original issue discount (OID) of approximately $3,883 and $454, respectively. Unamortized debt issuance costs and OID associated with the refinancing were approximately $803 and $1,111 and $2,490 and $3,364, respectively, as of September 30, 2018 and 2017.

(in thousands)

NOTE 6 - 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, 2018 and 2017:

LIBOR Notes	Final Maturity	2018	2017	2018 Current Interest Rate
Series 2004-2A-4	7/28/2021	$ 129,670	$ 233,000	2.57%
Series 2005-1A-3	10/30/2030	163,200	198,500	2.51
Series 2005-1A-4	4/28/2032	210,700	210,700	2.57
Series 2006A-A4	8/28/2035	99,958	130,061	2.67
Series 2006A-B	11/28/2035	19,055	24,793	2.87
Series 2007-1A-1	4/28/2030	123,000	179,000	2.44
Series 2012-1A-1	12/26/2031	190,498	252,495	2.92
Series 2016-A	5/27/2036	51,495	68,699	3.47
Series 2016-B	10/26/2037	4,000	4,000	3.72
Total LIBOR Notes		$ 991,576	$ 1,301,248	

Reset Rate Notes	Final Maturity	2018	2017	2018 Current Interest Rate
Series 2005-1A-5	10/30/2045	$ 49,647	$ 51,924	3.09%
Series 2007-1A-2	1/29/2046	200,000	200,000	3.09
Series 2007-1A-3	1/29/2046	235,000	235,000	3.09
Total Reset Rate Notes		$ 484,647	$ 486,924	

Auction Rate Notes	Final Maturity	2018	2017	2018 Current Interest Rate
Series 2000-B	11/1/2040	$ 9,500	$ 9,500	3.72%
Series 2002-A	4/1/2042	233,500	233,500	3.67-4.27
Series 2002-B	4/1/2042	37,000	37,000	4.69
Series 2004-1B	12/1/2044	30,000	30,000	3.12
Series 2004-2B	12/28/2044	25,500	25,500	3.63
Series 2005-1B	10/30/2045	20,000	20,000	3.67
Series 2007-1A	1/29/2046	410,150	410,150	3.55-3.66
Series 2007-1B	1/28/2047	32,200	32,200	3.63
Total Auction Rate Notes		$ 797,850	$ 797,850	

(in thousands)

NOTE 6 - Long-Term Debt (cont.)

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 7 – Functional Expenses

The Company's Statement of Activities includes operating expenses that support the following functions as of September 30, 2018 and September 30, 2017:

	2018			
	Student Loan Portfolio Management	Charitable	General and Administrative	Total
Interest expense	$ 63,400			$ 63,400
Financing expense	615			615
Loan servicing fees	1,733			1,733
Loan consolidation fees	18,476			18,476
Recovery of provision for loan losses	(1,334)			(1,334)
Federal loan default expense	193			193
Legal expenses	48		$ 44	92
Professional services	644		3,339	3,983
Grants and other donations		$ 1,917		1,917
Other			94	94
	$ 83,775	$ 1,917	$ 3,477	$ 89,169

	2017			
	Student Loan Portfolio Management	Charitable	General and Administrative	Total
Interest expense	$ 47,448			$ 47,448
Financing expense	641			641
Loan servicing fees	12,349			12,349
Loan consolidation fees	20,368			20,368
Recovery of provision for loan losses	(483)			(483)
Federal loan default expense	277			277
Legal expenses			$ 64	64
Professional services	654		578	1,232
Grants and other donations		$ 2397		2,397
Other			130	130
	$ 81,254	$ 2,397	$ 772	$ 84,423

NOTE 8 – Other Income

In March 2017, the Company received proceeds of approximately $3 million from the sale of the outstanding balance of a surplus note associated with an insurance policy settlement due from an outside party. The note, which had previously been written off in full, has been recorded as other income on the Consolidated Statement of Activities.

NOTE 9 - Significant Risks and Concentrations

The Company's business is primarily focused on 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, 2018, the Company's portfolio of student loans was comprised of approximately 91% federal and 9% 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 third-party student loan servicer. These amounts are generally unsecured from the time student loan payments are received by the loan servicer until the time they are remitted to the Company.

NOTE 10 - Subsequent Events

Management has evaluated subsequent events through December 12, 2018, the date which the consolidated financial statements were available to be issued. No subsequent events or transactions have occurred requiring adjustments to or disclosures in the consolidated financial statements.