# Massachusetts Educational Financing Authority

## Financial Statements with Management's Discussion and Analysis
## June 30, 2013 and 2012

# Massachusetts Educational Financing Authority
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## June 30, 2013 and 2012

## Independent Auditor's Report

The Members of the Massachusetts Educational Financing Authority:

We have audited the accompanying financial statements of Massachusetts Educational Financing Authority (the "Authority"), which comprise the statements of net position as of June 30, 2013 and June 30, 2012, and the related statements of revenues, expenses, and changes in net position and the statements of cash flows for the years then ended.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Authority's preparation and fair presentation of the 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 Authority'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Educational Financing Authority at June 30, 2013 and 2012, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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### *Emphasis of Matter*

As discussed in Note 3 to the financial statements, the Authority changed the manner in which it accounts for debt issuance costs and loan origination fees and changed the manner of presenting assets and liabilities in 2013 due to the adoption of GASB 65, *Items Previously Reported as Assets and Liabilities*.

### *Other Matters*

The accompanying Management's Discussion and Analysis on pages 3 through 12 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplemental information on pages 39 through 46 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

December 20, 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

This discussion and analysis of the financial position and performance of the Massachusetts Educational Financing Authority (the "Authority") is intended to provide an introduction and analytical overview of the basic financial statements of the Authority on a comparative basis for the fiscal years ended June 30, 2013, 2012 and 2011. This unaudited management's discussion and analysis should be read in conjunction with the attached audited financial statements and the notes thereto in its entirety.

The Authority is a body politic and corporate, constituting a public instrumentality of the Commonwealth of Massachusetts (the "Commonwealth"), which was established pursuant to Chapter 803 of the Acts of 1982, as amended, to assist the Commonwealth's institutions of higher education, students and families in the financing and refinancing of the costs of higher education, and through this process to support the economic development of the Commonwealth. The Authority has established a number of proprietary, unsecured consumer loan programs for this purpose, including fixed and variable rate, undergraduate, graduate, credit-worthy and need-based loans.

Since inception, the Authority has originated loans in cooperation with participating non-profit independent and public colleges and universities and other sponsors, if any, designated from time to time by the Authority, in accordance with common criteria and procedures. The programs are funded using proceeds from Educational Loan Revenue Bonds issued by the Authority (the "Bonds"). The primary goal of these programs is to provide education loans to eligible students and families which will assist them with the cost of attendance at eligible higher education institutions within the Commonwealth and beyond.

In addition to the proprietary, unsecured consumer loan programs, the Authority began participating in the Federal Family Education Loan Program (the "FFELP") in July 2002. The FFELP is a federal program that allows undergraduate and graduate borrowers at eligible postsecondary schools to obtain low cost education loans. Effective July 1, 2010 new legislation eliminated the ability to provide new loans under FFELP and requires that all new federal loans are to be made through the Direct Loan Program which is administered by the Federal Government. The new law did not affect the terms and conditions of existing FFELP loans originated by the Authority. The Authority previously offered five types of loans in the FFELP: Subsidized Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students (PLUS), Graduate and Professional Students and Consolidation Loans. The interest rate charged to the borrower varies based upon the type of loan and the regulations in effect at the time the loan was originated. The FFELP is also funded using proceeds from the Bonds or Notes. As part of the FFELP, the U.S. Department of Education (the "ED") makes special allowance payments that could result in the loan yield to the lender being higher than the rate charged to the borrowers. Beginning with disbursements on or after April 1, 2006, the ED requires lenders to make payment on their individual FFELP portfolios to the ED for the difference when the rate to the borrower is in excess of the stated lender yield for that particular FFELP program. The lender yield is variable and not dependent on whether the underlying loan to the borrower is fixed or variable. The amount of special allowance payments is based upon the type of loan and regulations in effect at the time of origination.

The Bonds, which are issued under various resolutions, are special obligations of the Authority, which has no taxing power, payable solely from the revenues and the funds and accounts established and pledged under the Resolution. No revenues or other assets of the Authority are available to fund payment of the Bonds except as expressly provided by the Resolution. Neither the Commonwealth of Massachusetts nor any political subdivision thereof is or shall be obligated to pay the principal or redemption or purchase price of and interest on the Bonds, and neither the full faith and credit, nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment. The Authority has the same exemption as the Commonwealth (under I.R.S. Code, Section 115) from filing and/or paying federal income taxes.

In addition to the loan programs, the Authority offers two college savings programs: The U.Plan: The Massachusetts Tuition Prepayment Program (the "U.Plan") and the U.Fund College Investing Plan (the "U.Fund"). The U.Plan, launched in February 1995, is a pre-paid tuition program that permits saving for a named beneficiary's undergraduate tuition and mandatory fees at participating Massachusetts colleges and universities in a manner designed to preserve the purchasing power of savings. The U.Fund, launched in March 1999, is a tax-advantaged method of saving for higher education costs (under I.R.S. Code, Section 529) generally through investment vehicles such as stock, bond and money market mutual funds. These funds are professionally administered and managed by Fidelity Investments (an unrelated party) on behalf of the account owners and are accordingly not a component of these financial statements. Proceeds earned by program participants through investing in the U.Fund are available to pay for costs of higher education nationwide.

## USING THE FINANCIAL STATEMENTS

The key to understanding the financial position and changes in the Authority's finances from year to year are presented in the Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position and the Statement of Cash Flows. These statements present financial information in a form similar to that used by other not-for-profit organizations and private corporations.

The Statement of Net Position includes all assets, deferred outflows, liabilities and deferred inflows of the Authority. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when earned or in certain instances received, and expenses and liabilities are recognized when incurred, regardless of when cash is exchanged.

The Statement of Revenue, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the year. All activities of the Authority are reported as either operating or non-operating. Operating activities are those that support the mission and purpose of the Authority. Non-operating activities represent transactions that are primarily investing, legislative or regulated in nature.

The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital and non-capital financing and investing activities. Cash flow information is an important factor to consider when evaluating financial viability and the Authority's ability to meet financial obligations.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority maintains its accounts and prepares its financial statements in accordance with the accounting principles generally accepted in the United States of America, as set forth by the Governmental Accounting Standards Board ("GASB"). The financial records of the Authority are maintained on an accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when they have been incurred. The notes to the financial statements explain the financial statements and the accounting principles applied. The Authority's financial statements have been audited by PricewaterhouseCoopers LLP, as independent auditors.

## CHANGES TO THE FINANCIAL STATEMENTS

*GASB Statement No. 63*

In June 2011, the GASB issued Statement No. 63 ("GASB 63"), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was effective for the Authority in FY 2013. GASB 63 required changes to titles of certain financial statements, use of the term "net position" rather than "net assets" and presentation of deferred outflows and deferred inflows of resources separately from assets and liabilities on the Statement of Net Position. GASB 63 was applied retroactively, as required, for all periods presented and did not impact net position.

Please see note 3 to the FY2013 financial statements for further information regarding GASB 63.

*GASB Statement No. 65*

In March, 2012, the GASB issued Statement No. 65 ("GASB 65"), *Items Previously Reported as Assets and Liabilities*, which was effective for the Authority in FY 2013. GASB 65 impacted accounting for loan origination fees, debt issuance costs and the classification of deferred gains/losses on bond refunding. The provisions of this statement have been applied retroactively to the summarized financial statements as required for FY 2012 and FY 2011.

The table below illustrates the cumulative effect of all components at June 30, 2011 and June 30, 2012 (in thousands):

| | |
|---|---|
| June 30, 2011 net position, as originally reported | $ 116,078 |
| Cumulative effect of changes required by GASB 65 at June 30, 2011 | 15,919 |
| June 30, 2011 net position, as restated | 131,997 |
| Increase in net position (as restated) for the year ended June 30, 2012 | 9,155 |
| Net position (as restated) at June 30, 2012 | $ 141,152 |

Please see note 3 to the FY2013 financial statements for further information regarding GASB 65.

**FISCAL YEAR DEVELOPMENTS**

During fiscal year 2013, the Authority decreased its auction rate certificate (ARC) exposure by approximately 80% from $278M as of June 2012 to $56M as of June 2013. With a decline in investor demand for both taxable and tax-exempt securities, the weekly, monthly and annual auctions failed in February of 2008 and remain in this status at June 30, 2013. The failure of the auctions does not constitute a default on the bonds and all principal and interest due has been paid to date. With the occurrence of a failed auction, the bondholders are entitled to receive a maximum rate of interest as described in the related bond documents. The formulaic maximum rate is greater than the historical market rates achieved through the successful auctions prior to the failures. The Authority continues to evaluate the strategic options to provide liquidity to the auction rate investors and mitigate the earnings compression for the outstanding trust estate.

Adopted in July 2010, the Finance Advisory Board ("FAB") was established to further transparency, accountability and best practices among state entities with respect to investments, borrowing or other financial transactions involving public funds made or entered into by state entities. These regulations apply to the management of debt and derivative financial products by state entities authorized to issue debt (of which the Authority is one). As part of the State budget process in 2012, the governing laws of the FAB were amended to include provisions establishing the State Finance and Governance Oversight Trust that the Secretary of Administration and Finance may fund, after consulting with the FAB, from assessing fees to state entities for their new debt issuance and their assets under management. As of June 30, 2013, no fees had been proposed or assessed to the Authority through this process.

In 2011, the Authority was advised by the Financial Institution Oversight Service ("FIOS") of the federal Department of Education (the "Department") that a program review of the Authority's participation during the Authority's Fiscal Year 2007 in the Federal Family Education Loan Program ("FFELP") had resulted in a preliminary finding that a certain contract the Authority had entered into with a third party for marketing and administrative services included a compensation term not permitted under applicable regulations. The Authority responded to the preliminary FIOS finding by providing requested information and urging FIOS to reconsider the finding. In May 2012, the Department advised the Authority that it had concluded its program review without change to this preliminary finding and that the Department expected to further review this finding for potential responsive action by the Department. By letter dated May 17, 2013, the Department advised the Authority that a $27,500 fine would be imposed unless the Authority appealed the Department's actions. The Authority decided not to pursue the matter and made the payment.

**FINANCIAL HIGHLIGHTS**

In the financial operations of the Authority, there are principal operating and non-operating components that make up a significant portion of the overall activities. Under the loan programs, the Authority disbursed $165M in private loans in both FY2013 and FY2012. For the U.Plan program, the Authority had $14.2M of matured tuition certificates on its financial statements as a liability to program participants at the end of FY2013, an increase of 8% from FY2012. In the U.Fund, net assets continue to grow, increasing 12% in FY2013 and 3% in FY2012. Contributions to the U.Fund increased by 15 % in FY2013, compared to a decrease of 6% in FY2012. The principal operating revenues for the Authority continue to be interest on education loans. Non-operating revenues are primarily composed of gains of bond redemptions, investment income and arbitrage rebate income. The principal operating expenses are bond interest expense and general and administrative costs. Non-operating expenses are primarily composed of loan program features and state program contributions.

Total net position was $162.4M at the end of FY2013, which represents an increase of $21M or 15% from the beginning of the fiscal year. This increase was the result of the following principal operating and non-operating activities at the Authority. Interest income on education loans was $87.6M and represents 75% of total revenues in what continues to be a challenging, but improving consumer credit environment. Interest expense on bonds outstanding, was $64.6M, or 68% of total expenses. The Authority's general and administrative expenses increased by 3% to $17.4M and represented 19% of the total operating expenses. The Authority purchased in lieu of redemption approximately $223M in outstanding auction rate bonds during FY2013 resulting in a gain of $23.1M, of which $13.9M was recognized immediately in non-operating revenues and $9.2M will be deferred and recognized over future periods through deferred inflows. Non-operating revenues also include investment interest and dividend income, which was $1.3M and included a $962M fair value adjustment for non-hedging interest rate cap derivatives and interest income of $361K. Investment interest income was flat compared to FY2012 as assets continue to be invested in a portfolio of vehicles providing short-term flexibility and principal protection. Non-operating expenses decreased to $2.4M as Treasury regulation yield restriction expense was not incurred in FY2013 and expense for commitment fee reimbursements decreased.

**OPERATING AND NON-OPERATING RESULTS**

The following illustrates the comparative results of total revenues from fiscal years ended June 30, 2013, 2012 and 2011, respectively:

(in thousands)

| | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| **Operating revenues** | | | | | | |
| Interest on educational loan notes receivable | $ | 87,601 | $ | 84,788 | $ | 79,155 |
| Non-interest revenues | | 12,725 | | 12,151 | | 12,262 |
| Total operating revenues | | 100,326 | | 96,939 | | 91,417 |
| **Non-operating revenues** | | 15,940 | | 1,166 | | 15,988 |
| **Total revenues** | $ | 116,266 | $ | 98,105 | $ | 107,405 |

Total revenues for the Authority were $116.3M in FY2013. Interest income on education loan notes receivable increased by 3% from FY2012 and represents 87% of operating revenues. The Authority disbursed $165M in new loans in both FY2013 and FY2012.

Non-interest revenues, which are comprised of loan origination fees and college savings plan revenues, were $12.7M in FY2013, an increase of 5% from FY2012. Loan origination fees remained flat at $6.5M in FY2013 and represented 52% of non-interest revenues. College savings plan revenues increased by 9% to $4.5M in 2013 and represent approximately 35% of non-interest revenues. Other non-interest operating revenues were $1.7M in FY2013, an increase of 19% from FY2012 and represent 13% of non-interest revenues, which was consistent with FY2012 and FY2011.

Non-operating revenues, which are comprised of gains on bond redemption, interest and dividend income and arbitrage rebate income, were $15.9M, an increase of $14.8M from FY2012. In FY2013, approximately $223M in outstanding auction rate bonds were purchased in lieu of redemption resulting in a gain of approximately $23M, of which $13.9M was recognized immediately in non-operating revenues and $9.2M will be deferred and recognized over future periods through deferred inflows. Gains on bond redemption were $778K and $13M in FY2012 & 2011, respectively. Interest and dividend income was $1.3M in FY2013 and included a $962K fair value measurement adjustment for non-hedging interest rate cap derivatives. As the Federal Reserve maintained its interest rate policies related to the macro-economic environment, the nominal level of interest rates remained suppressed in FY2013 and the investment portfolio reacted accordingly by producing $361K in interest and dividend income, representing an increase of 6% from FY2012. The Trustee investment income increased by 21% to $299K and the Authority and college savings investment income decreased 35% to $62K. Interest and dividend income was 8%, 29% and 7% of non-operating revenues for the years ended June 30, 2013, 2012 and 2011, respectively. Arbitrage rebate income for the tax-exempt bond portfolio resulted in $739K in income for FY2013 as compared to $37K in income in FY2012.

The following illustrates the comparative results of total expenses from fiscal years ended June 30, 2013, 2012 and 2011, respectively:

(in thousands)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Operating expenses** | | | |
| Interest expense on bonds outstanding | $ 64,554 | $ 61,143 | $ 62,877 |
| Non-interest expenses | 28,073 | 24,474 | 22,425 |
| Total operating expenses | 92,627 | 85,617 | 85,302 |
| **Non-operating expenses** | 2,437 | 3,333 | 1,000 |
| **Total expenses** | $ 95,064 | $ 88,950 | $ 86,302 |

Expenses for the year ending June 30, 2013 totaled $95M. Interest expense for bonds outstanding increased by 6% from FY2012 and represented 70% of operating expenses in FY2013, which is consistent with FY2012 and FY2011. The increase in bond interest expense is primarily due to a full year of interest expense in FY2013 for bonds issued at the end of FY2012 and was partially offset by a decrease in interest expense resulting from bonds purchased in lieu of redemption in FY2013.

Non-interest operating expenses increased by $3.6M or 14% in FY2013. The provision for doubtful educational loan notes increased to $6.1M in FY2013 as compared to $3.6M in FY2012 and represented 22%, 15% and 19% of total non-interest operating expenses for each year presented. General and administrative expenses were $17.4M in FY2013, an increase of 3% from FY2012 and represented 62%, 69%, and 75% of total non-interest operating expenses for each year presented. Bond issuance costs were $3M in FY2013, which was flat, compared to FY2012. No bond issuance costs were incurred in FY2011.

Non-operating expenses decreased to $2.4M in FY2013 as the Authority recorded commitment fee reimbursements of $1.4M related to historical originations that incorporated this program feature versus reimbursements of $1.9M recorded in FY 2012. The non-operating expenses also reflected the Authority's continued payments to the Commonwealth for program and administrative expenditures for higher educational services to Massachusetts students that began in FY2009.

As a result of these operating and non-operating activities during FY2013, total expenses for the Authority increased by 7% compared with the prior fiscal year.

**CHANGE IN NET POSITION**

The following illustrates the comparative results of increases in net position from fiscal years ended June 30, 2013, 2012 and 2011, respectively:

(in thousands)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Operating revenues | $ 100,326 | $ 96,939 | $ 91,417 |
| Operating expenses | 92,627 | 85,617 | 85,302 |
| **Operating income** | 7,699 | 11,322 | 6,115 |
| Non-operating revenues | 15,940 | 1,166 | 15,988 |
| Non-operating expenses | 2,437 | 3,333 | 1,000 |
| **Non-operating income (loss)** | 13,503 | (2,167) | 14,988 |
| **Increase in net position** | $ 21,202 | $ 9,155 | $ 21,103 |

The Authority had operating income of $7.7M in FY2013, which was a decrease of $3.6M from FY2012 operating income. FY2013 operating income reflects a 4% increase in operating revenues driven by a $2.8M increase in education loan notes interest income and an 8% increase in operating expenses resulting from increased bond interest expense and a $2.5M increase in the provision for education loan loss expense. FY2012 operating income increased by $5.2M, or 85%, to $11.3M. FY2012 operating revenues increased 6% as interest on education loan notes increased by $5.6M and operating expense remained level with FY2011.

Non-operating income in FY2013 was $13.5M representing a $15.7M increase from the non-operating loss in FY2012. Non-operating revenue increased $14.8M mostly due to a $13.9M gain from the purchase in lieu of redemption of outstanding auction rate debt, which was an increase from the $788K gain recognized in FY2012 for the same activity. FY2013 non-operating revenue also included a $962K fair value adjustment related to non-hedging interest rate cap derivatives and an increase in arbitrage rebate income of $702K. FY2013 non-operating expense decreased by $896K as commitment fee reimbursement accruals related to historical loan originations that incorporated this feature decreased by $456K and loan yield restriction expense decreased by $440K. FY2012 non-operating loss was $2.2M compared to $14.9M of income in FY2011 that included a $13M gain resulting from the purchase in lieu of redemption of $55M of outstanding auction rate debt. FY2012 also included a commitment fee accrual of $1.9M. The Authority continued payments to the Commonwealth of $1M in all fiscal years presented for program and administrative expenditures related to higher educational services to Massachusetts students that began in FY2009.

As a result of these activities, net position increased $21M during FY2013.

**FINANCIAL POSITION**

The following table reflects the condensed Statement of Net Position at June 30, 2013 compared to the prior fiscal years ended 2012 and 2011. The Statement of Net Position presents the financial position and financial strength of the Authority at the end of the fiscal year and includes all of the assets, liabilities and deferred inflows of the Authority with the residual being classified as net position.

(in thousands)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| Cash and investments | $ 366,981 | $ 459,570 | $ 312,129 |
| Education loan notes receivable | 1,458,096 | 1,456,659 | 1,435,584 |
| Other assets | 36,135 | 35,933 | 45,370 |
| **Total assets** | 1,861,212 | 1,952,162 | 1,793,083 |
| **Liabilities** | | | |
| Bonds payable | 1,619,467 | 1,740,291 | 1,593,498 |
| Bond interest payable | 31,394 | 29,939 | 29,470 |
| Other liabilities | 27,094 | 25,115 | 18,770 |
| **Total liabilities** | 1,677,955 | 1,795,345 | 1,641,738 |
| **Deferred Inflows** | | | |
| Gain on bond refunding | 20,752 | 13,867 | 16,571 |
| Hedging instruments | 151 | 1,797 | 2,776 |
| **Total deferred inflows** | 20,903 | 15,664 | 19,347 |
| **Net Position** | | | |
| Invested in Capital Assets | 1,314 | 1,738 | 2,164 |
| Restricted | 150,593 | 123,040 | 105,123 |
| Unrestricted | 10,447 | 16,374 | 24,711 |
| **Total net position** | $ 162,354 | $ 141,152 | $ 131,998 |

The total net position was $162.4 M at June 30, 2013, an increase of $21M, or 15%.

Education loan notes receivable remained consistent year over year. The three-year ratio trend of education loan note receivables to total assets was 78%, 75% and 80% at June 30, 2013, 2012 and 2011, respectively. The 20% decrease in cash and investments is the net result of $324M of bond redemption payments made in FY2013 and gross proceeds from new bond issuance of $227M, of which $78M was used to fund Issue E early bond redemptions and the remainder will be used to support FY2014 education loan note originations.

Bonds payable decreased 7% in FY2013 as the Authority recognized the net impact of bond retirements of $347M and new transaction issuance of $227M. Accrued bond interest payable increased by 4.9% as Issue J 2012's accrual represents a full term of interest at the end of FY2013 (versus a partial term at the end of FY2012) and was partially offset by the impact of bonds purchased in lieu of redemption during the year.

Deferred gains on bond refunding increased $7M or 50% in FY2013 due to the deferral of $9M of gain on a purchase in lieu of redemption that occurred at the end of FY2013 and was partially offset by $2M of current year amortization of gains deferred in previous fiscal years. Hedging instruments decreased by 92% due to a fair value adjustment relating to non-hedging interest rate cap derivatives.

Within net position, 94% is comprised of invested in capital assets and those assets that are restricted through bond resolutions and program specific regulations. Restricted assets in FY2013 increased by 22% over the prior year as the Authority invested previously unrestricted net assets in a new bond transaction to support loan originations through the Trusts and concurrently unrestricted net assets decreased by 36% reflecting the continued investment in the loan programs by the Authority.

**STATEMENT OF CASH FLOWS**

The Statement of Cash Flows presents information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments as resulting from operating activities, capital and related financing activities, and investing activities. Cash and cash equivalents were $328.8M, $408.3M, and $254.9M at June 30, 2013, 2012 and 2011, respectively. This cash ending balance reflects the net activity of raising proceeds in the capital markets, disbursing that cash into education loans and collecting the loan payments over the assets' life to pay debt service and operating expenses.

**EDUCATIONAL LOAN NOTES ALLOWANCE ANALYSIS**

As of and for the years ending June 30, 2013, 2012 and 2011, respectively, the activity for the Authority's Education Loan Notes Allowance for Doubtful Accounts was as follows:

(in thousands)

**Education Loan Note Defaulted Loans Provision**

| | FY2013 | FY2012 | FY2011 |
|---|---|---|---|
| Allowance at beginning of period | $33,778 | $30,193 | $25,953 |
| Provision for Education Loan Losses | $6,089 | $3,585 | $4,240 |
| Allowance at end of period | $39,867 | $33,778 | $30,193 |
| Gross Loan Defaults | $22,948 | $24,268 | $21,721 |
| Recoveries | $10,261 | $9,078 | $7,436 |
| Net Loan Defaults | $12,687 | $15,190 | $14,285 |
| Net Loan Defaults as a percentage of average loans in repayment | 1.07% | 1.30% | 1.33% |
| Allowance multiple of Average Non-Current Loans in Repayment (90+ days) | 1.65 | 1.34 | 1.22 |
| Allowance as a percentage of the ending total loan balance | 2.81% | 2.37% | 2.13% |
| Allowance as a percent of ending loans in repayment | 3.36% | 2.84% | 2.68% |
| Ending total loans, gross | $1,418,044 | $1,423,891 | $1,417,877 |
| 12 Month Average in repayment | $1,186,646 | $1,172,081 | $1,075,247 |
| Ending loans in repayment | $1,185,723 | $1,189,571 | $1,128,225 |
| 12 Month Average 90+ Days delinquent | $24,165 | $25,298 | $24,726 |
| 90+ Days delinquent % of Avg. Repayment | 2.04% | 2.16% | 2.30% |

The Authority purchases proprietary, unsecured consumer loans from participating institutions at the original principal amount of the note less the applicable origination fee for the loan based on the program from which the loan was issued. The Authority historically originated FFELP loans at the principal amount of the note plus any benefit offered to borrowers impacting the origination fee due to the federal government but did not originate new loans in fiscal years 2013, 2012 and 2011.

The Authority uses loan modifications to assist private loan borrowers demonstrating a need for temporary payment relief during difficult economic times. The loan modification plans in place temporarily reduces the borrower's monthly payment for up to a two year period without changing the original loan term or interest rate. As of June 30, 2013, the total principal balance outstanding of loans in a modification status was $44M, or 4% of all loans in repayment. At June 30, 2013, these modified loans were 94% current, defined as less than 30 days past due, in regard to monthly payments received under the modified terms.

During FY2013, the Authority continued its methodology for estimating the allowance for doubtful accounts. The defaulted loans provision for doubtful accounts increased $6.1M to $39.9M in FY2013 compared to a $3.6M increase to $33.8M in FY2012. The amount of loans in repayment decreased by $4M, or less than 1%, in FY2013 and increased $62M, or 5% in, FY2012. The amount of loans in deferment at June 30, 2013 decreased by 1% to $231M or 16% of gross education loan receivables. The amount of loans in deferment at June 30, 2012 decreased by 19% to $233M, or 16% of gross education loan receivables. Approximately $3.3M of the defaulted loan provision allowance is allocated to education loans in deferment in FY2013. For the prior years, approximately $2.8M in FY2012 and $4.0M in FY2011 of the defaulted loan provision allowance is allocated to education loans in deferment. The methodology for the defaulted loan allowance is derived from historical information based on the loan portfolios performance to achieve the current estimated net realizable value of the outstanding education loan notes.

**DEBT ADMINISTRATION**

As of June 30, 2013, the Authority had $1.6B of principal debt outstanding which represented a 7% decrease from FY2012. All of the Authority's outstanding debt is rated by the nationally recognized rating agencies. The Issue E indenture is insured by Ambac Assurance Corporation and has published ratings without credit to the insurer of AA by S&P, AA by Fitch and Aa3 by Moody's. The FRN indenture is not insured and is rated AA+ by S&P, Aaa by Moody's, and AAA by Fitch. The Issue H indenture is insured by Assured Guaranty and has published ratings without credit to the insurer of AA by S&P and A1 by Moody's. The Issue I, Issue J and Issue K indenture are not insured and have published ratings of AA by S&P and A by Fitch. The following is the segmentation of the bonds' outstanding portfolio:

- Fixed rate tax-exempt revenue bonds that were issued to fund fixed rate loans represents 88% of the outstanding bond portfolio (increase from 74% in FY2012 and 69% in FY2011)
- Annual tax-exempt auction rate bonds that were issued to fund the annual variable rate loans accounted for 0.7% of the outstanding bond portfolio (decrease from 4% in FY 2012 and 5% in FY 2011)
- 35 day tax-exempt auction rate bonds that were issued to fund FFELP loan products and variable rate private loans were 1% of the outstanding bond portfolio (decrease from 3% in FY2012 and FY2011)
- 28 day taxable auction rate bonds that were issued to fund variable rate private loans were 1% of the outstanding bond portfolio (decrease from 8% in FY2012 and 9% in FY2011)
- 7 day taxable auction rate bonds that were issued to fund variable rate private loans were 0.3% of the outstanding bond portfolio (decrease from 1% in FY2012 and FY2011)
- Floating Rate Notes indexed to Libor that were issued in 2008 to fund existing FFELP loan products represent 9% of the outstanding bond portfolio (decrease from 10% in FY2012 and 13% in FY2011)

The Authority uses interest rate exchange agreements to provide a cap on the variable rate bonds interest rate. The use of derivatives has multiple risks inherent in their overall structure. Such risks include credit risk, basis risk, termination risk, origination risk, tax risk and prepayment risk. To mitigate some of the risks, the Authority implemented credit support annexes and limited the option of termination by the counterparties to defined events in the International Swap Dealers Association ("ISDA") agreements. At June 30, 2013, the Authority had outstanding $193M in notional derivative products, a decrease of $10M from FY2012, composed of tax-exempt and taxable bonds with a cap on the variable interest rate.

**CAPITAL ASSETS**

For the year ended June 30, 2013, the Authority had $1.3M invested in capital assets. This amount represents a net decrease (additions, disposals and depreciation) of $425K in such assets. The following reconciliation summarizes the change in capital assets. The Authority purchased $365K of new capital assets during FY2013 which were primarily related to a computer software development project associated with the development and implementation of the college web portal.

(in thousands)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance, net | $ 1,739 | $ 2,164 | $ 2,381 |
| Additions | 365 | 453 | 586 |
| Depreciation | (790) | (878) | (803) |
| Ending Balance, net | $ 1,314 | $ 1,739 | $ 2,164 |

**FINANCIAL CONTACT**

The Authority's financial statements are designed to present readers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. If you have any questions regarding the report or need additional financial information, please contact MEFA at 160 Federal Street, 4th Floor, Boston, Massachusetts 02110.

**Massachusetts Educational Financing Authority**
**Statements of Net Position**
**As of June 30, 2013 and 2012**
**(in thousands)**

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | (as restated) |
| **Current assets** | | |
| Cash and cash equivalents (Notes 3 and 4) | $ 125,143 | $ 192,355 |
| Investments, at fair value (Notes 3 and 4) | 24,634 | 32,094 |
| Education loan notes receivable, net (Notes 5 and 10) | 183,536 | 166,993 |
| Interest receivable on educational loan notes | 30,942 | 30,302 |
| Prepaid expenses and other assets | 2,320 | 2,092 |
| Interest receivable for cash, cash equivalents and investments | 2 | 3 |
| **Total current assets** | 366,577 | 423,839 |
| **Non-current assets** | | |
| Cash and cash equivalents (Notes 3 and 4) | 203,618 | 215,987 |
| Investments, at fair value (Notes 3 and 4) | 13,586 | 19,134 |
| Derivative instruments – caps (Notes 3 and 7) | 1,557 | 1,797 |
| Education loan notes receivable, net (Notes 5 and 10) | 1,274,560 | 1,289,666 |
| Capital equipment, net of accumulated depreciation (Note 13) | 1,314 | 1,739 |
| **Total assets** | $ 1,861,212 | $ 1,952,162 |
| | | |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | $ 16,504 | $ 15,436 |
| Bonds payable – current portion (Note 6) | 30,642 | 34,197 |
| Certificates payable (Note 9) | 6,870 | 7,221 |
| Accrued bond interest payable | 31,394 | 29,939 |
| **Total current liabilities** | 85,410 | 86,793 |
| **Non-current liabilities** | | |
| Bonds payable – net of current portion (Note 6) | 1,588,825 | 1,706,093 |
| Other liabilities | 3,720 | 2,460 |
| **Total liabilities** | 1,677,955 | 1,795,346 |
| | | |
| **Deferred inflows of resources** | | |
| Net gain on bond refunding (Notes 6 and 15 ) | 20,752 | 13,867 |
| Hedging instruments (Notes 3 and 7) | 151 | 1,797 |
| **Total deferred inflows of resources** | 20,903 | 15,664 |
| | | |
| **Total liabilities and deferred inflows of resources** | 1,698,858 | 1,811,010 |
| | | |
| **Net position** | | |
| Invested in capital assets | 1,314 | 1,738 |
| Restricted | 150,593 | 123,040 |
| Unrestricted | 10,447 | 16,374 |
| **Total net position** | 162,354 | 141,152 |
| **Total liabilities, deferred inflows of resources and net position** | $ 1,861,212 | $ 1,952,162 |

The accompanying notes are an integral part of the financial statements.

**Massachusetts Educational Financing Authority**
**Statements of Revenues, Expenses and Changes in Net Position**
**For the years ended June 30, 2013 and 2012**
**(in thousands)**

| | 2013 | 2012 (as restated) |
|---|---|---|
| **Operating revenues** | | |
| Interest on education loan notes receivable (Note 3) | $ 87,601 | $ 84,788 |
| Loan origination and other fees, net | 6,543 | 6,626 |
| College savings plan interest and fees | 4,468 | 4,086 |
| Other revenue | 1,714 | 1,439 |
| **Total operating revenues** | 100,326 | 96,939 |
| **Operating expenses** | | |
| Bond interest expense | 64,554 | 61,143 |
| Bond insurance | 625 | 655 |
| Costs of bond issuance | 2,960 | 3,005 |
| Provision for doubtful education loan notes receivable | 6,089 | 3,585 |
| Credit decision fees | 419 | 307 |
| General and administrative (Notes 3, 11, 12, and 13) | 17,401 | 16,834 |
| Other expense | 579 | 88 |
| **Total operating expenses** | 92,627 | 85,617 |
| **Operating income** | 7,699 | 11,322 |
| **Non-operating revenues/(expenses)** | | |
| Gain on bond redemption (Note 15) | 13,885 | 788 |
| Interest and dividends | 1,316 | 341 |
| Arbitrage rebate income (Note 3) | 739 | 37 |
| Commitment fees to participating schools (Note 8) | (1,437) | (1,893) |
| Contributions to the Commonwealth (Note 14) | (1,000) | (1,000) |
| Yield restriction on education loan notes receivable | - | (440) |
| **Net non-operating revenues/(expenses)** | 13,503 | (2,167) |
| **Total increase in net position** | 21,202 | 9,155 |
| **Net position, beginning of year** | 141,152 | 131,997 |
| **Net position, end of year** | $ 162,354 | $ 141,152 |

The accompanying notes are an integral part of the financial statements.

**Massachusetts Educational Financing Authority**
**Statements of Cash Flows**
**For the years ended June 30, 2013 and 2012**
**(in thousands)**

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Payments for disbursed loans | $ (164,789) | $ (165,460) |
| Payments received on outstanding loan principal | 181,091 | 174,579 |
| General and administrative payments | (17,088) | (14,870) |
| Interest received on education loans | 69,480 | 65,179 |
| Proceeds from other sources | 6,129 | 5,527 |
| **Net cash provided by operating activities** | 74,823 | 64,955 |
| **Cash flows from non-capital financing activities** | | |
| Proceeds from issuance of bonds | 226,606 | 274,973 |
| Costs of bond issuance | (2,960) | (3,005) |
| Bond interest paid | (66,389) | (64,178) |
| Principal payments on bonds payable | (323,813) | (126,593) |
| Contributions to the Commonwealth | (1,000) | (1,000) |
| **Net cash (used in) provided by non-capital financing activities** | (167,556) | 80,197 |
| **Cash flows from capital financing activities** | | |
| Purchase of capital equipment and software development | (366) | (453) |
| **Net cash used in capital financing activities** | (366) | (453) |
| **Cash flows from investing activities** | | |
| Proceeds from maturity/sale of investments | 38,641 | 48,327 |
| Purchases of investments | (25,983) | (39,951) |
| Interest and dividends received on cash and investments | 355 | 367 |
| Arbitrage rebate receipts/(payments) | 505 | (44) |
| **Net cash provided by investing activities** | 13,518 | 8,699 |
| **Net (decrease) increase in cash and cash equivalents** | (79,581) | 153,398 |
| **Cash and cash equivalents, beginning of year** | 408,342 | 254,944 |
| **Cash and cash equivalents, end of year** | $ 328,761 | $ 408,342 |

The accompanying notes are an integral part of the financial statements.

**(in thousands)**

| **Reconciliation of operating income to net cash provided by operating activities** | 2013 | 2012 (as restated) |
|---|---|---|
| **Operating income** | $7,699 | $11,322 |
| **Adjustments to reconcile operating income to net cash provided by operating activities** | | |
| Depreciation expense | 790 | 879 |
| Provision for doubtful education loan notes receivable | 6,089 | 3,585 |
| Costs of bond issuance | 2,960 | 3,005 |
| Bond interest expense | 64,554 | 61,143 |
| Changes in assets and liabilities: | | |
| Education loan notes receivable | (7,526) | (24,839) |
| Interest receivable on education loan notes | (640) | 7,614 |
| Accounts payable and accrued expenses | 1,123 | 1,851 |
| Prepaid expenses and other assets | (226) | 395 |
| **Net cash provided by operating activities** | $74,823 | $64,955 |

The accompanying notes are an integral part of the financial statements.

**NOTES TO FINANCIAL STATEMENTS**

## 1. THE AUTHORITY

The Massachusetts Educational Financing Authority (the "Authority") is a body politic and corporate, constituting a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Authority was established as the Massachusetts College Student Loan Authority pursuant to Chapter 803 of the Acts of 1982, as amended (the "Act"), in recognition of the increasing costs of higher education, to assist students, their parents and institutions of higher education in the Commonwealth in financing, refinancing, and saving for the costs of such education.

In furtherance of the purposes of the Act, the Authority is engaged in loan purchase programs under which participating institutions originate loans, in accordance with common criteria and procedures, for sale to the Authority. The programs are carried out using proceeds from Education Loan Revenue Bonds and Auction Rate Securities (the "Bonds") (see *Note 6*). The programs incorporate the following features: prudent lending standards, fixed and variable rate loans, financing programs open concurrently to a number of educational institutions, including public, private and out-of-state, and various reserves established as security for the loan programs. A primary goal of the programs is to provide education loans on terms and conditions to finance the costs of attendance for as many families as possible at the not-for-profit institutions in the Commonwealth as well as Commonwealth residents attending higher education institutions out of the state. During FY2013, 100 Massachusetts and 353 out of state public and private not for profit institutions participated in the loan programs.

The Bonds, which are issued under various resolutions, are special obligations of the Authority, which has no taxing power, payable solely from the revenues and the funds and accounts established and pledged under the resolutions (principles upon which the bonds operate). No revenues or other assets of the Authority are available to fund payment of the Bonds except as expressly provided by the resolutions. Neither the Commonwealth of Massachusetts nor any political subdivision thereof is or shall be obligated to pay the principal or redemption or purchase price of and interest on the Bonds, and neither the full faith and credit, nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment. The Authority has the same exemption as the Commonwealth (under I.R.S. Code, Section 115) from filing and/or paying federal income taxes.

In February 1995, the Authority, in cooperation with the Commonwealth and Massachusetts's colleges and universities, introduced the Massachusetts College Saving Program. With the introduction of a second College Savings program, the U.Fund College Investing Plan, the Massachusetts College Saving Program was further named The U.Plan: The Massachusetts Tuition Prepayment Program (the "U.Plan") as a means to distinguish between each of the Authority's two college savings programs. The U.Plan is a prepaid tuition program that permits individuals to save for a beneficiary's undergraduate tuition and mandatory fees at participating Massachusetts colleges and universities in a manner designed to preserve the purchasing power of an individual's savings.

In March 1999, the Authority, on behalf of the Commonwealth, introduced the U.Fund College Investing Plan (the "U.Fund"). The U.Fund is a tax-advantaged method of saving for higher education costs generally through investment vehicles such as stock, bond and money market mutual funds. Those funds are professionally administered and managed by Fidelity Investments (an unrelated party) on behalf of the owners of the funds and accordingly are not a component of these financial statements.

In July 2002, the Authority, introduced the Federal Family Education Loan Program (the "FFELP") as a means to complement the existing proprietary consumer loan products and enhance the potential borrowing options available to families attending educational institutions within the Commonwealth and residents of the Commonwealth who choose to attend college out of state. FFELP regulations require up-front origination fees be deducted from the proceeds of the student loans and remitted to the federal government. In the case of defaults on FFELP loans, the federal government guarantees to the participating lenders 98% of the principal and interest outstanding for those loans originated prior to July 1, 2006 and 97% for loans originated prior to the conclusion of the program by the Federal government on July 1, 2010.

Beginning with disbursements on or after April 1, 2006, the U.S. Department of Education (the "ED") is requiring lenders to make payment on their individual FFELP portfolios to the ED for the difference when the rate to the borrower is in excess of the stated lender yield for that particular FFELP program. As part of the FFELP, the ED makes special allowance payments that could result in the loan yield to the lender being higher than the rate charged to the borrowers. The lender yield is variable and not dependent on whether the underlying loan to the borrower is fixed or variable. The amount of special allowance payments is based upon the type of loan and regulations in effect at the time of origination.

## 2. BASIS OF PRESENTATION

**Accounting and Reporting Standards**

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB").

The GASB defines the basic financial statements of a business type activity as the following: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, Management's Discussion and Analysis and, as required, any supplemental information. The GASB also requires the categorization of the former fund balance section of the Statement of Net Position into three components. The Statement of Net Position is presented to illustrate both the current and non-current balances of each asset and liability, as well as deferred outflows of resources and deferred inflows of resources. Also, all revenues and expenses are classified as either operating or non-operating activities in the Statement of Revenues, Expenses and Changes in Net Position. Operating activities are those that support the mission and purpose of the Authority. Non-operating activities represent transactions that are capital, investing, legislative or regulated in nature.

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. For external accounting and reporting purposes, net position is classified in the following three categories:

- **Invested in capital assets, net of related debt***:* capital assets, net of accumulated depreciation and outstanding principal balances of debt, if applicable, attributable to the acquisition, construction or improvement of those assets.

- **Restricted net position**: net position subject to externally imposed stipulations or enabling legislation that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. The Authority's restricted assets are all expendable and are discussed below:

    - **Trusteed Funds**

      The Bond Resolutions for the Trusteed Funds establish various funds and accounts, the primary purpose of which is to (i) provide a basis for the allocation and disbursement of monies received by the Bond Funds; (ii) pay issuance costs; (iii) provide for the periodic payment of principal and interest; and (iv) establish reserves to provide for the timely servicing of debt obligations (see *Note 5*). The use of the assets of the various funds and accounts is governed and restricted by the Trusteed Fund Resolutions (see *Note 6*).

      The assets, deferred outflows, liabilities, deferred inflows, and net position of these funds are the sole responsibility of the trust of each of the individual bond indentures. Neither the Authority, the College Savings funds, nor any other indenture have any entitlement to any of the assets or any legal obligation to settle any of the liabilities of these bond indentures.

    - **U.Plan**

      The College Savings Funds (the "Fund") consist of the U.Plan and the U.Fund. The U.Plan is governed by the terms and conditions of participation described in the Program Description and Offering Statement, including the Enrollment Agreement that is in effect for each enrollment year. The Fund accounts for fee income and for the operating expenses of the U.Plan as well as all monies received from the program investors and other deposits (*see Note 9*).

- **Participation Fund for Public Colleges and Universities of the Commonwealth**
  Pursuant to Chapter 65, Section 3, of the Acts of 1984, the Authority established the State Colleges and Universities Participation Fund. Monies in the participation fund may be used solely for the purpose of supporting the participation of public colleges and universities in the Authority's education loan programs.

- **Program Reserve Fund**
  Pursuant to Chapter 15C, Section 5C, of the General Laws as established by Chapter 803 of the Acts of 1981, and as amended by Chapter 133, Section 12, of the Acts of 1992 (the "Act"), the program reserve fund was established by the Authority. The Act authorized the Authority to develop and establish a comprehensive state-supported supplemental education loan program. The program consists of lending medium and long-range fixed rate and variable rate loans. These programs were structured to operate as a line of credit or other programs and options as the Authority may determine to be useful and feasible. These programs shall operate at effective rates of interest and other feasible terms.

- **Unrestricted net position**: net position that is not subjected to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties. The Authority's unrestricted net position includes the general fund, where operational expenses and purchases of capital assets are paid, and the U.Fund. The general fund may also include outstanding loans that remain after an entire trust is retired.

  - **General Fund**
    The General Fund, through monthly draws from the Trusteed Funds, Program Reserve Fund and College Savings Funds, maintains the funds available for paying the operating expenses of the Authority, purchasing the capital assets for the Authority on an as needed basis and supporting the capital market activities through direct contributions for cost of issuance and over collateralization requirements of structured transactions.

  - **U.Fund**
    The U.Fund is governed by the terms and conditions of participation described in the Fidelity Brokerage Services, Inc. Customer Agreement and the U.Fund Supplemental Information. While the beneficial interests of the participants of the U.Fund (or overall aggregate value of these funds) are not included in the financial statements, the Authority does receive certain fees and incurs related operating expenses in connection with the U.Fund that are included in these financial statements. The related revenue earned and expenses incurred by the Authority in offering the U.Fund program are not subject to externally imposed stipulations and therefore the aggregate net position of the program are classified on the Statement of Net Position as unrestricted (*see Note 9).*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority follows the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred. The use of various funds and accounts in the Trusteed Funds is specified in the respective Bond Resolutions (*see Note 6*). Other significant accounting policies are as follows:

**Management Estimates**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Certain relevant elements such as tax policies, political and economic conditions, competition in products, asset pricing variance and interest rate fluctuations and relationships may result in actual results differing from those estimated. The Authority makes every effort to incorporate an analysis of all market conditions as of the Statement of Net Position date in determining what to record as the most accurate estimates.

**Cash, Cash Equivalents and Investments**
Cash and cash equivalents are comprised of cash in bank depository accounts. The investments of the Authority, the alternatives of which are governed by the Authority's enabling legislation, include short term money market funds and guaranteed investment contracts carried at contract value, which approximates fair value.

**Interest and Fees on Education Loan Notes Receivable**
Interest and fee income on education loan notes receivable is accrued and credited as earned on the principal amount outstanding.

**Allowance for Education Loan Notes Receivable**
The Trusteed Fund Resolutions establish cash and investment reserve accounts to provide funding for education loan notes receivable which may reach a specified state of delinquency or uncollectibility (*see Note 5*). For financial accounting purposes, adjustments to the allowance for the estimated amount for each of the aforementioned items are included as an expense or revenue in the Statement of Revenues, Expenses and Changes in Net Position of the respective Trusteed Fund. This aggregate allowance is reviewed and adjusted as necessary based on management's assessment of the net realizable value of the loan portfolio.

In accordance with the Internal Revenue Code of 1986 (the "Code") and the related Treasury regulations, the Authority is required to keep the yield to the Authority on student loans within a designated percentage of the interest cost of the related tax-exempt borrowing. The Authority has traditionally selected to utilize loan forgiveness at the retirement of the bonds to keep the yield within the designated percentage of the interest costs of the related tax-exempt borrowing. A separate method of reducing yield is to make yield reduction payments to the United States Treasury. These estimated yield reduction payments may be made by the end of the tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. Beginning in FY2011, the Authority contracted with a third party to calculate the estimated liability of the yield restrictions for bonds that are near the end of their term. Management works closely with this third party and reviews and evaluates all final output. Previously, the management of the Authority calculated the estimated liability. The resulting estimated liability is recorded as an adjustment to the net realizable value of the loan portfolio. The factors used in determining this estimate are sensitive to change in the future and consequently the change in estimate may be material to the financial statement results. This current model of estimating is subject to change based on management's judgment and discretion.

**Arbitrage Rebate**
In accordance with the Code, the Authority may be required to pay to the United States Treasury certain amounts related to the Authority's tax-exempt bond issues. The estimated amount of arbitrage payable represents the excess, if any, of amounts earned on bond proceeds and certain related funds on taxable securities (except for earnings that are not required to be rebated under limited exemptions under the Code) over the interest due on the Authority's tax-exempt bonds, plus income attributable to any such excess. Such rebate payments are due every fifth year of each bond issue and when the bonds are retired. The Authority contracts with a third party to calculate estimated amounts due on an annual basis to the federal government. After review and evaluation of this estimate, management records a corresponding liability amount expected to be remitted.

**Depreciation**
Capital equipment, including: computer hardware and software development costs, furniture and fixtures, office equipment and leasehold improvements, is recorded at cost less accumulated depreciation computed using the straight-line method over an estimated useful life of 3 to 10 years *(see Note 13).*

**Investment Earnings**
Earnings on cash and investments include interest earned on cash and investments as well as fair value adjustments on cash equivalents and investments. The net (decrease)/increase in fair value takes into account all changes in fair value that occurred during the year.

**Accounting and Financial Reporting for Refunding of Debt**
Gains and losses on retirement of debt are accounted for in accordance with GASB 23 and GASB 65. The gains and losses on debt refunding, which involve the issuance of new debt whose proceeds are used to pay previously issued debt, have been recognized as deferred inflows or outflows of resources and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. Gains and losses on extinguishment of debt that does not involve a refunding are recognized immediately.

**Advertising**
The Authority expenses advertising as incurred. For the years ended June 30, 2013 and 2012, advertising expense (included in general and administrative expenses) was $814K and $861K, respectively.

**General and Administrative Expenses**
General and administrative expenses are funded by the Trusteed Funds, College Savings Plans and Authority funds based on an operating budget prepared by Authority management and approved annually by the Board of Directors.

**Derivative Instruments**
In June 2008, the GASB issued Statement No. 53 ("GASB 53"), *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 is intended to improve how state and local governments report information about derivative instruments, financial arrangements used by governments to manage specific risks or make investments, in their financial statements. GASB 53 specifically requires governments to measure most derivative instruments at fair value on the Statement of Net Position and to measure the annual change in the fair value of non-hedging derivatives as investment income or loss in the Statement of Revenues, Expenses, and Changes in Net Position. GASB 53 also provides guidance addressing hedge accounting requirements.

The fair values of the hedgeable derivatives and investment derivatives are presented on the Statement of Net Position, either as a derivative liability (negative fair value) or as a derivative asset (positive fair value). The change in fair value of derivatives is recorded as a deferred inflow or outflow of resources if determined to be an effective hedge and presented on the Authority's Statement of Net Position. If a derivative instrument does not meet the criteria of a hedging derivative, the change in fair value is presented as part of investment earnings on the Statement of Revenues, Expenses and Changes in Net Position.

**Reclassification**
Certain prior period amounts have been reclassified to conform to current period presentation.

**New Accounting Pronouncements**
In April of 2011, the FASB issued ASU 2011-02, Receivables (Topic 310), *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. The purpose of this update is to aid creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both the determinations noted above exist.

In June 2011, the GASB issued Statement No. 63 ("GASB 63"), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 is effective for financial statement periods beginning after December 15, 2011 (the year ended June 30, 2013 for the Authority). The Authority adopted this Statement effective July 1, 2012. GASB 63 required the following changes:

- Changes to the titles of the following financial statements: Statement of Net Position (previously Balance Sheet) and Statement of Revenues, Expenses, and Changes in Net Position (previously Statement of Revenues, Expenses, and Changes in Net Assets).
- The use of the term "net position" rather than "net assets," wherever the latter was previously used.
- Presentation of deferred outflows and inflows of resources in separate sections of the Statement of Net Position, rather than being included within the asset and liability sections, respectively, as had been done previously.

Deferred inflows of resources represent the positive fair value of interest rate cap hedging derivative instruments and the deferred gain on bond refunding at the end of the fiscal year.

In March, 2012, the GASB issued Statement No. 65 ("GASB 65"), *Items Previously Reported as Assets and Liabilities.* GASB Statement 65 is effective for financial statement periods beginning after December 15, 2012 (the year ended June 30, 2013 for the Authority). The provisions have been applied retroactively to the fiscal year 2012 financial statements, as required. GASB 65 requires the following major changes:

- Loan origination fees, net of direct costs, are to be recognized as revenue in the period received, not deferred and amortized over the life of loans, as was previously done.
- Debt issuance costs are to be recognized as an expense in the period incurred, not deferred and amortized over the life of the debt, as was previously done.
- Net gains and losses on bond refunding are to be classified as deferred outflows of resources or deferred inflows of resources on the Statement of Net Position rather than an asset or liability as had been previously done.
- The term "deferred" is to be used only in conjunction with deferred outflows and inflows of resources that are specified by GASB. To date the only deferred outflows and inflows of resources that are applicable to the Authority are specific in GASB 53 (on derivatives) and GASB 65.

The retroactive application of GASB 65 has resulted in a cumulative adjustment to the opening balance of net position as of July 1, 2011, the beginning of fiscal 2012, for the balances of the deferred loan origination fees and deferred debt issuance costs

The table below illustrates the changes in selected Statements of Net Position items before and after the application of GASB 65 at June 30, 2012 (in thousands):

| **Statement of Net Position at June 30, 2012** | **As previously reported** | **GASB 65 Adjustments** | **As Restated** |
|---|---|---|---|
| Current assets | | | |
| Prepaid expenses and other assets | $ 2,395 | $ (303) | $ 2,092 |
| Deferred financing costs, net | 945 | (945) | - |
| | | | |
| Non-current assets | | | |
| Prepaid expenses and other assets | 2,924 | (2,924) | - |
| Deferred financing cost, net | 16,197 | (16,197) | - |
| | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | 15,523 | (87) | 15,436 |
| Deferred loan origination and other fees | 2,238 | (2,238) | - |
| | | | |
| Non-current liabilities | | | |
| Deferred loan origination and other fees | 37,332 | (37,332) | - |
| Other liabilities | 2,981 | (521) | 2,460 |
| | | | |
| Net position | $ 121,343 | $ 19,809 | $ 141,152 |

The table below illustrates the changes in select Statements of Revenues, Expenses, and Changes in Net Position items before and after the application of GASB 65 for the year ended June 30, 2012 (in thousands):

| **Statement of Revenues, Expenses and Changes in Net Position for fiscal year ended June 30, 2012** | **As previously reported** | **GASB 65 Adjustments** | **As Restated** |
|---|---|---|---|
| Operating revenues | | | |
| Interest on education loan notes receivable | $ 84,484 | $ 304 | $ 84,788 |
| Loan origination and other fees, net | 2,321 | 4,305 | 6,626 |
| Operating expenses | | | |
| Deferred financing costs, amortized | 2,286 | (2,286) | - |
| Costs of bond issuance | - | 3,005 | 3,005 |
| Operating income | $ 7,432 | $ 3,890 | $ 11,322 |
| Cumulative effect to the beginning (July 1, 2011) total net position as a result of the changes required by GASB 65 | | 15,919 | |
| Net change to June 30, 2012 total net position | | $ 19,809 | |

The table below illustrates the cumulative effect of all components at June 30, 2011 and June 30, 2012 (in thousands):

| | | |
|---|---|---|
| June 30, 2011 net position, as originally reported | $ | 116,078 |
| Cumulative effect of changes required by GASB 65 at June 30, 2011 | | 15,919 |
| June 30, 2011 net position, as restated | | 131,997 |
| Increase in net position (as restated) for the year ended June 30, 2012 | | 9,155 |
| Net position (as restated) at June 30, 2012 | $ | 141,152 |

The reconciliation of operating income to net cash provided by operating activities for the year ended June 30, 2012 has been restated to reflect the revenue and expense restatements outlined above. There was no change to the net cash provided by operating activities for the year and no change to the net increase (decrease) in cash and cash equivalents on the Statement of Cash Flows for the years presented.

## 4. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Authority's enabling legislation and its individual Trusteed Fund Resolutions govern the investment alternatives available to the Authority. In general, the Authority may invest in obligations of the United States Government and its agencies, investment grade securities issued by the various states, time deposits in banks which are federally insured (provided that, to the extent such time deposits exceed insurance, they are either fully collateralized or are rated in the top three rating categories by Standard and Poor's Corporation ("S&P") or Moody's Investor's Service Inc. ("Moody's")), and in repurchase and investment agreements with financial institutions or insurance companies which are rated in the top three rating categories by S&P or Moody's or which meet certain capital standards. The requirements within the top three rating categories vary among the Trusteed Funds and also depend upon the type of investment.

The following summarize the cash, cash equivalents and investments of the Authority and identifies certain types of investment risk as defined by Governmental Accounting Standards Board No. 40 Deposit and Investment Risks Disclosures ("GASB 40") at June 30, 2013 and 2012, respectively.

| (in thousands) | | **Fair Value June 30, 2013** | | **Fair Value June 30, 2012** |
|---|---|---|---|---|
| Cash deposits | $ | 1,876 | $ | 3,031 |
| Investment agreements | | 2,914 | | 10,996 |
| Mutual funds: | | | | |
| Fidelity Money Market Authority Funds | | 35,234 | | 40,160 |
| Fidelity Money Market Trusteed Funds | | 326,885 | | 405,311 |
| Certificate of Deposit | | 72 | | 72 |
| Total cash, cash equivalents and investments | $ | 366,981 | $ | 459,570 |

*Interest Rate Risk*
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an instrument. The Authority manages its exposure to interest rate risk by structuring its investment portfolio so that investments mature to meet cash requirements for ongoing operations and investing operating funds primarily in shorter-term investments.

*Custodial and Credit Risk*
Custodial credit risk is the risk that in the event of a financial institution counterparty failure, the Authority's deposits or investments may not be returned to it. As of June 30, 2013 and June 30, 2012, $1.4M and $2.4M were exposed to custodial credit risk as uninsured and uncollateralized deposits, respectively. As stated in the investment policy, depository banks are rated in the top three rating categories by S&P or Moody's.

As of June 30, 2013, the Authority had guaranteed investment contracts with the following financial institutions:

| **Investment Agreement Contract Provider** | **Current S&P Ratings** |
|---|---|
| Natixis Funding Corp | A |
| Rabobank | AA- |

As of June 30, 2013, the Authority had the following cash and investments by financial institution within each outstanding trust and the Authority:

| Authority and College Savings Funds | Cash and Investments | % of Total |
|---|---|---|
| Bank of America | $ 1,484,334 | 4.0% |
| Fidelity U.S. Government Portfolio | $ 14,244,222 | 38.0% |
| Fidelity MA Municipal Fund | $ 21,503,658 | 57.4% |
| Fidelity Treasury Portfolio | $ 216,583 | 0.6% |

| Issue E Indenture | Cash and Investments | % of Total |
|---|---|---|
| Natixis Funding Corp | $ 2,883,269 | 11.9% |
| Rabobank | $ 30,380 | 0.1% |
| Bank of America | $ 231,159 | 1.0% |
| Fidelity U.S. Government Portfolio | $ 20,977,775 | 87.0% |

| Issue FRN Indenture | Cash and Investments | % of Total |
|---|---|---|
| Bank of America | $ 126 | 0.1% |
| Fidelity U.S. Government Portfolio | $ 8,867,713 | 99.9% |

| Issue H Indenture | Cash and Investments | % of Total |
|---|---|---|
| Bank of America | $ 24,916 | 0.1% |
| Fidelity U.S. Government Portfolio | $ 21,306,112 | 99.9% |

| Issue I Indenture | Cash and Investments | % of Total |
|---|---|---|
| Bank of America | $ 121,109 | 0.2% |
| Fidelity U.S. Government Portfolio | $ 75,864,664 | 99.8% |

| Issue J Indenture | Cash and Investments | % of Total |
|---|---|---|
| Bank of America | $ 15,092 | 0.1% |
| Fidelity U.S. Government Portfolio | $ 45,800,892 | 99.9% |

| Issue K Indenture | Cash and Investments | % of Total |
|---|---|---|
| Fidelity U.S. Government Portfolio | $ 153,408,698 | 100% |

## 5. EDUCATIONAL FINANCINGS

During the years ended June 30, 2013 and 2012, respectively, the activity for the Authority's Education Loan Notes receivable was as follows:

(in thousands)

| | 2013 | 2012 |
|---|---|---|
| **Outstanding education loan notes receivable (beginning) gross** | $ 1,490,436 | $ 1,469,693 |
| Increases to education loan notes receivable | 189,140 | 199,751 |
| Decreases to education loan notes receivable | (181,613) | (179,008) |
| **Outstanding education loan notes receivable (ending) gross** | 1,497,963 | 1,490,436 |
| **Allowance for education loan notes receivable (beginning)** | 33,777 | 34,109 |
| Increase (decrease) to allowance for education loan notes receivable | 6,090 | (332) |
| **Allowance for education loan notes receivable (ending)** | 39,867 | 33,777 |
| **Outstanding education loan notes receivable, net (ending)** | $ 1,458,096 | $ 1,456,659 |

The Authority purchased proprietary, unsecured consumer education loans from participating institutions at the original principal amount of the note less the applicable origination fee for the loan based on the program from which the loan was issued. The Authority also historically originated FFELP loans at the principal amount of the note plus any benefit offered to borrowers.

The allowance is derived from information based on the loan portfolios historical default and recovery performance to achieve the current estimated net realizable value of the outstanding education loan notes. During FY2013, the allowance increased as a result of a $6.1M increase to the provision for doubtful education loan notes receivable. In the prior fiscal year, the allowance decreased by $332K due to a $3.9M decrease to the tax-exempt yield restriction reserve on education loan notes receivable associated with the execution of principal loan forgiveness related to earnings limitations as well as a $3.6M increase to the provision for doubtful education loan notes receivable. The Authority has expensed historically in aggregate a net of $39M of education loan notes related to the tax-exempt yield restrictions through FY2013. No allowance for yield restriction was required at June 30, 2013 and 2012. The yield restriction expense is required in order to maintain the tax-exempt status of the bonds under Federal IRS regulations.

The Authority uses loan modifications to assist private loan borrowers demonstrating a need for temporary payment relief during difficult economic times. The loan modification plans in place temporarily reduce the borrower's monthly payment for up to a two year period without changing the original loan term or interest rate. As of June 30, 2013 and 2012, the total principal balance outstanding of loans in a modified status was $44M and $52M respectively and represents approximately 4% of all loans in repayment. At June 30, 2013 and 2012, respectively, these modified loans were 94% and 96% current, defined as less than 30 days past due, in regard to monthly payments received under the modified terms. Loans in a modified payment plan status are factored into the allowance for education loan notes receivable, which is based on historical default and recovery performance.

The Authority originates loans in cooperation with participating non-profit independent and public colleges and universities in Massachusetts, which have students from throughout the United States. Further, it originates loans from non-profit independent and public colleges and universities from outside of the Commonwealth for those Massachusetts residents attending schools out of state. Through June 30, 2013, the Authority had originated loans through 1,090 out of state higher education institutions since 1998 when the program was implemented.

The loan and debt service reserve funds are designed and funded to provide another level of support for defaulted loans and debt service payments that provide stability to the cash flow of the bond issuance. On an annual basis, the reserve requirements are reviewed and funded by cash balances or surety bond agreements at levels approved by the insurer or rating agencies of each specific bond issue. The fund balance of the loan and debt service reserve requirements in aggregate was $25.7M and $23.8M for fiscal years 2013 and 2012, respectively.

## 6. BONDS PAYABLE

The activity related to the Authority's bonds payable for the fiscal years ended 2013 and 2012 was as follows:

(in thousands)

| | 2013 | 2012 |
|---|---|---|
| Bonds outstanding, gross beginning balance | $ 1,731,884 | $ 1,588,061 |
| Bonds issued | 222,035 | 271,205 |
| Bonds redeemed | (346,516) | (127,382) |
| Bonds outstanding, gross ending balance | 1,607,403 | 1,731,884 |
| Net unamortized issuance premiums | 12,064 | 8,406 |
| Bonds outstanding, net ending balance | $ 1,619,467 | $ 1,740,290 |

Bonds payable issued under the individual Trust resolutions are payable from a pledge of the assets and revenues of each Trusteed Fund. In addition, payment of the principal and interest on the Issue E and Issue H Bonds are further collateralized by non-cancelable municipal bond insurance policies issued simultaneously with the delivery of the Bonds. Bonds may be redeemed at par and ahead of scheduled maturity under circumstances specified in the Bond Resolutions.

As of June 30, 2013 mandatory annual maturities of bonds principal payable for the next five fiscal years and thereafter are as follows (in thousands):

| June 30, 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Remaining Schedule | Total Payable |
|---|---|---|---|---|---|---|---|
| 2001 Issue E | 5,360 | 5,365 | 4,655 | - | - | - | 15,380 |
| 2002 Issue E | 7,375 | 8,295 | - | - | - | 50 | 15,720 |
| 2003 Issue E | - | - | - | - | - | 12,900 | 12,900 |
| 2004 Issue E | - | - | - | - | - | 3,700 | 3,700 |
| 2005 Issue E | - | - | - | - | - | 800 | 800 |
| 2006 Issue E | - | - | - | - | - | 20,175 | 20,175 |
| 2007 Issue E | - | - | - | - | 4,370 | 213,530 | 217,900 |
| 2008 FRN | - | - | - | - | - | 142,443 | 142,443 |
| 2008 Issue H | - | - | - | - | - | 140,250 | 140,250 |
| 2009 Issue I | 9,700 | 17,945 | 19,830 | 8,075 | 20,240 | 158,755 | 234,545 |
| 2010 Issue I | 7,960 | 8,615 | 15,810 | 31,305 | 19,845 | 226,815 | 310,350 |
| 2011 Issue J | - | - | - | - | 530 | 102,340 | 102,870 |
| 2012 Issue J | - | - | - | - | - | 168,335 | 168,335 |
| 2013 Issue K | - | - | 2,600 | 1,580 | 1,190 | 216,665 | 222,035 |
| | $30,395 | $40,220 | $42,895 | $40,960 | $46,175 | $1,406,758 | $1,607,403 |

The Authority purchased in lieu of redemption $222.8M in outstanding auction rate bonds in June 2013 resulting in a gain on the retirement of the debt totaling approximately $23.1M, with $13.9M recognized immediately and the remaining $9.2M deferred. The Authority redeemed fixed rate bonds outstanding of $45.8M in July 2013 and $56M is scheduled for maturity in January 2014. The Authority also redeemed in total $6.4M of the floating rate notes on the July 2013 and October 2013 quarterly distribution date.

The following is a summary of the principal maturities and estimated interest expense for the bonds payable outstanding at June 30, 2013 (in thousands):

| Year Ending June 30 | Principal | Interest | Total Debt Service |
|---|---|---|---|
| **2014** | 30,395 | 71,832 | 102,227 |
| **2015** | 40,220 | 75,901 | 116,121 |
| **2016** | 42,895 | 74,017 | 116,912 |
| **2017** | 40,960 | 72,040 | 113,000 |
| **2018** | 46,175 | 69,895 | 116,070 |
| **2019-2023** | 406,235 | 295,506 | 701,741 |
| **2024-2028** | 526,025 | 177,889 | 703,914 |
| **2029-2033** | 289,480 | 50,169 | 339,649 |
| **2034-2038** | 185,018 | 17,011 | 202,029 |
| | $1,607,403 | $904,260 | $2,511,663 |

Total interest expense for the years ended June 30, 2013 and 2012 was $64.6M and $61.1M, respectively. For fiscal years 2013 and 2012 there is $2.4M and $2.7M of amortization of the net deferred gain on bond program activities included in the total bond interest expense respectively. Also, for fiscal years 2013 and 2012 bond interest expense includes $914K and $800K amortization of bond issuance premium, respectively.

**Issue E Series 2001A, 2001B, 2001C and 2001D**

On April 4, 2001, under the Issue E Series 2001 Bond Resolution, the Authority issued $66.7M principal amount of bonds dated March 1, 2001 requiring annual principal payments each January 1 commencing on January 1, 2005. Semiannual interest payments are required each January 1 and July 1 commencing on July 1, 2001. Issue E Series 2001A Bonds mature as follows: $66.7M serial bonds which mature annually from 2005 to 2016 in annual amounts ranging from $2.8M to $23.2M with interest at rates ranging from 4.125% to 5.30%. Bonds maturing on or after July 1, 2011 are redeemable at the option of the Authority at redemption prices equal to 100% of the principal amount.

On April 4, 2001, under the Issue E Series 2001 Bond Resolution, the Authority issued $10M principal amount of bonds dated April 4, 2001 bearing an interest rate which changes not less than 7 days nor more than 373 days**.** Under certain circumstances, the interest on all or a portion of the Series 2001B Bonds may be converted to a fixed rate. Interest on the Series 2001B Bonds is payable on each January 1 and July 1 commencing on July 1, 2001 and on any conversion date. On August 29, 2009, the remaining outstanding Series 2001B Bonds were repurchased and the series was retired.

On April 4, 2001, under the Issue E Series 2001 Bond Resolution, the Authority issued $58.2M principal amount of bonds dated April 4, 2001 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2001C Bonds could be converted to a fixed rate. Interest on the Series 2001C Bonds is payable on each January 1 and July 1 commencing on July 1, 2001 and on any conversion date. On October 16, 2008, the remaining outstanding Series 2001C Bonds were repurchased and the series was retired.

On April 4, 2001, under the Issue E Series 2001 Bond Resolution, the Authority issued $18.2M principal amount of bonds dated April 4, 2001 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2001D Bonds could be converted to a fixed rate. Interest on the Series 2001D Bonds is payable on each January 1 and July 1 commencing on July 1, 2001 and on any conversion date. On October 16, 2008, the remaining outstanding Series 2001D Bonds were repurchased and the series was retired.

As a result of scheduled maturities of $4.8M in 2013, the ending balance of this entire series at June 30, 2013 is $15.4M.

**Issue E Series 2002A, 2002B, 2002C, 2002D and 2002E**
On April 11, 2002, under the Issue E Series 2002 Bond Resolution, the Authority issued $74.5M principal amount of bonds dated March 6, 2002 requiring annual principal payments each January 1 commencing on January 1, 2003. Semiannual interest payments are required each January 1 and July 1 commencing on July 1, 2002. Issue E Series 2002A Bonds mature as follows: $74.5M serial bonds which mature annually from 2003 to 2015 in annual amounts ranging from $1.5M to $17.4M with interest at rates ranging from 1.90% to 5.00%. Bonds maturing on or after January 1, 2013 are redeemable at the option of the Authority at redemption prices equal to 100% of the principal amount.

On April 11, 2002, under the Issue E Series 2002 Bond Resolution, the Authority issued $15M principal amount of bonds dated April 11, 2002 bearing an interest rate, which changes not less than 7 days nor more than 373 days. Under certain circumstances, the interest on all or a portion of the Series 2002B Bonds may be converted to a fixed rate. Interest on the Series 2002B Bonds is payable on each January 1 and July 1 commencing on July 1, 2002 and on any conversion date. On June 27, 2013, the remaining outstanding Series 2002B Bonds were repurchased and the series was retired.

On April 11, 2002, under the Issue E Series 2002 Bond Resolution, the Authority issued $35.1M principal amount of bonds dated April 11, 2002 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2002C Bonds could be converted to a fixed rate. Interest on the Series 2002C Bonds is payable on each January 1 and July 1 commencing on July 1, 2002 and on any conversion date. On October 16, 2008, the remaining outstanding Series 2002C Bonds were repurchased and the series was retired.

On April 11, 2002, under the Issue E Series 2002D Bond Resolution, the Authority issued $35.1M principal amount of bonds dated April 11, 2002 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2002D Bonds could be converted to a fixed rate. Interest on the Series 2002D Bonds is payable on each January 1 and July 1 commencing on July 1, 2002 and on any conversion date. On June 27, 2013, the remaining outstanding Series 2002D Bonds were repurchased and the series was retired.

On April 11, 2002, under the Issue E Series 2002 Bond Resolution, the Authority issued $42.5M principal amount of bonds dated April 11, 2002 bearing an interest rate, which changes every 35 days (as of June 30, 2013, the rate was 0.315%). Under certain circumstances, the interest on all or a portion of the Series 2002E Bonds could be converted to a fixed rate. Interest on the Series 2002E Bonds is payable on each January 1 and July 1 commencing on July 1, 2002 and on any conversion date. The final maturity of the Series 2002E Bonds is scheduled for January 1, 2037.

As a result of scheduled maturities and purchase in lieu of redemptions of $28.0M in 2013, the ending balance of this entire series at June 30, 2013 is $15.7M.

**Issue E Series 2003A, 2003B, 2003C, 2003D and 2003E**
On March 13, 2003, under the Issue E Series 2003 Bond Resolution, the Authority issued $45M principal amount of bonds dated March 13, 2003 bearing an interest rate, which changes every 35 days (as of June 30, 2013, the rate was 0.245%). Under certain circumstances, the interest on all or a portion of the Series 2003A Bonds may be converted to a fixed rate. Interest on the Series 2003A Bonds is payable on each January 1 and July 1 commencing on July 1, 2003 and on any conversion date. The Issue E Series 2003A Bonds are subject to mandatory sinking fund redemptions totaling $24.9M from fiscal 2010 to 2020 in annual amounts ranging from $200K to $3.5M. The final maturity of the Series 2003A Bonds is scheduled for January 1, 2038.

On March 13, 2003, under the Issue E Series 2003 Bond Resolution, the Authority issued $30M principal amount of bonds dated March 13, 2003 bearing an interest rate, which changes not less than 7 days nor more than 373 days. Under certain circumstances, the interest on all or a portion of the Series 2003B Bonds may be converted to a fixed rate. Interest on the Series 2003B Bonds is payable on each January 1 and July 1 commencing on July 1, 2003 and on any conversion date. The Authority entered into an interest rate cap transaction with UBS AG, Stamford Branch for $30M of Series 2003B Bonds with a maturity of January 1, 2027. On June 27, 2013, the remaining outstanding Series 2003B Bonds were repurchased and the series was retired.

On March 13, 2003, under the Issue E Series 2003 Bond Resolution, the Authority issued $20M principal amount of bonds dated March 13, 2003 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2003C Bonds could be converted to a fixed rate. Interest on the Series 2003C Bonds is payable on each January 1 and July 1 commencing on July 1, 2003 and on any conversion date. On October 16, 2008, the remaining outstanding Series 2003C Bonds were repurchased and the series was retired.

On March 13, 2003, under the Issue E Series 2003 Bond Resolution, the Authority issued $20M principal amount of bonds dated March 13, 2003 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2003D Bonds could be converted to a fixed rate. Interest on the Series 2003D Bonds is payable on each January 1 and July 1 commencing on July 1, 2003 and on any conversion date. On October 16, 2008, the remaining outstanding Series 2003D Bonds were repurchased and the series was retired.

On March 13, 2003, under the Issue E Series 2003 Bond Resolution, the Authority issued $44.9M principal amount of bonds dated March 13, 2003 bearing an interest rate, which changes every 35 days. As of March 18, 2004, the Authority changed the auction mode of the total $44.9M to bear an interest rate, which changes not less than 7 days nor more than 373 days (as of June 30, 2013, the rate was 0.385%). Under certain circumstances, the interest on all or a portion of the Series 2003E Bonds could be converted to a fixed rate. Interest on the Series 2003E Bonds is payable on each January 1 and July 1 commencing on July 1, 2003 and on any conversion date. On March 10, 2004, the Authority entered into an interest rate cap transaction with UBS AG, Stamford Branch, for $42M of Series 2003E bonds with a maturity of January 1, 2026. The final maturity of the Series 2003E Bonds is scheduled for January 1, 2038.

As a result of purchase in lieu of redemptions of $44.4M in 2013, the ending balance of this series at June 30, 2013 is $12.9M.

**Issue E Series 2004A, 2004B, 2004C and 2004D**

On December 2, 2004, under the Issue E Series 2004 Bond Resolution, the Authority issued $65M principal amount of bonds dated December 2, 2005 bearing an interest rate, which changes every 35 days (as of June 30, 2013, the rate was 0.263%). Under certain circumstances, the interest on all or a portion of the Series 2004A Bonds may be converted to a fixed rate. Interest on the Series 2004A Bonds is payable on each January 1 and July 1 commencing on July 1, 2005 and on any conversion date. The Issue E Series 2004A Bonds are subject to a mandatory sinking fund redemption totaling $10M for the period ending 2010. The Authority entered into an interest rate cap transaction with UBS AG, Stamford Branch for $10M of the Series 2004A Bonds which matured on July 1, 2009. The final maturity of the Series 2004A Bonds is scheduled for January 1, 2038.

On December 2, 2004, under the Issue E Series 2004 Bond Resolution, the Authority issued $40M principal amount of bonds dated December 2, 2004 bearing an interest rate, which changes every 35 days (as of June 30, 2013, the rate was 0.245%). Under certain circumstances, the interest on all or a portion of the Series 2004B Bonds may be converted to a fixed rate. Interest on the Series 2004B Bonds is payable on each January 1 and July 1 commencing on July 1, 2005 and on any conversion date. On March 31, 2005, the Authority also entered into an interest rate cap transaction with UBS AG, Stamford Branch for the entire $40M of Series 2004B Bonds with a maturity of April 1, 2026. The final maturity of the Series 2004B Bonds is scheduled for January 1, 2038.

On December 2, 2004, under the Issue E Series 2004 Bond Resolution, the Authority issued $20M principal amount of bonds dated December 2, 2004 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2004C Bonds could be converted to a fixed rate. Interest on the Series 2004C Bonds is payable on each January 1 and July 1 commencing on July 1, 2005 and on any conversion date. On October 16, 2008, the remaining outstanding Series 2004C Bonds were repurchased and the series was retired.

On December 2, 2004, under the Issue E Series 2004 Bond Resolution, the Authority issued $20M principal amount of bonds dated December 2, 2004 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2004D Bonds could be converted to a fixed rate. Interest on the Series 2004D Bonds is payable on each January 1 and July 1 commencing on July 1, 2005 and on any conversion date. On October 16, 2008, the remaining outstanding 2004D Bonds were repurchased and the series was retired.

As a result of purchase in lieu of redemptions of $22.7M in 2013, the ending balance of this series at June 30, 2013 is $3.7M.

**Issue E Series 2005A, 2005B, 2005C and 2005D**
On October 20, 2005, under the Issue E Series 2005 Bond Resolution, the Authority issued $100M principal amount of bonds dated October 20, 2005 bearing an interest rate, which changes every 35 days (as of June 30, 2013, the rate was 0.245%). Under certain circumstances, the interest on all or a portion of the Series 2005A Bonds may be converted to a fixed rate. Interest on the Series 2005A Bonds is payable on each January 1 and July 1 commencing on January 1, 2006 and on any conversion date. The Issue E Series 2005A Bonds are subject to a mandatory sinking fund redemption totaling $51.9M from fiscal 2006 to 2019 in annual amounts ranging from $250K to $8.5M. The final maturity of the Series 2005A Bonds is scheduled for July 1, 2040.

On October 20, 2005, under the Issue E Series 2005 Bond Resolution, the Authority issued $50M principal amount of bonds dated October 20, 2005 bearing an interest rate, which changes every 35 days (as of June 30, 2013, the rate was 0.245%). Under certain circumstances, the interest on all or a portion of the Series 2005B Bonds may be converted to a fixed rate. Interest on the Series 2005B Bonds is payable on each January 1 and July 1 commencing on January 1, 2006 and on any conversion date. The final maturity of the Series 2005B Bonds is scheduled for July 1, 2040.

On October 20, 2005, under the Issue E Series 2005 Bond Resolution, the Authority issued $33.7M principal amount of bonds dated October 20, 2005 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2005C Bonds may be converted to a fixed rate. Interest on the Series 2005C Bonds is payable on each January 1 and July 1 commencing on January 1, 2006 and on any conversion date. On May 15, 2007, the remaining outstanding Series 2005C Bonds were repurchased and the series was retired.

On October 20, 2005, under the Issue E Series 2005 Bond Resolution, the Authority issued $28.2M principal amount of bonds dated October 20, 2005 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2005D Bonds may be converted to a fixed rate. Interest on the Series 2005D Bonds is payable on each January 1 and July 1 commencing on January 1, 2006 and on any conversion date. On October 16, 2008, the remaining outstanding Series 2005D Bonds were repurchased and the series was retired.

The ending balance of this series at June 30, 2013 is $800K.

**Issue E Series 2006A, 2006B, 2006C and 2006D**
On June 13, 2006, under the Issue E Series 2006 Bond Resolution, the Authority issued $75M for the 2006A-1 series and $75M for the 2006A-2 series for a total of $150M principal amount of bonds dated June 13, 2006 bearing an interest rate, which changes every 35 days (as of June 30, 2013, the rate for 2006A-1 was 0.210% and the rate for the 2006A-2 was 0.263%). Under certain circumstances, the interest on all or a portion of the Series 2006A Bonds may be converted to a fixed rate. Interest on the Series 2006A Bonds is payable on each January 1 and July 1 commencing on July 1, 2006 and on any conversion date. The Issue E Series 2006A Bonds are subject to a mandatory sinking fund redemption totaling $17.9M from fiscal 2011 to 2017 in annual amounts ranging from $600K to $4.4M. The final maturity of the Series 2006A Bonds is scheduled for January 1, 2036.

On June 13, 2006, under the Issue E Series 2006 Bond Resolution, the Authority issued $57.9M principal amount of bonds dated June 13, 2006 bearing an interest rate, which changes every 35 days. Under certain circumstances, the interest on all or a portion of the Series 2006B Bonds may be converted to a fixed rate. Interest on the Series 2006B Bonds is payable on each January 1 and July 1 commencing on July 1, 2006 and on any conversion date. On October 16, 2008, the remaining outstanding Series 2006B Bonds were repurchased and the series was retired.

On June 13, 2006 under the Issue E Series 2006 Bond Resolution, the Authority issued $55M principal amount of taxable bonds dated June 13, 2006 bearing an interest rate, which changes every 28 days (as of June 30, 2013, the rate was 1.678%). Under certain circumstances, the interest on all or a portion of the Series 2006C Bonds may be converted to a fixed rate. Interest on the Series 2006C Bonds is payable every 28 days commencing on July 12, 2006 and upon any conversion date. The Authority entered into an interest rate cap transaction with UBS AG, Stamford Branch for $50M of the Series 2006C Bonds with a maturity of July 1, 2027. The final maturity of the Series 2006C Bonds is scheduled for January 1, 2036.

On June 13, 2006 under the Issue E Series 2006 Bond Resolution, the Authority issued $50M principal amount of taxable bonds dated June 13, 2006 bearing an interest rate, which changes every 28 days (as of June 30, 2013, the rate was 1.286%). Under certain circumstances, the interest on all or a portion of the Series 2006D Bonds may be converted to a fixed rate. Interest on the Series 2006D Bonds is payable every 28 days commencing on July 14, 2006 and upon any conversion date. The final maturity of the Series 2006D Bonds is scheduled for January 1, 2036.

As a result of purchase in lieu of redemptions of $56.8M in 2013, the ending balance of this entire series at June 30, 2013 is $20.2M.

**Issue E Series 2007A, 2007B, 2007C, 2007D and 2007E**

On April 5, 2007, under the Issue E Series 2007 Bond Resolution, the Authority issued $200M principal amount of bonds dated March 30, 2007 requiring annual principal payments each January 1 commencing on January 1, 2018. Semiannual interest payments are required each January 1 and July 1 commencing on July 1, 2007. Issue E Series 2007A Bonds mature as follows: $200M term bonds which mature January 1, 2022, January 1, 2027, and January 1, 2033 with interest rates ranging from 4.60% to 4.70%. The Issue E Series 2007A Bonds are subject to sinking fund installments totaling $161.9M from fiscal 2018 to 2032 in annual amounts ranging from $4.4M to $18.1M. Bonds maturing on or after January 1, 2017 are redeemable at the option of the Authority at redemption prices equal to 100% of the principal amount.

On April 5, 2007, under the Issue E Series 2007 Bond Resolution, the Authority issued $85.4M principal amount of bonds dated April 5, 2007 bearing an interest rate, which changes every 35 days (as of June 30, 2013, the rate was 0.140%). Under certain circumstances, the interest on all or a portion of the Series 2007B Bonds may be converted to a fixed rate. Interest on the Series 2007B Bonds is payable on each January 1 and July 1 commencing on July 1, 2007 and on any conversion date. The Issue E Series 2007B Bonds are subject to a mandatory sinking fund redemption totaling $17.4M from fiscal 2011 to 2017 in annual amounts ranging from $600K to $6.2M. The final maturity of the Series 2007 Bonds is scheduled for January 1, 2037.

On April 5, 2007 under the Issue E Series 2007 Bond Resolution, the Authority issued $85M principal amount of taxable bonds dated April 5, 2007 bearing an interest rate, which changes every 28 days (as of June 30, 2013, the rate was 0.058%). Under certain circumstances, the interest on all or a portion of the Series 2007C Bonds may be converted to a fixed rate. Interest on the Series 2007C Bonds is payable every 28 days commencing on May 4, 2007 and upon any conversion date. The Authority also entered into an interest rate cap transaction with UBS AG, Stamford Branch for $85M of the Series 2007C Bonds with a maturity of July 1, 2033. The final maturity of the Series 2007C Bonds is scheduled for January 1, 2037.

On April 5, 2007 under the Issue E Series 2007 Bond Resolution, the Authority issued $60M principal amount of taxable bonds dated April 5, 2007 bearing an interest rate, which changes every 28 days (as of June 30, 2013, the rate was 0.058%). Under certain circumstances, the interest on all or a portion of the Series 2007D Bonds may be converted to a fixed rate. Interest on the Series 2007D Bonds is payable every 28 days commencing on May 4, 2007 and upon any conversion date. The final maturity of the Series 2007D Bonds is scheduled for January 1, 2037.

On April 5, 2007 under the Issue E Series 2007 Bond Resolution, the Authority issued $55M principal amount of taxable bonds dated April 5, 2007 bearing an interest rate, which changes every 7 days (as of June 30, 2013, the rate was 0.052%). Under certain circumstances, the interest on all or a portion of the Series 2007E Bonds may be converted to a fixed rate. Interest on the Series 2007E Bonds is payable every 7 days commencing on April 13, 2007 and upon any conversion date. The final maturity of the Series 2007E Bonds is scheduled for January 1, 2037.

As a result of purchase in lieu of redemptions of $78.0M in 2013, the ending balance of this entire series at June 30, 2013 is $217.9M.

**Issue FRN 2008**

On July 2, 2008, under the FRN Indenture, the Authority issued $296M principal amount of floating rate bonds with a final maturity date of April 25, 2038. Quarterly interest payments are required on each distribution date, which is the 25th day of the month for the months of January, April, July and October. The notes will bear interest at an annual rate equal to three-month LIBOR plus 0.95%. Outstanding note principal may be redeemed on each quarterly distribution as determined by the Indenture requirements. The ending balance of this entire series as of June 30, 2013 is $142.4M.

**Issue H Series 2008A**

On September 16, 2008, under the Issue H Series 2008 Bond Resolution, the Authority issued $400M principal amount of bonds requiring annual principal payments each January 1 commencing on January 1, 2016. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2009. Issue H Series 2008 Bonds mature as follows: $400M term bonds which mature January 1, 2022 and January 1, 2030 with interest rates ranging from 6.125% to 6.35%. The Issue H Series 2008 Bonds are subject to sinking fund installments totaling $159.7M from 2016 to 2022 in annual amounts ranging from $1.6M to $30.1M and $240.4M from 2022 to 2030 in annual amounts ranging from $4.6M to $38.7M. Bonds maturing on or after January 1, 2019, are redeemable at the option of the Authority, in whole or in part, on any date on or after January 1, 2018.

As a result of special redemptions of $16.7M in 2013, the ending balance of this entire series as of June 30, 2013 is $140.3M.

**Issue I Series 2009A**

On June 26, 2009, under the Issue I 2009 Bond Resolution, the Authority issued $289M principal amount of bonds dated June 30, 2009, requiring annual principal payments each January 1 commencing on January 1, 2012. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2010. Issue I 2009A Bonds mature as follows: $132.4M serial bonds which mature annually from 2012 to 2020 in annual amounts ranging from $2.5M to $17.8M with interest at rates ranging from 3.40% to 5.75%; and $156.6M term bonds which mature in 2023 and 2028. The term bonds are subject to annual sinking fund installments totaling $41.9M from 2021 to 2022 and $114.7M from 2023 to 2027. Bonds maturing on or after January 1, 2023, are redeemable at the option of the Authority, in whole or in part, on any date on or after January 1, 2020. The Issue I 2009 Bonds were issued with a premium of $1.7M.

As a result of scheduled maturities and special redemptions of $19.6M in FY2013, the ending balance of this entire series as of June 30, 2013 is $235.7M including the unamortized premium that was incorporated in the initial sale of the bonds.

**Issue I Series 2010A and 2010B**

On February 3, 2010, under the Issue I 2010 Bond Resolution, the Authority issued $318.5M principal amount of bonds dated February 18, 2010 requiring annual principal payments each January 1 commencing January 1, 2012. Semiannual interest payments are required each January 1 and July 1 commencing on July 1, 2010. Issue I Series 2010A Bonds mature as follows: $318.5M serial bonds which mature annually from 2012 to 2030 in annual amounts ranging from $4.2M to $37.8M with interest at rates ranging from 2.00% to 5.50%. Bonds maturing on or after January 1, 2021, are redeemable at the option of the Authority, in whole or in part, on any date on or after January 1, 2020.

On February 3, 2010, under the Issue I 2010 Bond Resolution, the Authority issued $86.5M principal amount of bonds dated February 18, 2010 requiring annual principal payments each January 1 commencing January 1, 2012. Semiannual interest payments are required each January 1 and July 1 commencing on July 1, 2010. Issue I Series 2010B Bonds mature as follows: $41.2M serial bonds which mature annually from 2012 to 2020 in annual amounts ranging from $2.0M to $7.1M with interest at rates ranging from 2.55% to 5.375%; and $45.3M term bonds which mature 2023 and 2031. The term bonds are subject to annual sinking fund installments totaling $10.6M from 2021 to 2022 and $34.7M from 2029 to 2030. Bonds maturing on or after January 1, 2023, are redeemable at the option of the Authority, in whole or in part, on any date on or after January 1, 2020.

The Issue I 2010 Bonds were issued with a premium of $4.4M.

As a result of scheduled maturities and special redemptions of $38.5M in 2013, the ending balance of this entire series as of June 30, 2013 is $313.1M, including the unamortized premium that was incorporated in the initial sale of the bonds and net deferred gain on bond program activities.

**Issue J Series 2011**

On June 24, 2011, under the Issue J 2011 Bond Resolution, the Authority issued $102.9M principal amount of bonds dated July 13, 2011 requiring annual principal payments each July 1 commencing July 1, 2017. Semiannual interest payments are required each January 1 and July 1 commencing on July 1, 2012. Issue J Series 2011 Bonds mature as follows: $90.9M serial bonds which mature annually from 2017 to 2029 in annual amounts ranging from $0.5M to $11.2M with interest at rates ranging from 4.00% to 5.625%; and $12M of term bonds which mature in 2033. The Issue J Series 2011Bonds are subject to sinking fund installments totaling $12M from fiscal 2030 to 2033 in annual amounts ranging from $1.5M to $8.6M.

Bonds maturing on or after July 1, 2022, are redeemable at the option of the Authority, in whole or in part, on any date on or after July 1, 2021. The Issue J Series 2011 Bonds were issued at a discount of $0.4M.

The ending balance of this entire series as of June 30, 2013 is $102.5M, including the unamortized discount that was incorporated in the initial sale of the bonds.

**Issue J Series 2012**

On June 1, 2012, under the Issue J 2012 Bond Resolution, the Authority issued $168.3M principal amount of bonds dated June 27, 2012 requiring annual principal payments each July 1 commencing July 1, 2018. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2013. Issue J Series 2012 Bonds are term bonds which mature annually from 2018 to 2030 in annual amounts ranging from $2.5M to $25.7M with interest at rates ranging from 3.10% to 5.00%. Bonds maturing on July 1, 2022, are redeemable at the option of the Authority, in whole or in part, on any date on or after July 1, 2021. The Issue J Series 2012 Bonds were issued with a premium of $4.2M.

The ending balance of this entire series as of June 30, 2013 is $172.3M, including the unamortized premium that was incorporated in the initial sale of the bonds.

**Issue K Series 2013**

On June 27, 2013, under the Issue K 2013 Bond Resolution, the Authority issued $222M principal amount of bonds dated June 27, 2013 requiring annual principal payments each July 1 commencing July 1, 2015. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2014. Issue K Series 2013 Bonds mature as follows: $135.1M serial bonds which mature annually from fiscal year 2015 to 2025 in annual amounts ranging from $1.2M to $20.8M with interest at rates ranging from 2.00% to 5.00%, $86.9M of term bonds maturing in 2029 and 2032 with interest at rates of 5.25% and 5.375%. Bonds maturing on or after July 1, 2023 are redeemable at the option of the Authority, in whole or in part, on any date on or after July 1, 2022. The Issue K Series 2013 Bonds were issued with a net premium of $4.6M.

The ending balance of this entire series as of June 30, 2013 is $226.6M, including the unamortized premium that was incorporated in the initial sale of the bonds.

## 7. DERIVATIVES DISCLOSURE

As a method to manage the debt costs associated with financing fixed and variable rate student loans, the Authority has engaged in the use of interest rate cap derivatives which are structured specifically with regard to its underlying asset portfolio and includes such risks as credit risk, basis risk, termination risk, tax risk and prepayment risk. In recognition of these potential risks associated with the products, the Authority has employed certain risk management techniques such as embedded call options, credit support annexes and amortizing notional amounts that will provide for efficiency and flexibility in its future ability to manage the derivative portfolio. For derivatives, it is the Authority's policy not to engage in trading, market making or other speculative activities.

### Interest Rate Caps

**Objective of interest rate caps**

The purpose of the cap is to place a ceiling on the debt service payments associated with the variable rate bonds. Capping the variable rate debt allows the Authority to offer variable rate loans to borrowers with the assurance that the interest rate assessed on their loans will not exceed a specific rate. It is the intent that the caps will remain in effect until the maturity date of the derivative trade or could be terminated early as part of any Statement of Net Position management strategies.

**Terms, fair value and credit risk**

As of June 30, 2013, approximately 31% of the portfolio of interest rate caps consisted of a strike rate of 75% of one year USD-LIBOR-BBA as the underlying interest rate with a cap rate of 9.00%, while approximately 69% of the portfolio had a strike rate of 100% of one month USD-LIBOR-BBA and a cap rate of 9.40%. All interest rate caps have been purchased with a one time, up-front payment generally upon the closing of each individual bond issuance. The total cost of all caps purchased historically was $4.1M. All of the $193M in notional outstanding as of June 30, 2013, were structured to amortize until final maturity of the trade.

The fair values of the interest rate caps were as follows:

**June 30, 2013**
(in thousands)

| Associated Bond Issue | Notional Amounts | Effective Date | Fair Values | Cap Maturity Date | Counterparty Credit Rating |
|---|---|---|---|---|---|
| Issue E 2003B | $15,710 | 3/13/2003 | $23 | January 2027 | (A2/A) |
| Issue E 2003E | $21,690 | 3/10/2004 | $31 | January 2026 | (A2/A) |
| Issue E 2004B | $22,980 | 3/31/2005 | $40 | January 2026 | (A2/A) |
| Issue E 2006C | $47,300 | 6/13/2006 | $201 | July 2027 | (A2/A) |
| Issue E 2007C | $85,000 | 4/5/2007 | $1,262 | January 2033 | (A2/A) |
| | **$192,680** | | **$1,557** | | |

**June 30, 2012**
(in thousands)

| Associated Bond Issue | Notional Amounts | Effective Date | Fair Values | Cap Maturity Date | Counterparty Credit Rating |
|---|---|---|---|---|---|
| Issue E 2003B | $17,740 | 3/13/2003 | $22 | January 2027 | (A2/A) |
| Issue E 2003E | $24,570 | 3/10/2004 | $30 | January 2026 | (A2/A) |
| Issue E 2004B | $25,770 | 3/31/2005 | $39 | January 2026 | (A2/A) |
| Issue E 2006C | $49,700 | 6/13/2006 | $207 | July 2027 | (A2/A) |
| Issue E 2007C | $85,000 | 4/5/2007 | $1,499 | January 2033 | (A2/A) |
| | **$202,780** | | **$1,797** | | |

*Fair value:* The fair value was developed using the zero-coupon method. This method calculates the future net settlement payments required by the cap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the cap.

Changes in fair value that represent effective hedging relationships have been recorded as deferred inflows on the Statement of Net Position. Deferred inflows relating to changes in fair value of effective derivatives were $151.3K & $1.8M at June 30, 2013 & 2012, respectively. Derivatives that do not meet the criteria of an effective hedging relationship are considered non-hedging derivatives and changes in fair value are presented in investment earnings on the Statement of Revenues, Expenses & Changes in Net Position. During FY2013, the changes in fair value for non-hedging derivatives recorded in investment earnings was $961.9K. There were no non-hedging derivative relationships in FY2012.

*Credit Risk:* As of June 30, 2013, the UBS AG counterparty rating for the cap portfolio was at least A2/A by Moody's and S&P, respectively. Credit risk may occur if the auction rate exceeds the cap and the counterparty is unable to fulfill its obligation to reimburse the Authority the difference between the market interest rate and the cap. If this was to occur and trust assets could not cover debt service expenses, the insured trust estate would be responsible for all debt payments on the bonds.

*Termination risk:* The interest rate cap contract employs the ISDA Master Agreement, which includes standard termination events, such as decrease in credit ratings, failure to pay and bankruptcy. The counterparty must maintain a long-term debt rating of at least A2 from Moody's and at least A from Standard & Poor's. The Authority may terminate any of its caps at any time; however, the counterparty's rights are limited to defined events.

*Rollover risk:* At maturity or termination, there could be a resulting change in the cost of the variable debt outstanding. If the Authority decides to enter a new derivative contract at this time, market risk may exist. The current market conditions at that time will determine whether it will be suitable to the Authority to extend the terms. Otherwise, the debt on the variable rate bonds will be subject to the prevailing interest rate and the subsequent auctions until maturity.

| Debt Issuance | Debt Maturity Date | Cap Maturity Date |
|---|---|---|
| Issue E Series 2003B | January 1, 2038 | January 1, 2027 |
| Issue E Series 2003E | January 1, 2038 | January 1, 2026 |
| Issue E Series 2004B | January 1, 2038 | January 1, 2026 |
| Issue E Series 2006C | January 1, 2036 | July 1, 2027 |
| Issue E Series 2007C | January 1, 2037 | January 1, 2033 |

## 8. COMMITMENT FEES TO PARTICIPATING INSTITUTIONS

Prior to the 2003 origination year, the Authority received commitment fees from participating private institutions as part of program participation requirements in the annual loan origination cycle. Under the Bond Resolutions, these commitment fees may be reimbursed at the direction of the Authority dependent upon the successful retirement of all Bonds under each individual series and the successful retirement of all Bonds in a trust structure. Commencing in March 2003, the Authority eliminated the commitment fee requirement from the Authority's loan programs.

Commitment fee reimbursements due to participating institutions within the next three years have been accrued as it is probable payment will be made and the liability can be reasonably estimated. The Authority had commitment fees payable of $3.3M and $1.9M included in the other liabilities section of the Statement of Net Position at June 30, 2013 and June 30, 2012, respectively.

## 9. COLLEGE SAVINGS INVESTING PROGRAMS

The U.Plan was developed by the Authority in cooperation with the Commonwealth of Massachusetts, pursuant to specific legislative authorization in 1989. The purpose of the U.Plan is to allow families to save for undergraduate tuition at participating Massachusetts's colleges and universities in a manner designed to preserve the purchasing power of the savings.

As of June 30, 2013 and 2012, the Authority has deposits of $6.9M and $7.2M respectively, for the purchase of tuition certificates under the Commonwealth of Massachusetts General Obligation Bonds, effective August 1, 2013 and August 1, 2012, respectively. As part of the annual cycle of the U.Plan program, Commonwealth of Massachusetts General Obligation Bonds were purchased as follows:

(in thousands)

| | Bonds Purchased | | Issue Date | Maturity Dates From/Through |
|---|---|---|---|---|
| 1995 College Opportunity Bonds, Series A | $ | 26,122 | August 1, 1995 | August 1, 2000 / 2015 |
| 1996 College Opportunity Bonds, Series A | $ | 18,970 | August 1, 1996 | August 1, 2001 / 2016 |
| 1997 College Opportunity Bonds, Series A | $ | 19,902 | August 1, 1997 | August 1, 2002 / 2017 |
| 1998 College Opportunity Bonds, Series A | $ | 17,683 | August 1, 1998 | August 1, 2003 / 2018 |
| 1999 College Opportunity Bonds, Series A | $ | 12,862 | August 1, 1999 | August 1, 2004 / 2019 |
| 2000 College Opportunity Bonds, Series A | $ | 6,626 | August 1, 2000 | August 1, 2005 / 2020 |
| 2001 College Opportunity Bonds, Series A | $ | 5,636 | August 1, 2001 | August 1, 2006 / 2021 |
| 2002 College Opportunity Bonds, Series A | $ | 5,970 | August 1, 2002 | August 1, 2007 / 2022 |
| 2003 College Opportunity Bonds, Series A | $ | 6,343 | August 1, 2003 | August 1, 2008 / 2023 |
| 2004 College Opportunity Bonds, Series A | $ | 7,118 | August 1, 2004 | August 1, 2009 / 2024 |
| 2005 College Opportunity Bonds, Series A | $ | 7,078 | August 1, 2005 | August 1, 2010 / 2025 |
| 2006 College Opportunity Bonds, Series A | $ | 5,763 | August 1, 2006 | August 1, 2011 / 2026 |
| 2007 College Opportunity Bonds, Series A | $ | 6,028 | August 1, 2007 | August 1, 2012 / 2027 |
| 2008 College Opportunity Bonds, Series A | $ | 5,894 | August 1, 2008 | August 1, 2013 / 2028 |
| 2009 College Opportunity Bonds, Series A | $ | 6,903 | August 1, 2009 | August 1, 2014 / 2029 |
| 2010 College Opportunity Bonds, Series A | $ | 8,426 | August 1, 2010 | August 1, 2015 / 2030 |
| 2011 College Opportunity Bonds, Series A | $ | 9,031 | August 1, 2011 | August 1, 2016 / 2031 |
| 2012 College Opportunity Bonds, Series A | $ | 11,738 | August 1, 2012 | August 1, 2017 / 2032 |
| Total | $ | 188,093 | | |

The tuition certificates represent a beneficial ownership interest in these bonds. The bonds bear interest at a rate equal to the annual increase in the consumer price index plus 2.5%. Between the date deposits are collected and the purchase of the bonds, the amounts collected and a related liability to participants are recorded on the Statement of Net Position of the College Savings Funds as certificates payable. Once bonds are purchased, the liability is removed from the Statement of Net Position of the Authority. When bonds mature, the cash is moved to an investment account restricted to MEFA's use and an associated liability to U.Plan participants is recorded on the Statement of Net Position. As of June 30, 2013 and 2012, included in accounts payable and accrued expenses, were certificate redemptions to U.Plan participants in the amounts of $14.2M and $13.2M, respectively.

The U.Fund was developed by the Authority on behalf of the Commonwealth of Massachusetts under section 529 of the Internal Revenue Code of 1986, as amended. The purpose of the U.Fund is to allow families to save for higher education expenses through the investment in mutual funds, which are professionally managed by Fidelity Investments. At June 30, 2013 and 2012, the U.Fund was composed of thirty eight and thirty six mutual fund portfolios generally comprised of stock, bond, and money market funds, respectively. Each portfolio is designed to accommodate the asset allocation based on the risk profile of the participants. As of June 30, 2013 and 2012 net assets for the U.Fund were $4,182M and $3,737M, respectively.

**10. RELATED PARTIES**

During FY2013, four Members of the Authority were officers/trustees of participating institutions and during FY2012, three Members of the Authority were officers/trustees of participating institutions. During the years ended June 30, 2013 and 2012, the Authority purchased loans totaling $22.9M and $6.5M, respectively, in principal balance, from the institutions. At June 30, 2013 and 2012, $182.7M and $42M, respectively, of loans purchased from those institutions were outstanding.

**11. DEFINED CONTRIBUTION PLAN**

All employees of the Authority participate in a defined contribution plan, the Massachusetts Educational Financing Authority Retirement Saving Plan (the "Plan"). The Authority annually contributes an amount equal to 11% of an employee's annual gross salary. The Authority also matches 50% of employee contributions up to a maximum of 6% to the Deferred Compensation Plan of the Massachusetts Education Financing Authority (the "Deferred Plan"). Total employee contributions to the Deferred Plan for the years ended June 30, 2013 and 2012 were $362K and $332K, respectively. Vesting at 100% occurs in the Deferred Plan after two years of employment. It is the Authority's policy to fund contributions on a current basis. Total retirement plan expense for the years ended June 30, 2013 and 2012 was $575K and $544K, respectively. The Authority pays administrative expenses of the Plans for the plan participants and TD Ameritrade is the custodian of the plan's assets.

**12. LEASE COMMITMENT**

The Authority entered into a ten year operating lease agreement for its current office space which commenced in February 2008 and expires in 2018 and also has other operating lease arrangements for office equipment. The office lease payments are subject to the Authority paying certain operating costs, such as annual escalation for increases in real estate taxes and operating expenses.

As of June 30, 2013, annual minimum operating lease payments for the office space and office equipment are as follows for the following five fiscal years and thereafter:

(in thousands)

| | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter |
|---|---|---|---|---|---|---|
| Minimum operating lease payments | $ 883 | $ 897 | $ 919 | $ 921 | $ 623 | $ - |

The following schedule shows the composition of total operating lease expenses included in general and administrative expense on the Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30:

(in thousands)

| | 2013 | 2012 |
|---|---|---|
| Minimum operating lease expenses | $ 873 | $ 876 |
| Additional operating lease expenses | 117 | 96 |
| Total operating lease expenses | $ 990 | $ 972 |

## 13. CAPITAL EQUIPMENT

The activity related to the Authority's capital assets for the fiscal years ended 2013 and 2012, respectively, was as follows:

(in thousands)

| | June 30, 2012 | Additions | Disposals | June 30, 2013 |
|---|---|---|---|---|
| Computer hardware | $ 533 | $ 64 | $ - | $ 597 |
| Computer software | 4,269 | 301 | - | 4,570 |
| Furniture | 787 | - | - | 787 |
| Equipment | 155 | - | - | 155 |
| Leasehold improvements | 495 | - | - | 495 |
| Total Capital equipment (at cost) | 6,239 | 365 | - | 6,604 |
| Accumulated depreciation | (4,500) | (790) | - | (5,290) |
| Capital equipment, net | $ 1,739 | $ (425) | $ - | $ 1,314 |

| | June 30, 2011 | Additions | Disposals | June 30, 2012 |
|---|---|---|---|---|
| Computer hardware | $ 494 | $ 39 | $ - | $ 533 |
| Computer software | 3,864 | 405 | - | 4,269 |
| Furniture | 787 | - | - | 787 |
| Equipment | 147 | 8 | - | 155 |
| Leasehold improvements | 493 | 2 | - | 495 |
| Total capital equipment (at cost) | 5,785 | 454 | - | 6,239 |
| Accumulated depreciation | (3,621) | (879) | - | (4,500) |
| Capital equipment, net | $ 2,164 | $ (425) | $ - | $ 1,739 |

Included in general and administrative expenses are depreciation expenses of $790K and $879K for the years ended June 30, 2013 and June 30, 2012, respectively.

## 14. CONTRIBUTION TO COMMONWEALTH

During FY2009, the Authority entered into an agreement with the Department of Higher Education to provide funding to the Commonwealth of Massachusetts for a higher education program providing services to Massachusetts students. In both fiscal years 2013 and 2012 $1M was contributed for funding toward program and administrative expenditures related to this program.

## 15. GAINS RELATED TO THE BOND PROGRAM

The Authority purchased in lieu of redemption approximately $223M in outstanding auction rate bonds during fiscal year 2013. These purchases resulted in a net gain on the retirement of the debt totaling $23M, of which $9M has been deferred and will be recognized over the life of the new debt in accordance with GASB 23.

In FY2012, the Authority purchased in lieu of redemption approximately $5M in outstanding auction rate bonds with cash on hand resulting in a current year gain on the retirement of debt totaling approximately $788K.

## 16. OTHER MATTERS

In 2011, the Authority was advised by the Financial Institution Oversight Service ("FIOS") of the federal Department of Education (the "Department") that a program review of the Authority's participation during the Authority's Fiscal Year 2007 in the Federal Family Education Loan Program ("FFELP") had resulted in a preliminary finding that a certain contract the Authority had entered into with a third party for marketing and administrative services included a compensation term not permitted under applicable regulations. The Authority responded to the preliminary FIOS finding by providing requested information and urging FIOS to reconsider the finding. In May 2012, the Department advised the Authority that it had concluded its program review without change to this preliminary finding and that the Department expected to further review this finding for potential responsive action by the Department. By letter dated May 17, 2013, the Department advised the Authority that a $27.5K fine would be imposed unless the Authority appeals the Department's actions. The Authority will no longer pursue the matter and has agreed to make a payment.

**17. SUBSEQUENT EVENTS**

As part of the fiscal year 2014 budgeting process, the State Legislature extended a provision in the state budget that State Authorities would participate in the funding of certain programs for the Commonwealth. The estimated impact to the Authority in fiscal year 2014 will be a $1.0M non-operating expense related to the Commonwealth's educational support program, which is similar to the contribution made in fiscal year 2013.

On October 16, 2013, the Consumer Financial Protection Bureau ("CFPB") released the annual report of the student loan ombudsman. The private student loan ombudsman was created as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In the first year of operation, the CFPB and the Department of Education coordinated through a memorandum of understanding on student loan complaints. As part of this process, the CFPB began accepting complaints and this report summarizes the findings from October 1, 2012 through September 30, 2013. The report focuses on the following areas – issues faced by student loan borrowers, a discussion by the ombudsman on the issues and themes present in the complaints and finally, recommendations on how to improve the marketplace based on the consumer feedback. It is uncertain what impact the report may have on the private loan marketplace and the Authority will continue to monitor the developments related to the Consumer Financial Protection Bureau.

On October 28, 2013, Fitch Ratings removed from Ratings Watch Negative and affirmed the long term rating of "AAsf" on the Issue E Trust. The affirmation of the rating reflects that the outstanding bonds are collateralized by a seasoned pool of mostly fixed rate private student loans with more than 99% of all outstanding loans in repayment and a low utilization of deferment or forbearance status by borrowers. All existing loans have been credit tested and originated according to the underwriting criteria in existence at the time of historical origination. Loss coverage multiples were sufficient to support the Fitch "AAsf" rating category as credit enhancement is supported by excess spread, overcollateralization and credit given to projected recoveries on historical defaults in the Trust. The rating outlook remained negative for the Trust due to concerns about parity growth in the near term related to excess spread which had the result of compressing loss coverage multiples in the analysis. Although the bonds outstanding are insured by Ambac Assurance Corp., Fitch does not give credit to the insurance as Fitch does not provide a rating for Ambac. The rating on the bonds is therefore based upon the underlying collateral performance.

On October 29, 2013, as part of the annual cycle of the U.Plan prepaid tuition program, the Authority purchased Commonwealth of Massachusetts General Obligation Bonds in the amount of $10.9M. Once the bonds were purchased, the corresponding liability was removed from the Authority's Statement of Net Position.

On November 6, 2013, the CFPB issued an Advance Notice of Proposed Rule Making (ANPR) seeking comments from the public on debt collection practices. The CFPB is collecting information on issues relating to the accuracy of information used by debt collectors, how to ensure consumers know their rights, and the communication tactics collectors employ to recover debt. Responses to the debt collection ANPR are due February 2014. Under the Dodd-Frank Act, the CFPB became the first Federal agency with the ability to make substantive changes to the Fair Debt Collection Practices Act (FDCPA). It is uncertain what impact the findings will have on the private loan marketplace and the Authority will continue to monitor the developments related to this ANPR.

On December 3, 2013, the CFPB issued the final "larger participant" student loan servicer rule. The rule will give the CFPB supervisory authority over nonbank servicers of private and federal student loans who qualify as "larger participants" in the student loan servicing market. It is believed that the Authority's student loan servicer will meet the definition of a "larger participant". The rule becomes effective March 1, 2014. It is uncertain what impact the rule will have on the private loan marketplace and the Authority will continue to monitor the developments related to this rule.

## Massachusetts Educational Financing Authority

**Statements of Net Position**

**June 30, 2013 and 2012**

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | **Trusteed Funds** | **College Savings Funds** | **Authority Funds** | **Total** | **Trusteed Funds** | **College Savings Funds** | **Authority Funds** | **Total** |
| **Current assets** | | | | | | | | |
| Cash and cash equivalents (Notes 3 and 4) | $ 123,659 | $ 648 | $ 836 | $ 125,143 | $ 191,333 | $ 818 | $ 204 | $ 192,355 |
| Investments, at fair value (Notes 3 and 4) | 2,914 | 21,720 | - | 24,634 | 10,996 | 21,098 | - | 32,094 |
| Education loan notes receivable, net (Notes 5 and 10) | 181,079 | - | 2,457 | 183,536 | 164,251 | - | 2,742 | 166,993 |
| Interest receivable on educational loan notes | 30,922 | - | 20 | 30,942 | 30,282 | - | 20 | 30,302 |
| Prepaid expenses and other assets | 63 | 1,964 | 293 | 2,320 | 79 | 1,747 | 266 | 2,092 |
| Interest receivable for cash, cash equivalents, and investments | 2 | - | - | 2 | 3 | - | - | 3 |
| Interfund balances | (400) | - | 400 | - | (372) | - | 372 | - |
| **Total current assets** | 338,239 | 24,332 | 4,006 | 366,577 | 396,572 | 23,663 | 3,604 | 423,839 |
| **Noncurrent assets** | | | | | | | | |
| Cash and cash equivalents (Notes 3 and 4) | 202,960 | - | 658 | 203,618 | 215,329 | - | 658 | 215,987 |
| Investments, at fair value (Notes 3 and 4) | - | 11,275 | 2,311 | 13,586 | - | 11,273 | 7,861 | 19,134 |
| Derivative Instruments - caps (Notes 3 and 7) | 1,557 | - | - | 1,557 | 1,797 | - | - | 1,797 |
| Educational loan notes receivable, net (Notes 5 and 10) | 1,273,975 | - | 585 | 1,274,560 | 1,288,582 | - | 1,084 | 1,289,666 |
| Capital equipment, net of accumulated depreciation (Note 13) | - | - | 1,314 | 1,314 | - | - | 1,739 | 1,739 |
| **Total assets** | $ 1,816,731 | $ 35,607 | $ 8,874 | $ 1,861,212 | $ 1,902,280 | $ 34,936 | $ 14,946 | $ 1,952,162 |
| **Liabilities** | | | | | | | | |
| **Current liabilities** | | | | | | | | |
| Accounts payable and accrued expenses | $ 1,003 | $ 14,235 | $ 1,266 | $ 16,504 | $ 1,068 | $ 13,197 | $ 1,171 | $ 15,436 |
| Bonds payable - current portion (Note 6) | 30,642 | - | - | 30,642 | 34,197 | - | - | 34,197 |
| Certificates payable (Note 9) | - | 6,870 | - | 6,870 | - | 7,221 | - | 7,221 |
| Accrued bond interest payable | 31,394 | - | - | 31,394 | 29,939 | - | - | 29,939 |
| **Total current liabilities** | 63,039 | 21,105 | 1,266 | 85,410 | 65,204 | 20,418 | 1,171 | 86,793 |
| **Noncurrent liabilities** | | | | | | | | |
| Bonds payable - net of current portion (Note 6) | 1,588,825 | - | - | 1,588,825 | 1,706,093 | - | - | 1,706,093 |
| Other liabilities | 3,521 | - | 199 | 3,720 | 2,275 | - | 185 | 2,460 |
| **Total liabilities** | 1,655,385 | 21,105 | 1,465 | 1,677,955 | 1,773,572 | 20,418 | 1,356 | 1,795,346 |
| **Deferred inflow of resources** | | | | | | | | |
| Gain on bond refunding (Note 6 and 15) | 20,752 | - | - | 20,752 | 13,867 | - | - | 13,867 |
| Hedging instruments (Note 3 and 7) | 151 | - | - | 151 | 1,797 | - | - | 1,797 |
| **Total deferred inflow of resources** | 20,903 | - | - | 20,903 | 15,664 | - | - | 15,664 |
| **Total liabilities and deferred inflows of resources** | 1,676,288 | 21,105 | 1,465 | 1,698,858 | 1,789,236 | 20,418 | 1,356 | 1,811,010 |
| **Net position** | | | | | | | | |
| Invested in capital assets | - | - | 1,314 | 1,314 | - | - | 1,738 | 1,738 |
| Restricted | 140,440 | 7,752 | 2,401 | 150,593 | 113,010 | 7,628 | 2,402 | 123,040 |
| Unrestricted | 3 | 6,750 | 3,694 | 10,447 | 34 | 6,890 | 9,450 | 16,374 |
| **Total net assets** | 140,443 | 14,502 | 7,409 | 162,354 | 113,044 | 14,518 | 13,590 | 141,152 |
| **Total liabilities, deferred inflows and net position** | $ 1,816,731 | $ 35,607 | $ 8,874 | $ 1,861,212 | $ 1,902,280 | $ 34,936 | $ 14,946 | $ 1,952,162 |

The accompanying notes are an integral part of the financial statements.

**Massachusetts Educational Financing Authority**

**Statements of Revenues, Expenses and Changes in Net Position**

**For the years ended June 30, 2013 and 2012**

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Operating revenues** | **Trusteed Funds** | **College Savings Funds** | **Authority Funds** | **Total** | **Trusteed Funds** | **College Savings Funds** | **Authority Funds** | **Total** |
| Interest on education loan notes receivable (Note 3) | $ 87,512 | $ - | $ 89 | $ 87,601 | $ 84,640 | $ - | $ 148 | $ 84,788 |
| Loan origination and other fees, net | 6,543 | - | - | 6,543 | 6,626 | - | - | 6,626 |
| College savings plan interest and fees | - | 4,468 | - | 4,468 | - | 4,086 | - | 4,086 |
| Other revenue | - | 1,413 | 301 | 1,714 | - | 1,313 | 126 | 1,439 |
| **Total operating revenues** | 94,055 | 5,881 | 390 | 100,326 | 91,266 | 5,399 | 274 | 96,939 |
| **Operating expenses** | | | | | | | | |
| Bond interest expense | 64,554 | - | - | 64,554 | 61,143 | - | - | 61,143 |
| Bond insurance | 625 | - | - | 625 | 655 | - | - | 655 |
| Costs of bond issuance | 2,960 | - | - | 2,960 | 3,005 | - | - | 3,005 |
| Provision for doubtful educational loan notes receivable | 6,089 | - | - | 6,089 | 5,268 | - | (1,683) | 3,585 |
| Credit decision fees | 419 | - | - | 419 | 307 | - | - | 307 |
| General and administrative (Notes 3, 11, 12, and 13) | 11,897 | 4,603 | 901 | 17,401 | 13,883 | 2,479 | 472 | 16,834 |
| Other expense | 574 | - | 5 | 579 | 88 | - | - | 88 |
| **Total operating expenses** | 87,118 | 4,603 | 906 | 92,627 | 84,349 | 2,479 | (1,211) | 85,617 |
| **Operating income/(loss)** | 6,937 | 1,278 | (516) | 7,699 | 6,917 | 2,920 | 1,485 | 11,322 |
| **Nonoperating revenues (expenses)** | | | | | | | | |
| Gain on bond redemption | 13,885 | - | - | 13,885 | 788 | - | - | 788 |
| Interest and dividends | 1,260 | 56 | - | 1,316 | 246 | 93 | 2 | 341 |
| Arbitrage income (Note 3) | 191 | - | 548 | 739 | (50) | - | 87 | 37 |
| Commitment fees to participating schools (Note 8) | (1,437) | - | - | (1,437) | (1,893) | - | - | (1,893) |
| Contributions to the Commonwealth (Note 14) | - | - | (1,000) | (1,000) | - | - | (1,000) | (1,000) |
| Yield restriction on educational loan notes receivable | - | - | - | - | (448) | - | 8 | (440) |
| Net asset transfers | 6,563 | (1,350) | (5,213) | - | 15,210 | (5,942) | (9,268) | - |
| **Net non-operating revenues/(expenses)** | 20,462 | (1,294) | (5,665) | 13,503 | 13,853 | (5,849) | (10,171) | (2,167) |
| **Total increase/(decrease) in net position** | 27,399 | (16) | (6,181) | 21,202 | 20,770 | (2,929) | (8,686) | 9,155 |
| **Net position, beginning of year** | 113,044 | 14,518 | 13,590 | 141,152 | 92,274 | 17,447 | 22,276 | 131,997 |
| **Net position, end of year** | $ 140,443 | $ 14,502 | $ 7,409 | $ 162,354 | $ 113,044 | $ 14,518 | $ 13,590 | $ 141,152 |

The accompanying notes are an integral part of the financial statements.

**Massachusetts Educational Financing Authority**

**Statements of Cash Flows**

**For the years ended June 30, 2013 and 2012**

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities:** | **Trusteed Funds** | **College Savings Funds** | **Authority Funds** | **Total** | **Trusteed Funds** | **College Savings Funds** | **Authority Funds** | **Total** |
| Payments for disbursed loans | $ (164,789) | $ - | $ - | $ (164,789) | $ (165,460) | $ - | $ - | $ (165,460) |
| Payments received on outstanding loan principal | 180,310 | - | 781 | 181,091 | 173,625 | - | 954 | 174,579 |
| General & administrative payments | (13,324) | (3,736) | (28) | (17,088) | (15,132) | (830) | 1,092 | (14,870) |
| Interest received on education loans | 69,393 | - | 87 | 69,480 | 65,033 | - | 146 | 65,179 |
| Proceeds from other sources | (5) | 5,833 | 301 | 6,129 | - | 5,400 | 127 | 5,527 |
| **Net cash provided by operating activities** | 71,585 | 2,097 | 1,141 | 74,823 | 58,066 | 4,570 | 2,319 | 64,955 |
| **Cash flows from non-capital financing activities:** | | | | | | | | |
| Proceeds from issuance of bonds | 226,606 | - | - | 226,606 | 274,973 | - | - | 274,973 |
| Costs of bond issuance | (2,960) | - | - | (2,960) | (3,005) | - | - | (3,005) |
| Bond interest paid | (66,389) | - | - | (66,389) | (64,178) | - | - | (64,178) |
| Principal payments on bonds payable | (323,813) | - | - | (323,813) | (126,593) | - | - | (126,593) |
| Contribution to the Commonwealth | - | - | (1,000) | (1,000) | - | - | (1,000) | (1,000) |
| Net asset transfers | 6,591 | (1,350) | (5,241) | - | 15,232 | (5,942) | (9,290) | - |
| **Net cash (used in) provided by non-capital financing activities** | (159,965) | (1,350) | (6,241) | (167,556) | 96,429 | (5,942) | (10,290) | 80,197 |
| **Cash flows from capital financing activities:** | | | | | | | | |
| Purchase of capital equipment and software development | - | - | (366) | (366) | - | - | (453) | (453) |
| **Net cash used in capital financing activities** | - | - | (366) | (366) | - | - | (453) | (453) |
| **Cash flows from investing activities:** | | | | | | | | |
| Proceeds from maturity/sale of investments | 15,356 | 17,735 | 5,550 | 38,641 | 7,137 | 32,188 | 9,002 | 48,327 |
| Purchases of investments | (7,274) | (18,708) | (1) | (25,983) | (8,051) | (31,534) | (366) | (39,951) |
| Interest and dividends received on cash and investments | 298 | 56 | 1 | 355 | 272 | 93 | 2 | 367 |
| Arbitrage rebate payments | (43) | - | 548 | 505 | (131) | - | 87 | (44) |
| **Net cash provided by (used in) investing activities** | 8,337 | (917) | 6,098 | 13,518 | (773) | 747 | 8,725 | 8,699 |
| **Net (decrease) increase in cash and cash equivalents** | (80,043) | (170) | 632 | (79,581) | 153,722 | (625) | 301 | 153,398 |
| **Cash and cash equivalents, beginning of year** | 406,662 | 818 | 862 | 408,342 | 252,940 | 1,443 | 561 | 254,944 |
| **Cash and cash equivalents, end of year** | $ 326,619 | $ 648 | $ 1,494 | $ 328,761 | $ 406,662 | $ 818 | $ 862 | $ 408,342 |

The accompanying notes are an integral part of the financial statements.

## Massachusetts Educational Financing Authority
**Statements of Cash Flows, Continued**
**For the years ended June 30, 2013 and 2012**

| Reconciliation of operating income/(loss) to net cash provided by operating activities: | 2013 Trusteed Funds | 2013 College Savings Funds | 2013 Authority Funds | 2013 Total | 2012 Trusteed Funds | 2012 College Savings Funds | 2012 Authority Funds | 2012 Total |
|---|---|---|---|---|---|---|---|---|
| **Operating income/(loss)** | $ 6,937 | $ 1,278 | $ (516) | $ 7,699 | $ 6,917 | $ 2,920 | $ 1,485 | $ 11,322 |
| **Adjustments to reconcile operating income/(loss) to net cash provided by operating activities:** | | | | | | | | |
| Depreciation expense | - | - | 790 | 790 | - | - | 879 | 879 |
| Provision for doubtful educational loan notes receivable | 6,089 | - | - | 6,089 | 5,268 | - | (1,683) | 3,585 |
| Costs of bond issuance | 2,960 | - | - | 2,960 | 3,005 | - | - | 3,005 |
| Bond interest expense | 64,554 | - | - | 64,554 | 61,143 | - | - | 61,143 |
| Changes in assets and liabilities: | | | | | | | | |
| Educational loan notes receivable | (8,309) | - | 783 | (7,526) | (26,035) | - | 1,196 | (24,839) |
| Interest receivable on educational loan notes | (639) | - | 1 | (638) | 7,595 | - | 19 | 7,614 |
| Accounts payable and accrued expenses | (24) | 1,037 | 110 | 1,123 | 207 | 1,679 | (35) | 1,851 |
| Prepaid expenses and other assets | 17 | (218) | (27) | (228) | (34) | (29) | 458 | 395 |
| **Net cash provided by operating activities** | $ 71,585 | $ 2,097 | $ 1,141 | $ 74,823 | $ 58,066 | $ 4,570 | $ 2,319 | $ 64,955 |

The accompanying notes are an integral part of the financial statements.

## Massachusetts Educational Financing Authority
**Statements of Net Position**
**June 30, 2013 and 2012**

| | 2013 | | | | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | **Issue E Total** | **FRN of 2008** | **Issue H of 2008** | **Issue I Total** | **Issue J Total** | **Issue K Total** | **Trusteed Funds** | **Issue E Total** | **FRN of 2008** | **Issue H of 2008** | **Issue I Total** | **Issue J Total** | **Trusteed Funds** |
| **Current assets** | | | | | | | | | | | | | |
| Cash and cash equivalents (Notes 3 and 4) | $ 21,209 | $ 8,114 | $ 17,124 | $ 65,086 | $ 11,208 | $ 918 | $ 123,659 | $ 94,281 | $ 13,502 | $ 16,590 | $ 58,267 | $ 8,693 | $ 191,333 |
| Investments, at fair value (Notes 3 and 4) | 2,914 | - | - | - | - | - | 2,914 | 10,996 | - | - | - | - | 10,996 |
| Education loan notes receivable, net (Notes 5 and 10) | 71,879 | 14,913 | 13,323 | 57,697 | 16,511 | 6,756 | 181,079 | 75,987 | 16,352 | 11,920 | 54,686 | 5,306 | 164,251 |
| Interest receivable on educational loan notes | 1,012 | 861 | 4,235 | 16,464 | 8,203 | 147 | 30,922 | 4,879 | 1,341 | 6,868 | 15,067 | 2,127 | 30,282 |
| Prepaid expenses and other assets | 10 | 5 | 1 | 29 | 18 | - | 63 | 10 | 5 | 46 | 18 | - | 79 |
| Interest receivable for cash, cash equivalents, and investments | 2 | - | - | - | - | - | 2 | 3 | - | - | - | - | 3 |
| Interfund balances | (231) | - | - | - | - | (169) | (400) | (337) | - | - | - | (35) | (372) |
| **Total current assets** | 96,795 | 23,893 | 34,683 | 139,276 | 35,940 | 7,652 | 338,239 | 185,819 | 31,200 | 35,424 | 128,038 | 16,091 | 396,572 |
| **Noncurrent assets** | | | | | | | | | | | | | |
| Cash and cash equivalents (Notes 3 and 4) | - | 754 | 4,208 | 10,900 | 34,607 | 152,491 | 202,960 | - | 754 | 4,707 | 12,892 | 196,976 | 215,329 |
| Derivative Instruments - caps (Notes 3 and 7) | 1,557 | - | - | - | - | - | 1,557 | 1,797 | - | - | - | - | 1,797 |
| Educational loan notes receivable, net (Notes 5 and 10) | 237,071 | 126,660 | 118,326 | 462,961 | 227,469 | 101,488 | 1,273,975 | 393,431 | 159,309 | 133,407 | 524,970 | 77,465 | 1,288,582 |
| **Total assets** | $ 335,423 | $ 151,307 | $ 157,217 | $ 613,137 | $ 298,016 | $ 261,631 | $ 1,816,731 | $ 581,047 | $ 191,263 | $ 173,538 | $ 665,900 | $ 290,532 | $ 1,902,280 |
| **Liabilities** | | | | | | | | | | | | | |
| **Current liabilities** | | | | | | | | | | | | | |
| Accounts payable and accrued expenses | $ 135 | $ 110 | $ 50 | $ 161 | $ 113 | $ 434 | $ 1,003 | $ 217 | $ 137 | $ 95 | $ 170 | $ 449 | $ 1,068 |
| Bonds payable - current portion (Note 6) | 12,735 | - | - | 17,907 | - | - | 30,642 | 11,640 | - | - | 22,557 | - | 34,197 |
| Accrued bond interest payable | 5,536 | 326 | 4,453 | 14,310 | 6,647 | 122 | 31,394 | 6,141 | 474 | 4,982 | 15,549 | 2,793 | 29,939 |
| **Total current liabilities** | 18,406 | 436 | 4,503 | 32,378 | 6,760 | 556 | 63,039 | 17,998 | 611 | 5,077 | 38,276 | 3,242 | 65,204 |
| **Noncurrent liabilities** | | | | | | | | | | | | | |
| Bonds payable - net of current portion (Note 6) | 273,840 | 142,443 | 140,250 | 530,891 | 274,795 | 226,606 | 1,588,825 | 509,375 | 179,734 | 156,910 | 585,080 | 274,994 | 1,706,093 |
| Other liabilities | 3,521 | - | - | - | - | - | 3,521 | 2,275 | - | - | - | - | 2,275 |
| **Total liabilities** | 295,767 | 142,879 | 144,753 | 563,269 | 281,555 | 227,162 | 1,655,385 | 529,648 | 180,345 | 161,987 | 623,356 | 278,236 | 1,773,572 |
| **Deferred inflow of resources** | | | | | | | | | | | | | |
| Gain on bond refunding (Notes 6 and 15) | - | - | - | 11,489 | - | 9,263 | 20,752 | - | - | - | 13,867 | - | 13,867 |
| Hedging instruments (Notes 3 and 7) | 151 | - | - | - | - | - | 151 | 1,797 | - | - | - | - | 1,797 |
| **Total deferred inflow of resources** | 151 | - | - | 11,489 | - | 9,263 | 20,903 | 1,797 | - | - | 13,867 | - | 15,664 |
| **Total liabilities and deferred inflows of resources** | 295,918 | 142,879 | 144,753 | 574,758 | 281,555 | 236,425 | 1,676,288 | 531,445 | 180,345 | 161,987 | 637,223 | 278,236 | 1,789,236 |
| **Net assets** | | | | | | | | | | | | | |
| Restricted | 39,502 | 8,428 | 12,464 | 38,379 | 16,461 | 25,206 | 140,440 | 49,568 | 10,918 | 11,551 | 28,677 | 12,296 | 113,010 |
| Unrestricted | 3 | - | - | - | - | - | 3 | 34 | - | - | - | - | 34 |
| **Total net position** | 39,505 | 8,428 | 12,464 | 38,379 | 16,461 | 25,206 | 140,443 | 49,602 | 10,918 | 11,551 | 28,677 | 12,296 | 113,044 |
| **Total liabilities, deferred inflows and net position** | $ 335,423 | $ 151,307 | $ 157,217 | $ 613,137 | $ 298,016 | $ 261,631 | $ 1,816,731 | $ 581,047 | $ 191,263 | $ 173,538 | $ 665,900 | $ 290,532 | $ 1,902,280 |

The accompanying notes are an integral part of the financial statements.

## Massachusetts Educational Financing Authority

**Statements of Revenues, Expenses and Changes in Net Position**

**For the years ended June 30, 2013 and 2012**

| | 2013 | | | | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating revenues** | **Issue E Total** | **FRN of 2008** | **Issue H of 2008** | **Issue I Total** | **Issue J Total** | **Issue K Total** | **Trusteed Funds** | **Issue E Total** | **FRN of 2008** | **Issue H of 2008** | **Issue I Total** | **Issue J Total** | **Trusteed Funds** |
| Interest on education loan notes receivable (Note 3) | $ 20,567 | $ 2,554 | $ 11,376 | $ 39,105 | $ 13,861 | $ 49 | $ 87,512 | $ 23,535 | $ 3,395 | $ 12,660 | $ 41,198 | $ 3,852 | $ 84,640 |
| Loan origination and other fees, net | - | - | - | (2) | 6,545 | - | 6,543 | - | - | - | 3,433 | 3,193 | 6,626 |
| **Total operating revenues** | 20,567 | 2,554 | 11,376 | 39,103 | 20,406 | 49 | 94,055 | 23,535 | 3,395 | 12,660 | 44,631 | 7,045 | 91,266 |
| **Operating expenses** | | | | | | | | | | | | | |
| Bond interest expense | 13,827 | 2,075 | 9,137 | 26,299 | 13,094 | 122 | 64,554 | 14,503 | 2,677 | 10,154 | 28,470 | 5,339 | 61,143 |
| Bond insurance | 450 | - | 175 | - | - | - | 625 | 461 | - | 194 | - | - | 655 |
| Costs of bond issuance | - | - | - | - | 6 | 2,954 | 2,960 | - | - | - | - | 3,005 | 3,005 |
| Provision for doubtful educational loan notes receivable | 1,361 | 134 | 601 | 751 | 2,152 | 1,090 | 6,089 | 522 | 79 | (4) | 3,543 | 1,128 | 5,268 |
| Credit decision fees | - | - | - | - | 419 | - | 419 | - | - | - | 114 | 193 | 307 |
| General and administrative (Notes 3, 11, 12, and 13) | 5,769 | 2,831 | 511 | 2,154 | 580 | 52 | 11,897 | 6,350 | 2,682 | 2,539 | 2,169 | 143 | 13,883 |
| Other expense | 326 | 5 | 41 | 202 | - | - | 574 | 43 | 11 | 1 | 33 | - | 88 |
| **Total operating expenses** | 21,733 | 5,045 | 10,465 | 29,406 | 16,251 | 4,218 | 87,118 | 21,879 | 5,449 | 12,884 | 34,329 | 9,808 | 84,349 |
| **Operating (loss)/income** | (1,166) | (2,491) | 911 | 9,697 | 4,155 | (4,169) | 6,937 | 1,656 | (2,054) | (224) | 10,302 | (2,763) | 6,917 |
| **Nonoperating revenues (expenses)** | | | | | | | | | | | | | |
| Gain on Bond Redemption | 13,885 | - | - | - | - | - | 13,885 | 788 | - | - | - | - | 788 |
| Interest and dividends | 1,242 | 1 | 2 | 5 | 10 | - | 1,260 | 230 | - | 1 | 9 | 6 | 246 |
| Arbitrage income (Note 3) | 191 | - | - | - | - | - | 191 | (50) | - | - | - | - | (50) |
| Commitment fees to participating schools (Note 8) | (1,437) | - | - | - | - | - | (1,437) | (1,893) | - | - | - | - | (1,893) |
| Yield restriction on educational loan notes receivable | - | - | - | - | - | - | - | (448) | - | - | - | - | (448) |
| Net asset transfers | (22,812) | - | - | - | - | 29,375 | 6,563 | 94 | - | - | - | 15,116 | 15,210 |
| **Net non-operating (expense)/revenues** | (8,931) | 1 | 2 | 5 | 10 | 29,375 | 20,462 | (1,279) | - | 1 | 9 | 15,122 | 13,853 |
| **Total increase/(decrease) in net position** | (10,097) | (2,490) | 913 | 9,702 | 4,165 | 25,206 | 27,399 | 377 | (2,054) | (223) | 10,311 | 12,359 | 20,770 |
| **Net position, beginning of year** | 49,602 | 10,918 | 11,551 | 28,677 | 12,296 | - | 113,044 | 49,225 | 12,972 | 11,774 | 18,366 | (63) | 92,274 |
| **Net position, end of year** | $ 39,505 | $ 8,428 | $ 12,464 | $ 38,379 | $ 16,461 | $ 25,206 | $ 140,443 | $ 49,602 | $ 10,918 | $ 11,551 | $ 28,677 | $ 12,296 | $ 113,044 |

The accompanying notes are an integral part of the financial statements.

**Massachusetts Educational Financing Authority**

**Statements of Cash Flows**

**For the years ended June 30, 2013 and 2012**

| | 2013 | | | | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities:** | **Issue E Total** | **FRN of 2008** | **Issue H of 2008** | **Issue I Total** | **Issue J Total** | **Issue K Total** | **Trusteed Funds** | **Issue E Total** | **FRN of 2008** | **Issue H of 2008** | **Issue I Total** | **Issue J Total** | **Trusteed Funds** |
| Payments for disbursed loans | $ - | $ - | $ - | $ - | $ (164,789) | $ - | $ (164,789) | $ 55 | $ - | $ 30 | $ (83,178) | $ (82,367) | $ (165,460) |
| Payments received on outstanding loan principal | 53,181 | 35,414 | 17,064 | 64,344 | 10,056 | 251 | 180,310 | 54,399 | 38,572 | 16,769 | 61,597 | 2,288 | 173,625 |
| General & administrative payments | (6,257) | (2,858) | (686) | (2,175) | (1,730) | 382 | (13,324) | (6,948) | (2,765) | (2,725) | (2,518) | (176) | (15,132) |
| Interest received on education loans | 20,449 | 1,575 | 9,982 | 31,406 | 6,080 | (99) | 69,393 | 21,916 | 1,915 | 9,508 | 30,307 | 1,387 | 65,033 |
| Proceeds from other sources | - | (5) | - | - | - | - | (5) | - | - | - | - | - | - |
| **Net cash provided by (used in) operating activities** | 67,373 | 34,126 | 26,360 | 93,575 | (150,383) | 534 | 71,585 | 69,422 | 37,722 | 23,582 | 6,208 | (78,868) | 58,066 |
| **Cash flows from non-capital financing activities** | | | | | | | | | | | | | |
| Proceeds from issuance of bonds | - | - | - | - | - | 226,606 | 226,606 | - | - | - | - | 274,973 | 274,973 |
| Costs of bond issuance | - | - | - | - | (6) | (2,954) | (2,960) | - | - | - | - | (3,005) | (3,005) |
| Bond interest paid | (14,432) | (2,223) | (9,666) | (30,628) | (9,440) | - | (66,389) | (14,856) | (2,685) | (10,596) | (33,518) | (2,523) | (64,178) |
| Principal payments on bonds payable | (211,736) | (37,292) | (16,660) | (58,125) | - | - | (323,813) | (15,032) | (31,241) | (13,900) | (66,420) | - | (126,593) |
| Net asset transfers | 77,403 | - | - | - | (35) | (70,777) | 6,591 | 204 | - | - | (60) | 15,088 | 15,232 |
| **Net cash (used in) provided by non-capital financing activities** | (148,765) | (39,515) | (26,326) | (88,753) | (9,481) | 152,875 | (159,965) | (29,684) | (33,926) | (24,496) | (99,998) | 284,533 | 96,429 |
| **Cash flows from investing activities:** | | | | | | | | | | | | | |
| Proceeds from maturity/sale of investments | 15,356 | - | - | - | - | - | 15,356 | 5,335 | - | 1,802 | - | - | 7,137 |
| Purchases of investments | (7,274) | - | - | - | - | - | (7,274) | (8,024) | - | (27) | - | - | (8,051) |
| Interest and dividends received on cash and investments | 281 | 1 | 1 | 5 | 10 | - | 298 | 229 | 2 | 28 | 9 | 4 | 272 |
| Arbitrage rebate payments | (43) | - | - | - | - | - | (43) | (131) | - | - | - | - | (131) |
| **Net cash provided by (used in) investing activities** | 8,320 | 1 | 1 | 5 | 10 | - | 8,337 | (2,591) | 2 | 1,803 | 9 | 4 | (773) |
| **Net (decrease) increase in cash and cash equivalents** | (73,072) | (5,388) | 35 | 4,827 | (159,854) | 153,409 | (80,043) | 37,147 | 3,798 | 889 | (93,781) | 205,669 | 153,722 |
| **Cash and cash equivalents, beginning of year** | 94,281 | 14,256 | 21,297 | 71,159 | 205,669 | - | 406,662 | 57,134 | 10,458 | 20,408 | 164,940 | - | 252,940 |
| **Cash and cash equivalents, end of year** | $ 21,209 | $ 8,868 | $ 21,332 | $ 75,986 | $ 45,815 | $ 153,409 | $ 326,619 | $ 94,281 | $ 14,256 | $ 21,297 | $ 71,159 | $ 205,669 | $ 406,662 |

The accompanying notes are an integral part of the financial statements.

## Massachusetts Educational Financing Authority
**Statements of Cash Flows, Continued**
**For the years ended June 30, 2013 and 2012**

| | 2013 | | | | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Reconciliation of operating income/(loss) to net cash provided by (used in) operating activities:** | **Issue E Total** | **FRN of 2008** | **Issue H of 2008** | **Issue I Total** | **Issue J Total** | **Issue K Total** | **Trusteed Funds** | **Issue E Total** | **FRN of 2008** | **Issue H of 2008** | **Issue I Total** | **Issue J Total** | **Trusteed Funds** |
| **Operating income/(loss)** | $ (1,166) | $ (2,491) | $ 911 | $ 9,697 | $ 4,155 | $ (4,169) | $ 6,937 | $ 1,656 | $ (2,054) | $ (224) | $ 10,302 | $ (2,763) | $ 6,917 |
| **Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:** | | | | | | | | | | | | | |
| Provision for doubtful educational loan notes receivable | 1,361 | 134 | 601 | 751 | 2,152 | 1,090 | 6,089 | 522 | 79 | (4) | 3,543 | 1,128 | 5,268 |
| Cost of Issuance | - | - | - | - | 6 | 2,954 | 2,960 | - | - | - | - | 3,005 | 3,005 |
| Educational loan notes swap | (109,585) | - | - | - | - | 109,585 | - | | | | | | |
| Bond interest expense | 13,827 | 2,075 | 9,137 | 26,299 | 13,094 | 122 | 64,554 | 14,503 | 2,677 | 10,154 | 28,470 | 5,339 | 61,143 |
| Changes in assets and liabilities: | | | | | | | | | | | | | |
| Educational loan notes receivable | 159,107 | 33,955 | 13,079 | 58,246 | (163,361) | (109,335) | (8,309) | 44,997 | 36,236 | 11,716 | (35,085) | (83,899) | (26,035) |
| Interest receivable on educational loan notes | 3,867 | 480 | 2,633 | (1,397) | (6,075) | (147) | (639) | 7,881 | 868 | 1,933 | (960) | (2,127) | 7,595 |
| Accounts payable and accrued expenses | (38) | (27) | (46) | (10) | (337) | 434 | (24) | (137) | (84) | 52 | (73) | 449 | 207 |
| Prepaid expenses and other assets | - | - | 45 | (11) | (17) | - | 17 | - | - | (45) | 11 | - | (34) |
| **Net cash provided by (used in) operating activities** | $ 67,373 | $ 34,126 | $ 26,360 | $ 93,575 | $ (150,383) | $ 534 | $ 71,585 | $ 69,422 | $ 37,722 | $ 23,582 | $ 6,208 | $ (78,868) | $ 58,066 |

The accompanying notes are an integral part of the financial statements.