NORTHSTAR EDUCATION FINANCE, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007 and 2006

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statements of financial position of Northstar Education Finance, Inc. and subsidiaries as of September 30, 2007 and 2006 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northstar Education Finance, Inc. and subsidiaries as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Baune Dosen & Co LLP

December 12, 2007
Minneapolis, Minnesota

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006
(in thousands)

	2007	2006
Assets		
Cash and cash equivalents (Note 2)	$ 3,155	$ 3,573
Loans, net (Note 2, 4, 5, and 13)	5,710,438	4,755,856
Interest receivable	190,086	103,923
Receivable from Great Lakes (Note 2)	8,953	10,705
Government receivable (Note 2)	40,697	40,107
Notes receivable (Note 6)	22,018	6,925
Restricted cash and cash equivalents (Note 3)	298,611	235,528
Investment securities (Note 2)	5,850	3,000
Income taxes receivable		120
Amortizable assets, net (Note 2)	16,393	14,092
Other assets	369	166
Property and equipment, net	524	362
Total assets	$ 6,297,094	$ 5,174,357
Liabilities and net assets		
Accounts payable and accrued liabilities	$ 65,799	$ 58,939
Accrued salaries and benefits	1,752	1,416
Contract servicer payable	443	379
Income taxes payable	305	
Draw against bank lines of credit (Note 7)	1,536,000	1,383,500
Long-term debt (Note 8)	4,666,564	3,709,387
Total liabilities	6,270,863	5,153,621
Net assets		
Net assets - unrestricted	23,480	20,169
Minority interest in subsidiary	2,751	567
Total net assets	26,231	20,736
Total liabilities and net assets	$ 6,297,094	$ 5,174,357

See accompanying notes to consolidated financial statements.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For The Years Ended September 30, 2007 and 2006
(in thousands)

	2007	2006
Income		
Loan interest income (Note 2)	$ 392,187	$ 297,983
Expenses		
Loan financing expenses (Note 11)	352,244	268,126
T.H.E. bonus expense	12,824	10,332
Provision for loan losses	8,903	3,987
Amortization	1,714	4,693
Salaries and benefits	10,820	9,362
Professional services	1,241	870
Promotion and marketing	5,269	4,049
Donations and grants	801	
Other	2,722	2,980
Total expenses	396,538	304,399
Change in net assets before other income (expense)	(4,351)	(6,416)
Other income (expense)		
Other revenue	874	785
Derivative market value adjustment (Note 14)	1,148	791
Interest income	15,667	16,782
Total other income (expense)	17,689	18,358
Change in net assets before income tax provision and minority interest	13,338	11,942
Provision for income taxes (Note 9)	(5,804)	(4,450)
Minority interest	(4,223)	(1,248)
Change in net assets	3,311	6,244
Net assets, beginning of period	20,169	13,925
Net assets, end of period	$ 23,480	$ 20,169

See accompanying notes to consolidated financial statements.

NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007	2006
Cash flows from operating activities		
Change in net assets	$ 3,311	$ 6,244
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Amortization	1,714	4,693
Depreciation	187	140
Issuance of stock options for services	34	81
Provision for loan losses	8,903	3,987
Loan premium expense	9,269	9,915
(Increase) decrease in assets:		
Interest receivable	(86,163)	(44,768)
Receivable from Great Lakes	1,752	12,597
Government receivable	(590)	(19,815)
Income taxes receivable	120	130
Other assets	(203)	327
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	6,860	20,639
Accrued salaries and benefits	336	114
Contract servicer payable	64	68
Income taxes payable	305	
Net cash flows from operating activities	(54,101)	(5,648)
Cash flows from investing activities		
Net change in loans	(972,754)	(944,537)
Net change in restricted cash	(63,083)	57,106
Net change in notes receivable	(15,093)	(6,925)
Purchase of investment securities	(2,850)	(3,000)
Cash paid for amortizable assets	(4,015)	(7,353)
Purchases of property and equipment	(349)	(364)
Net cash flows from investing activities	(1,058,144)	(905,073)
Cash flows from financing activities		
Net change in draw against bank lines of credit	152,500	60,500
Proceeds from long-term debt	957,177	849,387
Minority interest	2,150	167
Net cash flows from financing activities	1,111,827	910,054
Net decrease in cash and cash equivalents	(418)	(667)
Cash and cash equivalents at beginning of year	3,573	4,240
Cash and cash equivalents at end of year	$ 3,155	$ 3,573

See accompanying notes to consolidated financial statements.

NOTE 1 BUSINESS OPERATIONS

Northstar Education Finance, Inc. ("NEF" or the "Company") was organized and is operated exclusively for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Company is a Delaware non-stock, non-profit corporation, incorporated in January, 2000. The purposes for which NEF was formed are to foster, aid, encourage and assist the pursuit of higher education. NEF received a favorable determination from the Internal Revenue Service that it is an organization described in Section 501(c)(3) in March of 2003.

NEF accomplishes its mission and purpose of reducing the cost of higher education through the T.H.E. Loan Program, a trademarked suite of loan products. NEF formed Northstar Capital Markets Services, Inc., ("NCMS") a Delaware for-profit business corporation to administer the T.H.E. Loan Program and potentially provide services to third parties. NEF currently owns 56% of NCMS's issued and outstanding capital stock and nine members of NCMS's management collectively own 42%. The remaining 2% of outstanding stock is owned by a foundation.

All T.H.E Loan Program loans, related financial assets and associated liabilities are assets or liabilities of NEF, either directly or through one or more wholly-owned limited liability company subsidiaries (Northstar T.H.E. Funding, LLC [T.H.E.], Northstar T.H.E. Funding II, LLC [T.H.E. II], and Northstar T.H.E. Funding III, LLC [T.H.E. III]. Any potential claims against or liabilities of a subsidiary would be payable only out of the assets of that subsidiary. Operating assets and associated liabilities are assets or liabilities of NCMS. NCMS has entered into Administration Agreements with NEF and its limited liability company subsidiaries to provide general management services to originate, service and finance the T.H.E. Program Loans and to perform certain specific duties under the terms of certain contracts to which such entities are parties. The term of the administration agreements generally expire when no amounts remain unpaid under the indentures currently in place. The maturities of certain notes in the indentures exceeds twenty years.

During 2006, NCMS created a subsidiary called Northstar SAL Funding, LLC (SAL). SAL entered into a financing arrangement with four graduate schools under the School as Lender program which is a specific program outlined under the Higher Education Act. Under this program, SAL provides a line of credit to the schools. The schools draw on this line of credit to make Federally Guaranteed Stafford loans to their students. Approximately sixty days after the loans are fully disbursed, T.H.E. purchases these loans from the schools for a premium. The schools are required to use these premiums for need-based aid programs after an allowance for administrative costs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents consist of checking accounts, cash management accounts, money market funds, and other operating accounts invested in short-term highly liquid investments with initial maturities of three months or less. Cash pledged as collateral for bank lines and long-term debt (as described in Note 7 and 8) is excluded from cash and cash equivalents and is presented in these financial statements as restricted cash and cash equivalents.

Loans and allowance for credit losses

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

In accordance with the indenture trust agreements, the allowance for credit losses is estimated and established by increasing restricted cash when private loans are disbursed and additional provisions as may be required. Loans are charged against the allowance when the loans are 180 days delinquent and the indenture trustee may withdraw funds from the restricted cash accounts. Recovery of amounts charged off are credited to the allowance for credit losses. The allowance for credit losses is estimated and based on management's evaluation of the loan portfolio, including such factors as the volume and type of loans outstanding, past loan loss experience, and general economic conditions. Federal student loans are federally guaranteed ranging from 97% to 100% of the principal and interest balances. **No provision for loan losses is deemed necessary for the federal loans and the allowance for credit losses is based entirely on private loans.**

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

Receivable from Great Lakes

Receivable from Great Lakes represents student loan principal and interest payments collected by Great Lakes that have not yet been remitted to the Company. No allowance was deemed necessary as of September 30, 2007 and 2006.

Government receivable

Government receivable represents subsidized student loan interest income and special allowance due from the United States Department of Education. No allowance was deemed necessary as of September 30, 2007 and 2006.

Restricted cash and cash equivalents

The Company's restricted cash is held by the trustee in various accounts subject to use restrictions, imposed by the indenture of trust. Restricted cash and cash equivalents consist of cash management accounts, money market funds, and other operating accounts invested in high quality short-term financial instruments. The amounts may exceed federally insured limits.

Investment securities

Investments are initially recorded at their acquisition cost, including brokerage and transaction fees if purchased, and at a fair value at the date of donation, if received as a contribution.

Investments are carried at fair market value. The net realized and unrealized gains (losses) on investments are reflected in the statement of activities in unrestricted revenue, unless donor stipulations temporarily or permanently restrict investment income.

Investments consist entirely of auction rate preferred bonds. NCMS owns $1.85 million of securities issued by NEF. These items have not been eliminated in consolidation since NCMS can sell these securities at any time and NEF is obligated under these securities.

Amortizable assets

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

Derivative accounting

Derivative instruments that are used as part of the Company's interest rate risk management strategy include swaps and interest rate floor and cap contracts with indices that relate to the pricing of specific statement of financial position assets and liabilities. The Company follows Statement of Financial Accounting Standards ("SFAS") No. 133 which requires that derivative instruments, including certain derivative instruments embedded in other contracts, be recorded in the statement of financial position as either an asset or liability measured at its fair value. These amounts are currently presented in the statement of financial position caption "accounts payable and accrued liabilities." Under SFAS No. 133, not-for-profit entities such as the Company are not permitted to use cash flow hedge accounting, therefore all gains or losses are recorded in the statement of activities and reflected as a change in net assets in the period of change.

Income taxes

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

Deferred taxes are recorded to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year end of NCMS. These amounts are presented in the statement of financial position caption "other assets."

Principles of consolidation

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

Loan interest income

The Company's portfolio of student loans originated under the Federal Family Education Loan Program (FFELP) has a variety of interest rate characteristics. The Company earns interest at the greater of the borrower's rate or a floating rate determined by reference to the average of the 90-day financial commercial paper, plus a fixed spread which is dependent upon when the loan was originated. If the floating rate exceeds the borrower rate, the Department of Education makes a payment directly to the Company based upon the special allowance payment ("SAP") formula established under the Higher Education 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 borrowers' interest rates are either fixed to term or are reset annually on July 1 of each year depending on loan type. Stafford loans with first disbursements on or after July 1, 2006 are at a fixed 6.8% rate of interest and PLUS and Grad PLUS loans with first disbursements on or after July 1, 2006 are at a fixed 8.5% rate. The private student loans have variable interest rates that reset quarterly.

Loan interest expense

The Company generally finances its student loan portfolio with floating rate debt tied to commercial paper rates or LIBOR.

Stock options

In accordance with FASB Statement 123(R), stock options for NCMS are recorded under the fair value method and compensation cost is recognized for stock-based employee compensation.

Advertising

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications were made to prior year amounts to conform to current year classifications.

Disclosures about fair value of financial instruments

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

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

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

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

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

Receivables: The carrying amount approximates fair value due to the short maturity of these receivable amounts.

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

Notes receivable: The carrying amount of notes receivable is a reasonable estimate of fair value based on their short-term maturity and frequency of interest rate re-pricing structured in the financing arrangement.

Investment securities: The carrying amount of investment securities is recorded at fair value.

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

Draw against bank lines of credit: The carrying amount approximates fair value due to the short-term maturity and frequency of interest rate repricing structured in the financing arrangement.

Long-term debt: The carrying amount approximates fair value due to the frequency of interest rate repricing structured in the financing arrangement.

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

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

NOTE 3 RESTRICTED CASH AND CASH EQUIVALENTS

The components of restricted cash and cash equivalents in the statement of financial position at September 30, 2007 and 2006 are as follows (in thousands):

	2007	2006
Accounts pledged to financings	$ 246,649	$ 188,942
Accounts pledged for liquidity and default reserves	51,962	46,586
Total	$ 298,611	$ 235,528

NOTE 4 LOANS

The components of loans in the statement of financial position at September 30, 2007 and 2006 are as follows (in thousands):

	2007	2006
Federal guaranteed student loans	$ 4,979,460	$ 4,062,935
Private student loans	655,805	609,335
Unamortized loan premium	120,217	101,014
Loans and refunds in process	(28,406)	(4,672)
Total	5,727,076	4,768,612
Allowance for credit losses	(16,638)	(12,756)
Net loans	$ 5,710,438	$ 4,755,856

As of September 30, 2007, the Company has committed to fund student loans totaling approximately $508 million.

NOTE 5 ALLOWANCE FOR CREDIT LOSSES

Analysis of the change in the allowance for credit losses **on private loans** for the year ended September 30, 2007 and 2006 follows (in thousands):

	2007	2006
Beginning balance	$ 12,756	$ 12,230
Provision for loan losses	8,903	3,987
Charge-offs	(5,461)	(3,711)
Recoveries	440	250
Net charge-offs	(5,021)	(3,461)
Ending balance	$ 16,638	$ 12,756

At September 30, 2007 loans totaling approximately $23 million were 91 days or more delinquent. Of the total delinquent loans over 91 days approximately $18 million were federal loans and approximately $5 million were private loans.

NOTE 6 NOTES RECEIVABLE

SAL issued lines of credit to four medical schools with interest rates at LIBOR plus .35% (LIBOR was 5.12% as of September 30, 2007). These lines grant a maximum credit of $55 million. Amounts outstanding are due on demand and are secured by pledged assets covered under a loan and security agreement. The Company had amounts outstanding of approximately $22.1 million and $6.9 million at September 30, 2007 and 2006, respectively. These lines expire in 2009.

NOTE 7 DRAW AGAINST BANK LINES OF CREDIT

The Company has four lines of credit with interest at varying rates (interest rates were 5.61% to 6.0% at September 30, 2007) depending on funding sources. These lines grant maximum credit of approximately $1.8 billion. Amounts outstanding are due on demand, and are secured by student loans. The Company had amounts outstanding of $1.54 billion and $1.38 billion at September 30, 2007 and 2006.

In connection with the line of credit agreement, the Company is required, among other things, to maintain certain covenants and ratios. As of September 30, 2007, the Company was in compliance with these requirements.

NOTE 8 LONG-TERM DEBT

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

The Company issues Floating Rates Notes (FRNs) which are issued at a fixed spread to 3 month LIBOR and at a fixed maturity with targeted amortization schedules. The interest rates on these notes reset quarterly. The Company also issues Senior and Subordinate Auction Rate Securities. The interest rates on these securities are usually reset every 28 days based upon auction procedures. These securities have a forty year maturity with prepayment at the option of the Company. The securities are issued out of two master trusts, one trust contains only federal guaranteed student loans and the other contains only private student loans.

The table below summarizes outstanding notes payable at September 30, 2007 and 2006 by issue (in thousands):

Auction Rate Student Loan Asset-Backed Notes	Maturity	2007 Carrying Amount	2006 Carrying Amount	Interest Rate
Series 2000-B	11/1/2040	9,500	9,500	6.80%
Series 2002	4/1/2042	233,500	233,500	5.95-6.25%
Series 2002-B	4/1/2042	37,000	37,000	6.75%
Series 2004-B	12/1/2044	30,000	30,000	6.49%
Series 2004-2B	12/28/2044	25,500	25,500	6.57%
Series 2005-1B	10/30/2045	20,000	20,000	5.54%
Series 2007-1A	1/29/2046	410,150		6.10-6.30%
Series 2007-1B	1/28/2047	32,200		6.50%
Total Auction Rate Securities		797,850	355,500	

Floating Rate Notes Loan Asset-Backed Notes	Maturity	2007 Carrying Amount	2006 Carrying Amount	Interest Rate
Series 2004-1A-1	1/28/2011	19,000	90,000	5.41%
Series 2004-1A-2	1/28/2014	225,000	225,000	5.48%
Series 2004-1A-3	4/28/2017	200,000	200,000	5.53%
Series 2004-1A-4	4/29/2019	225,000	225,000	5.55%
Series 2004-2A-1	4/28/2016	295,000	295,000	5.48%
Series 2004-2A-2	1/30/2017	150,000	150,000	5.50%
Series 2004-2A-3	7/30/2018	280,000	280,000	5.53%
Series 2004-2A-4	7/28/2021	249,500	249,500	5.59%
Series 2005-1A-1	10/28/2026	193,100	193,100	5.46%
Series 2005-1A-2	7/28/2027	118,300	118,300	5.49%
Series 2005-1A-3	10/30/2030	227,900	227,900	5.53%
Series 2005-1A-4	4/28/2032	210,700	210,700	5.59%
Series 2006-1A-1	11/30/2020	99,677	141,850	5.55%
Series 2006-1A-2	11/28/2023	111,290	111,290	5.70%
Series 2006-1A-3	5/28/2026	112,931	112,931	5.72%
Series 2006-1A-4	8/28/2035	208,056	208,056	5.86%
Series 2006-1B-1	11/28/2035	65,260	65,260	6.06%
Series 2007-1A-1	4/28/2030	193,000		5.46%
Series 2007-1A-2	1/29/2046	200,000		5.38%
Series 2007-1A-3	1/29/2046	235,000		5.42%
Total Floating Rate Notes		3,618,714	3,103,887	

Fixed Rate Notes Loan Asset-Backed Notes	Maturity	2007 Carrying Amount	2006 Carrying Amount	Interest Rate
Series 2005-1A-5	10/30/2045	250,000	250,000	4.74%
Total Long-term Debt		$ 4,666,564	$ 3,709,387	

The following is a schedule of long-term debt maturities as of September 30, 2007 (in thousands):

2008	$ 78,000
2009	124,325
2010	162,495
2011	200,095
2012	208,844
Remainder	3,892,805
Total	$ 4,666,564

NOTE 9 INCOME TAXES

Provision for income taxes

The components of income tax provision consists of the following (in thousands):

	2007	2006
Current:		
Federal	$ 4,529	$ 3,060
State	1,450	1,015
	5,979	4,075
Deferred:		
Federal	(140)	300
State	(35)	75
	(175)	375
Total	$ 5,804	$ 4,450

The income tax provision is based on the pre-tax income of NCMS which is $14,143 thousand and $9,791 thousand as of September 30, 2007 and 2006, respectively.

Deferred income taxes

As of September 30, 2007 and 2006, deferred tax assets consist of the following (in thousands):

	2007	2006
Assets:		
Accrued liabilities	$ 75	$ 40
Depreciation and amortization	125	(15)
Net deferred tax assets	$ 200	$ 25

The net deferred tax assets are recorded in the statement of financial position caption "other assets".

Reconciliation of tax rates

	2007	2006
U.S. Federal statutory rate	35.0%	35.0%
State taxes, net of federal benefit	6.4	6.4
Other	(0.4)	4.0
Effective tax rate	41.0%	45.4%

NOTE 10 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2007	2006
Cash paid for interest (in thousands)	$ 304,185	$210,070
Cash paid for income taxes (in thousands)	5,619	3,760

NOTE 11 LOAN FINANCING EXPENSES

Loan financing expenses consist of the following (in thousands)	2007	2006
Interest expense	$ 311,677	$231,474
Program and commitment fees	40,567	36,652
	$ 352,244	$268,126

NOTE 12 EMPLOYEE BENEFITS

NCMS has a 401(k) defined contribution plan for employees who have attained age 19 and completed three months of service. Plan benefits are 100% vested at the completion of three years of service. Prior to the completion of three years of service, vesting is graduated. Employees may contribute up to the maximum percentage allowable not to exceed the limits of Code Sections 401(k), 404 and 415. NCMS matches employee contributions on a discretionary basis. In addition, NCMS can also contribute additional amounts to all participants on a discretionary basis, which is not limited to Company profitability. NCMS's total contributions were $639 thousand for the year ended September 30, 2007 and $551 thousand for the year ended September 30, 2006.

NOTE 13 CONCENTRATION OF CREDIT RISK

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

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

NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Strategy

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize the economic effect of interest rate volatility. These derivative instruments are usually put in place to protect holders of the Company's debt instruments (See Note 8) against specific stress case scenarios assumed by the rating agencies as they model different cash flow scenarios.

By using derivative instruments, the Company is exposed to credit and market risk. However, management considers the credit risk to be minimal. In addition, the Company further minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically. The Company also requires all derivative contracts be governed by the International Swaps and Derivative Association Master Agreement.

LIBOR Derivative Product Agreement

During 2006 the Company entered into a LIBOR derivative product agreement with two counterparties. Under this agreement the counterparties pay to the Company on a monthly basis one month LIBOR and the Company pays the fixed amount at an annualized rate of 4.61%. Only the net of these two amounts will be exchanged between the companies on a notional amount of $500 million. This agreement terminated April 25, 2007. This agreement was in place to support the Company’s Student Loan Asset Backed Note Series 2005-1 issuance.

Fixed Rate to Floating Rate Derivative Product Agreement

During 2006 the Company entered into a fixed to floating rate derivative product agreement with two counterparties which will commence on April 25, 2007. Under this agreement the counterparties pay to the Company on a quarterly basis the fixed amount at an annualized rate of 4.74% and the Company pays the daily average of the 90 day financial commercial paper rate for the quarter, plus 17.9 basis points. Only the net of these two amounts will be exchanged between the companies on a notional amount of $250 million. This agreement terminates October 27, 2008 or earlier in accordance with the early termination terms of the agreement. This agreement is in place to support the Company’s Student Loan Asset Backed Note Series 2005-1 issuance.

Currency Swap Agreements

The Company may enter into one or more currency swap agreements if any of its reset rate notes are reset to a currency other than US dollars. No currency swap agreements are in place at this time.

Summary of derivative financial statement impact

The following table summarizes the notional value of all derivative instruments at September 30, 2007 and 2006, and their impact on earnings for the year then ended (in thousands).

	2007	2006
Notional Values		
Fixed for variable swap	$ 500,000	$ 500,000
Earnings summary		
Total earnings impact	$ 1,148	$ 791

NOTE 15 ESTIMATED FAIR VALUES

The Company has estimated fair values of financial instruments as follows (in thousands):

	Carrying Amount	Fair Value	Excess of Fair Value Over Carrying Amount
Earning assets			
Cash and cash equivalents	$ 3,155	$ 3,155	$ -
Loans, net	5,710,438	5,868,551	158,113
Interest receivable	190,086	194,429	4,343
Receivable from Great Lakes	8,953	8,953	-
Government receivable	40,697	40,697	-
Notes receivable	22,018	22,018	-
Restricted cash and cash equivalents	298,611	298,611	-
Investment securities	5,850	5,850	-
Non-interest and interest-bearing liabilities			
Accounts payable and accrued liabilities	65,799	65,799	-
Accrued salaries and benefits	1,752	1,752	-
Contract servicer payable	443	443	-
Draw against bank line of credit	1,536,000	1,536,000	-
Long-term debt	4,666,564	4,666,564	-

NOTE 16 COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases two facilities for its operations. The first facility is under a non-cancelable operating lease that expires December 31, 2012. The second facility is under a non-cancelable operating lease that expires September 30, 2009.

Future minimum operating lease payments as of September 30, 2007 are (in thousands):

2008	$ 502
2009	509
2010	458
2011	480
2012	492
Remainder	124
Total	$ 2,565

Donations and grants

NEF has committed to provide donations and grants to various organizations totaling $650 thousand through September 30, 2009. Since funds won't be transferred to these organizations without making certain benchmarks agreed upon in advance, no liability has been recorded since these are not unconditional promises to give.

Other

As of the report date, NCMS was selected for audit by the United States Internal Revenue Service. Management is currently unaware of any adjustments to prior year tax returns filed with the agency.

NOTE 17 SUBSEQUENT EVENT

On October 1, 2007, SAL terminated all contracts with each school as lender due to changes in the Higher Education Act. However, contract terms prior to October 1, 2007 for student loan transactions remain in effect for SAL. Management is in the process of renegotiating revised contract terms with the schools.