NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARY

Eagan, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2017 and 2016

NorthStar Education Finance, Inc. and Subsidiary

TABLE OF CONTENTS

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, 2017 and 2016, 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, 2017 and 2016 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 15, 2017

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2017 and 2016
(in thousands)

ASSETS

	2017	2016
ASSETS		
Cash and cash equivalents (Note 2)	$ 9,381	$ 17,142
Interest-bearing deposits (Note 2)	8,500	-
Unrestricted investments (Notes 2,3)	12,500	4,000
Student loans, net (Notes 2, 4, and 5)	2,539,733	2,901,040
Interest receivable	30,530	32,995
Servicer receivable (Note 2)	2,089	2,009
Restricted cash and cash equivalents (Note 2)	164,115	158,643
Restricted Investments (Notes 2,3)	16,150	17,646
Prepaid expenses	51	92
TOTAL ASSETS	$ 2,783,049	$ 3,133,567

LIABILITIES AND NET ASSETS

	2017	2016
LIABILITIES		
Accounts payable and accrued liabilities	$ 7,385	$ 7,236
T.H.E. repayment bonus liability (Note 2)	20,855	32,845
Government payable (Note 2)	159	5,405
Long-term debt (Note 6)		
Principal	2,586,022	2,919,524
Less: unamortized debt issuance costs and original issue discount (Note 2)	(10,977)	(13,426)
Long-term debt, net	2,575,045	2,906,098
Total Liabilities	2,603,444	2,951,584
NET ASSETS		
Net assets – unrestricted	179,605	181,983
TOTAL LIABILITIES AND NET ASSETS	$ 2,783,049	$ 3,133,567

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2017 and 2016
(in thousands)

	2017	2016
OPERATING REVENUE		
Student loan interest income (Note 2)	$ 96,581	$ 95,341
T.H.E. repayment bonus commitment (Note 2)	(8,100)	(49,853)
Loan premium amortization (Note 2)	(10,317)	(11,437)
Total Operating Revenue	78,164	34,051
OPERATING EXPENSES		
Interest expense	47,448	35,914
Financing expense	641	1,852
Loan servicing fees	12,349	15,386
Loan consolidation fees	20,368	22,429
Recovery of provision for loan losses (Note 5)	(483)	(294)
Federal loan default expense	277	332
Legal expenses	64	153
Professional services	1,232	859
Grants and other donations	2,397	869
Other	130	280
Total Operating Expenses	84,423	77,780
OTHER INCOME (EXPENSE):		
Sub-servicing fees	200	218
Interest income	704	228
Other income (Note 7)	2,977	(2)
Total Other Income	3,881	444
CHANGE IN NET ASSETS	(2,378)	(43,285)
NET ASSETS, BEGINNING OF PERIOD	181,983	225,268
NET ASSETS, END OF PERIOD	$ 179,605	$ 181,983

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2017 and 2016
(in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,378)	$ (43,285)
Adjustments to reconcile change in net assets to cash flows from operating activities		
Amortization of loan premium costs	10,317	11,437
Other amortization	2,448	2,216
Recovery of provision for loan losses	(483)	(294)
(Increase) decrease in assets		
Interest receivable	2,465	6,657
Servicer receivable	(79)	11,334
Prepaid expenses	41	130
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	149	668
T.H.E. repayment bonus commitment	(11,990)	27,128
Government payable	(5,246)	(2,844)
Net Cash Flows Provided By (Used in) Operating Activities	(4,755)	13,147
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from payments on student loans	351,473	375,491
Proceeds from maturities of restricted investments	1,496	1,993
Purchases of unrestricted investments	(17,000)	(4,000)
Net change in restricted cash	(5,473)	(55,201)
Net Cash Flows Provided By Investing Activities	330,496	318,283
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt, net of original issue discount of $4,338	-	85,662
Payments for debt issuance costs	-	(1,443)
Payments on long-term debt	(333,502)	(406,831)
Net Cash Flows Used in Financing Activities	(333,502)	(322,612)
Net Increase in Cash and Cash Equivalents	(7,761)	8,818
CASH AND CASH EQUIVALENTS - Beginning of Year	17,142	8,324
CASH AND CASH EQUIVALENTS - End of Year	$ 9,381	$ 17,142
CASH PAID FOR INTEREST	$ 43,707	$ 26,752

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 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) 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, NorthStar Education Services, LLC ('NES'), a wholly-owned subsidiary of Great Lakes Education Loan Servicing, Inc. Through August 27, 2017, these services were performed by NES pursuant to a Master Services Agreement ('MSA') between NEF and NorthStar Capital Market Services, Inc. ('NCMS') and a Subservicing Agreement between NCMS and NES. The MSA appointed NCMS as the Master Servicer and Administrator for NEF's financings (see NOTE 6). The MSA and Subservicing Agreements both expired on August 27, 2017. Consequently, under a new sub-MSA Agreement with an effective date of August 28, 2017 directly between NEF and NES, NES continues to perform the same management and administrative services on behalf of NEF. Pursuant to two new Master Servicing and Administrative Agreements and stipulations under indenture agreements associated with NEF's financings, NEF has been appointed as the new Master Servicer and Administrator for each of its financings effective August 28, 2017.

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 and have 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, 2017 and 2016, there were $8,250 and $0 in uninsured certificates of deposits, respectively.

Unrestricted investments

Unrestricted investments represent unrestricted cash which has been invested in United States treasury notes that have original maturities greater than three months. These securities are recorded at amortized cost, as cost approximates fair value (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.

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

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 stringent 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.

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 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, 2017 and 2016. 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 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, 2017 and 2016.

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.

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

Restricted investments

Restricted investments represent restricted cash which has been invested in United States treasury notes that have original maturities greater than three months. These securities are recorded at amortized cost, as cost approximates fair value (see Note 3).

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. 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 Consolidated Statement of Financial Position sheet 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 $7,613 and $9,106 as of September 30, 2017 and 2016, respectively, are presented as a deduction from long-term debt on the Consolidated Statement of Financial Position, and amortization of debt issuance costs of $1,504 and $2,198, for the years ended September 30, 2017 and 2016, 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 $3,364 and $4,320 as of September 30, 2017 and 2016, respectively, is presented as a deduction from long-term debt on the Statement of Financial Position, and amortization of OID of $955 and $18, for the years ended September 30, 2017 and 2016, respectively, is reported as interest expense on the Consolidated Statement of Activities.

Income taxes

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

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.

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

Principles of consolidation

The consolidated financial statements for the years ended September 30, 2017 and 2016 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 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 DOE 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.

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 Consolidated Statement of Financial Position.

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.

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

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.

Reclassifications

For comparability, certain 2016 amounts have been reclassified to conform to classifications adopted in 2017. This had no impact on the change in net assets for the period ending September 30, 2016.

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

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, 2017 and 2016.

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

In June 2016, the FASB issued ASU 2016-13*, “Measurement of Credit Losses on Financial Instruments”.* The amendments in this Update 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 2016, the FASB issued ASU 2016-14, *“Presentation of Financial Statements of Not-For-Profit Entities”.* The amendments provided in ASU 2016-14 change the presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The ASU addresses qualitative and quantitative matters concerning net assets, investment return, expenses, liquidity and availability of resources, and the presentation of operating cash flows. The ASU is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017 and early application of the amendments is permitted. The Company is in the process of evaluating this ASU, but does not expect its adoption to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *“Classification of Certain Cash Receipts and Cash* Payments”. The amendments in this ASU provide guidance on eight specific cash flow issues, including 1) debt prepayment or debt extinguishment costs, 2) settlement of zero (or ‘insignificant’) coupon debt instruments,3) contingent consideration payments made after a business combination, 4) proceeds from the settlement of insurance claims, 5) proceeds from the settlement of corporate-owned life insurance policies, 6) distributions received from equity method investees, 7) beneficial interests in securitization transactions and 8) the classification of cash receipts and payments that have aspects of more than one class of cash flows. The ASU is effective for all non-public organizations for annual financial statements issued for fiscal years beginning after December 15, 2017 and early application of the amendments is permitted. The Company is in the process of evaluating this ASU, but does not expect its adoption to have a material impact on its consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016
(in thousands)

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

In May, 2016, the FASB issued ASU 2016-12, "*Revenue from Contracts with Customers* (Topic 606); Narrow-Scope Improvements and Practical Expedients." ASU 2016-12 is intended to address certain specific issues identified by the FASB-IASB Joint Transition Resource Group for Revenue Recognition with respect to ASU 2014-09, "*Revenue from Contracts with Customers* (Topic 606)." For non-public entities, ASUs 2016-12 and 2014-09 are effective on a retrospective basis for the annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company is in the process of evaluating these ASU's, but does not expect their adoption to have a material impact on its consolidated financial statements.

NOTE 3– Investments

The following is a summary of the Company's investments as of December 31, 2017 and 2016:

	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments in:				
U.S. Treasury Notes:				
Unrestricted	$ 4,000	$ 17	$ -	$ 4,017
Restricted	17,646	321	-	17,967
Total	$ 21,646	$ 338	$ -	$ 21,984

There were no gross unrealized losses on any investment that has been in a continuous unrealized loss position greater than 12 months at September 30, 2017 and 2016.There was no other than temporary impairment recorded on any investments during the years ended September 30, 2017 and 2016.

(in thousands)

NOTE 4– Student Loans, Net

Student loans, net, consisted of the following as of September 30, 2017 and 2016:

	2017	2016
Federal guaranteed student loans	$ 2,270,128	$ 2,567,449
Private student loans	246,417	300,859
Unamortized loan premiums	26,897	37,213
Total	2,543,442	2,905,521
Allowance for loan losses (Note 5)	(3,709)	(4,481)
Student loans, net	$ 2,539,733	$ 2,901,040

NOTE 5 - Allowance for Loan Losses

The change in the allowance for loan losses for the years ended September 30, 2017 and 2016 consisted of the following:

	2017	2016
Beginning balance	$ 4,481	$ 5,430
Recovery of provision for loan losses	(483)	(294)
Charge-offs, net of recoveries	(289)	(655)
Ending balance	$ 3,709	$ 4,481

The Company’s allowance represents an allocation of net assets for the estimated losses on the Company’s 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 students attending high-quality schools, etc.-see below), 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 conditions (including the general economic environment) that may impact the Company’s ability to collect on its private student loans. The evaluation and analysis resulting from these reviews are used in management’s determination of the amount of the allowance.

(in thousands)

NOTE 5 - Allowance for Loan Losses (cont.)

As of September 30, 2017 and 2016, student loans totaling approximately $26,169 and $28,257, respectively, were 91 days or more delinquent. Of these totals, approximately $22,319 and $23,527 were federal guaranteed student loans and approximately $3,850 and $4,730 were private student loans as of September 30, 2017 and 2016, respectively.

Information about the credit quality of the Company's private student loans for the years ended September 30, 2017 and 2016 is as follows:

	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%

	2016		
	Outstanding balance	Percentage of repayment	Percentage of total
Grace	$ 473		0.2%
Deferment	7,500		2.5
Forbearance	2,125		0.7
Repayment			
Current	278,017	95.6%	
Delinquent 31-60 days	6,105	2.1	
Delinquent 61-90 days	1,909	0.7	
Delinquent 91 days or greater	4,730	1.6	
Total in repayment	290,761	100.0%	96.6
Total	$ 300,859		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 Great Lakes Educational Loan Services, Inc. To supplement these services, NES performs additional collection activities which are administered by its default aversion group.

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, 2017 and 2016, 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, 2017 and 2016, 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 $5,360 and $6,054, respectively, as of September 30, 2017 and 2016.

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 $1,142 and $1,615, respectively, as of September 30, 2017 and 2016.

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 $1,111 and $1,437 and $3,364 and $4,320, respectively, as of September 30, 2017 and 2016.

NorthStar Education Finance, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016
(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, 2017 and 2016:

LIBOR Notes	Final Maturity	2017	2016	2017 Current Interest Rate
Series 2004-2A-3	7/30/2018	$ -	$ 96,707	%
Series 2004-2A-4	7/28/2021	233,000	249,500	1.40
Series 2005-1A-2	7/28/2027	-	20,800	
Series 2005-1A-3	10/30/2030	198,500	227,900	1.34
Series 2005-1A-4	4/28/2032	210,700	210,700	1.40
Series 2006A-A4	8/28/2035	130,061	165,506	1.55
Series 2006A-B	11/28/2035	24,793	31,550	1.75
Series 2007-1A-1	4/28/2030	179,000	193,000	1.27
Series 2012-1A-1	12/26/2031	252,495	333,459	1.93
Series 2012-1B-1	1/25/2032	-	210	
Series 2016-A	5/27/2036	68,699	86,000	2.48
Series 2016-B	10/26/2037	4,000	4,000	2.73
Total LIBOR Notes		$ 1,301,248	$ 1,619,332	

Reset Rate Notes	Final Maturity	2017	2016	2017 Current Interest Rate
Series 2005-1A-5	10/30/2045	$ 51,924	$ 67,342	1.92%
Series 2007-1A-2	1/29/2046	200,000	200,000	1.92
Series 2007-1A-3	1/29/2046	235,000	235,000	1.92
Total Reset Rate Notes		$ 486,924	$ 502,342	

Auction Rate Notes	Final Maturity	2017	2016	2017 Current Interest Rate
Series 2000-B	11/1/2040	$ 9,500	$ 9,500	3.34%
Series 2002-A	4/1/2042	233,500	233,500	2.25-4.14
Series 2002-B	4/1/2042	37,000	37,000	3.89
Series 2004-1B	12/1/2044	30,000	30,000	2.15
Series 2004-2B	12/28/2044	25,500	25,500	2.15
Series 2005-1B	10/30/2045	20,000	20,000	2.15
Series 2007-1A	1/29/2046	410,150	410,150	2.15-2.63
Series 2007-1B	1/28/2047	32,200	32,200	2.15
Total Auction Rate Notes		$ 797,850	$ 797,850	

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 – 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 8 - 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, 2017, the Company's portfolio of student loans was comprised of approximately 90% federal and 10% 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.

NOTE 9 - Commitments and Contingencies

Asserted claims

T.H.E. Repayment Bonus Suspension Litigation

In May 2010, the Company entered into a Class Action Settlement (the "Settlement") regarding its T.H.E. repayment bonus benefit. One of the main provisions of the Settlement was a requirement that the Company reinstate its T.H.E. repayment bonus as a guaranteed benefit to eligible borrowers, and additionally, that the funding source remain as excess cash releases from the Company's financings which allow such releases, subject to meeting certain terms and conditions pursuant to financing covenants.

During fiscal years ended September 30, 2017 and 2016, 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 bonus distributions to eligible borrower accounts to reduce the amount of interest due on their loans. During the years ended September 30, 2017 and 2016, the Company made approximately $20,175 and $22,759, respectively, of bonus distributions to all eligible borrower accounts.

NOTE 10 - Subsequent Events

Management has evaluated subsequent events through December 15, 2017, 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.