Massachusetts Educational Financing Authority

Financial Statements with Management's Discussion and Analysis

June 30, 2014 and 2013

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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, 2014 (FY2014), 2013 (FY2013) and 2012 (FY2012). 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. As part of the FFELP, the U.S. Department of Education (the "ED") makes special allowance payments based upon the type of loan and regulations in effect at the time of origination and could result in the loan yield to the lender being higher than the rate charged to 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 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.

RECLASSIFICATION

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

CHANGES TO THE FINANCIAL STATEMENTS

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 FY2013. 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 FY2012.

FISCAL YEAR DEVELOPMENTS

In May, 2014, Standard & Poor's Ratings Services assigned its AA- issuer credit rating (ICR) to the Authority. An issuer credit rating is a current opinion of an obligor's overall financial capacity to pay its financial obligations and a rating of AA- indicates an obligor has a very strong capacity to meet these financial obligations. The AA- rating assigned is due to the Authority's asset quality, growing profitability, liquidity, overall management and strength of its bond portfolio.

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, 2014, no fees had been proposed or assessed to the Authority through this process.

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 $177M in private loans in FY2014 compared to $165M in FY2013. In the U.Fund, net assets continued to grow, increasing 15% in FY2014 and 12% in FY2013. Contributions to the U.Fund increased by 7% in FY2014, compared to an increase of 15% in FY2013. For the U.Plan program, the Authority had $14.1M of matured tuition certificates on its financial statements as a liability to program participants at the end of FY2014 and $7M of deposits for the purchase of tuition certificates effective August 1, 2014. 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 $172.1M at the end of FY2014, which represents an increase of $10M or 6% 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 $90.8M and represents 86% of total revenues in an improving consumer credit environment. Interest expense on bonds outstanding, was $66.3M, or 70% of total expenses. The Authority's general and administrative expenses increased by 1% to $17.6M and represented 19% of total operating expenses. The Authority purchased in lieu of redemption approximately $3.5M in outstanding auction rate bonds during FY2014 resulting in a gain of $489K. Non-operating revenues include investment interest and dividend income of $291K as assets continue to be invested in a portfolio of vehicles providing short-term flexibility and principal protection. Non-operating expenses decreased to $1.6M mostly due to a decrease in loan program related expenses in FY2014.

OPERATING AND NON-OPERATING RESULTS

The following illustrates the comparative results of total revenues from fiscal years ended June 30, 2014, 2013 and 2012, respectively:

(in thousands)

	2014		2013		2012	
Operating revenues						
Interest on educational loan notes receivable	$	90,799	$	87,601	$	84,788
Non-interest revenues		13,466		13,103		12,566
Total operating revenues		104,265		100,704		97,354
Non-operating revenues		792		15,940		1,166
Total revenues	$	105,057	$	116,644	$	98,520

Total operating revenues for the Authority were $104M in FY2014; an increase of 4% compared to the prior fiscal year and represents a third consecutive year of total operating revenue growth.

Interest income on education loan notes receivable increased by 4% from FY2013 due to an increase in education loan originations and represented 87% of total operating revenues. The Authority disbursed $177M in new loans in FY2014 compared to $165M in FY2013. Non-interest revenues, which were comprised of loan origination fees, college savings plan revenues and other income, were $13.5M in FY2014, an increase of 3% from the prior fiscal year. Loan origination fees increased 8% to $7.5M in FY2014 due to increased loan originations and represented 55% of non-interest revenues. College savings plan revenues increased by 6% to $4.7M in 2014 as a result of an increase in assets under management in the U.Fund and represented approximately 35% of non-interest revenues. Other non-interest operating revenues were $1.3M in FY2014 and represented 10% on non-interest revenues, which is consistent with prior fiscal years.

Total non-operating revenues for the Authority were $792K in FY2014, a decrease of $15M compared to the prior fiscal year which included a significant gain on bond redemptions of $13.9M.

Non-operating revenues included a $489K gain on bond redemptions resulting from $3.5M of outstanding auction rate bonds purchased in lieu of redemption in FY2014, compared to a $13.9M gain on bond redemptions resulting from $223M of outstanding auction rate bonds redeemed in FY2013. As the Federal Reserve maintained its interest rate policies related to the macro-economic environment, interest rate levels remained suppressed in FY2014 and the investment portfolio reacted accordingly by producing $291K of interest and dividend income. Interest and dividend income included $228K from Trustee investments, a 23% decrease from FY2013 and $63K from college savings and Authority investments, which were flat, compared to the prior fiscal year. In FY2013, the Authority also recognized non-operating revenue of $961K relating to the change in fair value of non-hedging derivatives and $739K of arbitrage rebate income.

As a result of these activities, total revenues decreased by $11.6M or 10% compared to the prior fiscal year, which included a significant gain on bond redemption of $13.9M.

The following illustrates the comparative results of total expenses from fiscal years ended June 30, 2014, 2013 and 2012, respectively:

(in thousands)

	2014		2013		2012	
Operating expenses						
Interest expense on bonds outstanding	$	66,325	$	64,554	$	61,143
Non-interest expenses		27,457		28,451		24,889
Total operating expenses		93,782		93,005		86,032
Non-operating expenses		1,554		2,437		3,333
Total expenses	$	95,336	$	95,442	$	89,365

Total operating expenses for the Authority were $94M in FY2014, an increase of less than 1% compared to the prior fiscal year.

Interest expense for bonds outstanding increased by 3% from FY2013 and represented 71% of operating expenses in FY2014, which is consistent with prior years. The increase in bond interest expense is primarily due to a full year of interest expense in the current fiscal year for bonds issued at the end of FY2013 and was partially offset by a decrease in interest expense resulting from auction rate bonds purchased in lieu of redemption at the end of FY2013.

Non-interest operating expense decreased by $1M or 4% in FY2014. The provision for doubtful educational loan notes increased to $6.4M in FY2014 as compared to $6.1M in FY2013 and represented 23%, 21% and 14% of total non-interest operating expenses for each year presented. General and administrative expenses were $17.6M in FY2014, an increase of 1% from FY2013 and represented 64%, 61%, and 68% of total non-interest operating expenses for each year presented. Bond issuance costs were $1.8M in FY2014 compared to $3M in FY2013.

Non-operating expenses for the Authority were $1.6M in FY2014, a decrease of $883K or 36% compared to the prior fiscal year.

FY2014 non-operating expenses included a $554K fair value adjustment related to non-hedging interest rate cap derivatives. All fiscal years presented include a $1M payment to the Commonwealth for program and administrative expenditures for higher educational services to Massachusetts students that began in FY2009. The Authority also recorded commitment fee reimbursements of $1.4M and $1.9M in FY2013 and FY2012, respectively, related to historical originations that incorporated this program feature.

As a result of these activities, total expenses decreased by $106K or less than 1% compared to 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, 2014, 2013 and 2012, respectively:

(in thousands)

	2014	2013	2012
Operating revenues	$ 104,265	$ 100,704	$ 97,354
Operating expenses	93,782	93,005	86,032
Operating income	10,483	7,699	11,322
Non-operating revenues	792	15,940	1,166
Non-operating expenses	1,554	2,437	3,333
Non-operating (loss) income	(762)	13,503	(2,167)
Increase in net position	$ 9,721	$ 21,202	$ 9,155

The Authority had operating income of $10.5M in FY2014, which was an increase of $2.8M from FY2013 operating income. FY2014 operating income reflects a 4% increase in operating revenues mostly driven by a $3.2M increase in education loan notes interest income. Operating expense increased by less than 1% as increased bond interest expense was partially offset by a decrease in cost of issuance expense. FY2013 operating income decreased by $3.6M, or 32%, to $7.7M. FY2013 operating revenues increased 4% as interest on education loan notes increased by $2.8M and operating expense increased 8% due to increased bond interest expense and an increase in the provision for education loan loss expense.

The Authority had a non-operating loss in FY2014 of $762K representing a $14.3M decrease from non-operating income in FY2013. Non-operating revenue decreased by $15.1M compared to the prior fiscal year which included a $13.9M gain from the purchase in lieu of redemption of $223M of outstanding auction rate debt. FY2013 non-operating revenues also included a $962K fair value adjustment related to non-hedging interest rate cap derivatives as well as arbitrage rebate income of $739K. FY2014 non-operating expense decreased by $883K and included a $554K fair value adjustment related to non-hedging interest rate cap derivatives. 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 $9.7M during FY2014.

FINANCIAL POSITION

The following table reflects the condensed Statement of Net Position at June 30, 2014 compared to the prior fiscal years ended 2013 and 2012. 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)

	2014	2013	2012
Assets			
Cash and investments	$ 402,091	$ 366,981	$ 459,570
Education loan notes receivable	1,472,148	1,458,096	1,456,659
Other assets	37,893	36,135	35,933
Total assets	1,912,132	1,861,212	1,952,162
Liabilities			
Bonds payable	1,661,365	1,619,467	1,740,290
Bond interest payable	33,648	31,394	29,939
Other liabilities	26,990	27,094	25,117
Total liabilities	1,722,003	1,677,955	1,795,346
Deferred Inflows			
Gain on bond refunding	17,965	20,752	13,867
Hedging instruments	89	151	1,797
Total deferred inflows	18,054	20,903	15,664
Net Position			
Invested in capital assets	884	1,314	1,738
Restricted	162,904	150,593	123,040
Unrestricted	8,287	10,447	16,374
Total net position	$ 172,075	$ 162,354	$ 141,152

Total net position was $172.1M at June 30, 2014, an increase of $9.7M, or 6%.

The 10% increase in cash and investments was the net result of $62M of net cash provided by loan and college savings program operating activities and $27M of net cash used in debt service and bond financing activities. Education loan notes receivable remained consistent year over year. The three-year ratio trend of education loan note receivables to total assets was 77%, 78% and 75% at June 30, 2014, 2013 and 2012, respectively. Other assets increased by 5% mostly due to an increase in interest receivable on education loan notes resulting from new loan originations.

Bonds payable increased 3% in FY2014 as the Authority recognized the net impact of new transaction issuance of $201M and bond retirements of $158M. Accrued bond interest payable increased by 7.2% as Issue K 2013's accrual represented a full term of interest at the end of FY2014 (versus a partial term at the end of FY2013). Other liabilities were flat compared to the prior fiscal year.

Gain on bond refunding decreased $3M or 13% in FY2014 due to the current year amortization of gains deferred in previous fiscal years. Hedging instruments decreased by 42% due to a fair value adjustment relating to interest rate cap derivatives.

Within net position, 95% is comprised of invested in capital assets and those assets that are restricted through bond resolutions and program specific regulations. Restricted assets in FY2014 increased by 8.2% over the prior year and unrestricted net assets decreased by 21% 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 $365.1M, $328.8M, and $408.3M at June 30, 2014, 2013 and 2012, 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, 2014, 2013 and 2012, 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

	FY2014	FY2013	FY2012
Allowance at beginning of period	$39,867	$33,778	$30,193
Provision for Education Loan Losses	$6,406	$6,089	$3,585
Allowance at end of period	$46,273	$39,867	$33,778
Gross Loan Defaults	$16,161	$22,948	$24,268
Recoveries	$9,983	$10,261	$9,078
Net Loan Defaults	$6,178	$12,687	$15,190
Net Loan Defaults as a percentage of average loans in repayment	0.52%	1.07%	1.30%
Allowance multiple of Average Non-Current Loans in Repayment (90+ days)	2.13	1.65	1.34
Allowance as a percentage of the ending total loan balance	3.23%	2.81%	2.37%
Allowance as a percent of ending loans in repayment	3.88%	3.36%	2.84%
Ending total loans, gross	$1,432,072	$1,418,044	$1,423,891
12 Month Average in repayment	$1,192,776	$1,186,646	$1,172,081
Ending loans in repayment	$1,193,371	$1,185,723	$1,189,571
12 Month Average 90+ Days delinquent	$21,683	$24,165	$25,298
90+ Days delinquent % of Avg. Repayment	1.82%	2.04%	2.16%

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 2014, 2013 and 2012.

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, 2014, the total principal balance outstanding of loans in a modification status was $57M, or 5% of all loans in repayment. At June 30, 2014, these modified loans were 93% current, defined as less than 30 days past due, in regard to monthly payments received under the modified terms.

During FY2014, the Authority continued its methodology for estimating the allowance for doubtful accounts. The FY14 provision for education loan losses was $6.4M and increased the allowance for doubtful accounts to $46M. The FY13 provision for education loan losses was $6.1M. The amount of loans in repayment increased by $8M, or 1%, in FY2014 and decreased $4M, or less than 1% in FY2013. The amount of loans in deferment at June 30, 2014 increased by 3% to $238M or 17% of gross education loan receivables. The amount of loans in deferment at June 30, 2013 decreased by 1% to $231M or 16% of gross education loan receivables. Approximately $4M of the defaulted loan provision allowance is allocated to education loans in deferment in FY2014. For the prior years, approximately $3.3M in FY2013 and $2.8M in FY2012 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, 2014, the Authority had $1.7B of principal debt outstanding which represented a 3% increase from FY2013. 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 represent 90% of the outstanding bond portfolio (increase from 88% in FY2013 and 74% in FY2012)
- 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 (no change from 0.7% in FY 2013 and a decrease from 4% in FY 2012)
- 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 (no change from 1% in FY2013 and a decrease from 3% in FY2012)
- 28 day taxable auction rate bonds that were issued to fund variable rate private loans were 1% of the outstanding bond portfolio (no change from 1% in FY2013 and a decrease from 8% in FY2012)
- 7 day taxable auction rate bonds that were issued to fund variable rate private loans were 0.3% of the outstanding bond portfolio (no change from 0.3% in FY2013 and a decrease from 1% in FY2012)
- Floating Rate Notes indexed to Libor that were issued in 2008 to fund existing FFELP loan products represent 7% of the outstanding bond portfolio (decrease from 9% in FY2013 and 10% in FY2012)

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, 2014, the Authority had outstanding $180M in notional derivative products, a decrease of $13M from FY2013, composed of tax-exempt and taxable bonds with a cap on the variable interest rate.

CAPITAL ASSETS

For the year ended June 30, 2014, the Authority had $884K invested in capital assets. This amount represents a net decrease (additions, disposals and depreciation) of $430K in such assets. The following reconciliation summarizes the change in capital assets. The Authority purchased $150K of new capital assets during FY2014 which were primarily related to computer hardware & software purchases.

(in thousands)

	2014	2013	2012
Beginning balance, net	$ 1,314	$ 1,739	$ 2,164
Additions	150	365	453
Depreciation	(580)	(790)	(878)
Ending balance, net	$ 884	$ 1,314	$ 1,739

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.

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Independent Auditor's Report

To 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, 2014 and June 30, 2013, 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 respective financial position of the Massachusetts Educational Financing Authority at June 30, 2014 and June 30, 2013, and the respective 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.

Other Matters

The accompanying Management's Discussion and Analysis ("MD&A") for the years ended June 30, 2014, 2013 and 2012 on pages 1 through 10 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 MD&A and 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 financial statements that collectively comprise the Authority's basic financial statements. The supplemental information on pages 38 through 45 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplemental 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 supplemental 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 19, 2014

Massachusetts Educational Financing Authority
Statements of Net Position
As of June 30, 2014 and 2013
(in thousands)

	2014	2013
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 4)	$ 138,478	$ 125,143
Investments, at fair value (Notes 3 and 4)	24,131	24,634
Education loan notes receivable, net (Notes 5 and 10)	193,677	183,536
Interest receivable on educational loan notes	33,934	30,942
Prepaid expenses and other assets	2,134	2,320
Interest receivable for cash, cash equivalents and investments	-	2
Total current assets	392,354	366,577
Non-current assets		
Cash and cash equivalents (Notes 3 and 4)	226,644	203,618
Investments, at fair value (Notes 3 and 4)	12,838	13,586
Derivative instruments – caps (Notes 3 and 7)	941	1,557
Education loan notes receivable, net (Notes 5 and 10)	1,278,471	1,274,560
Capital equipment, net of accumulated depreciation (Note 13)	884	1,314
Total assets	$ 1,912,132	$ 1,861,212
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 16,443	$ 16,504
Bonds payable – current portion (Note 6)	27,253	30,642
Certificates payable (Note 9)	7,030	6,870
Accrued bond interest payable	33,648	31,394
Total current liabilities	84,374	85,410
Non-current liabilities		
Bonds payable – net of current portion (Note 6)	1,634,112	1,588,825
Other liabilities (Note 8)	3,517	3,720
Total liabilities	1,722,003	1,677,955
Deferred inflows of resources		
Net gain on bond refunding (Notes 6 and 15)	17,965	20,752
Hedging instruments (Notes 3 and 7)	89	151
Total deferred inflows of resources	18,054	20,903
Total liabilities and deferred inflows of resources	1,740,057	1,698,858
Net position		
Invested in capital assets	884	1,314
Restricted	162,904	150,593
Unrestricted	8,287	10,447
Total net position	172,075	162,354
Total liabilities, deferred inflows of resources and net position	$ 1,912,132	$ 1,861,212

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, 2014 and 2013
(in thousands)

	2014	2013
Operating revenues		
Interest on education loan notes receivable (Note 3)	$ 90,799	$ 87,601
Loan origination fees	7,449	6,921
College savings plan interest and fees	4,722	4,468
Other revenue	1,295	1,714
Total operating revenues	104,265	100,704
Operating expenses		
Bond interest expense	66,325	64,554
Bond insurance	397	625
Costs of bond issuance	1,780	2,960
Provision for doubtful education loan notes receivable	6,406	6,089
Credit decision fees	843	797
General and administrative (Notes 3, 11, 12, and 13)	17,612	17,401
Other expense	419	579
Total operating expenses	93,782	93,005
Operating income	10,483	7,699
Non-operating (expenses) revenues		
Gain on bond redemption (Note 15)	489	13,885
Interest and dividends	291	355
Arbitrage rebate income (Note 3)	12	739
(Decrease) increase in fair value of derivative instruments	(554)	961
Commitment fees to participating schools (Note 8)	-	(1,437)
Contributions to the Commonwealth (Note 14)	(1,000)	(1,000)
Net non-operating (expenses) revenues	(762)	13,503
Total increase in net position	9,721	21,202
Net position, beginning of year	162,354	141,152
Net position, end of year	$ 172,075	$ 162,354

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, 2014 and 2013
(in thousands)

	2014	2013
Cash flows from operating activities:		
Payments for disbursed loans	$ (177,017)	$ (164,789)
Payments received on outstanding loan principal	179,743	181,091
General and administrative payments	(18,513)	(17,088)
Interest received on education loans	71,653	69,480
Proceeds from other sources	6,192	6,129
Net cash provided by operating activities	62,058	74,823
Cash flows from non-capital financing activities		
Proceeds from issuance of bonds	201,234	226,606
Costs of bond issuance	(1,780)	(2,960)
Bond interest paid	(68,189)	(66,389)
Principal payments on bonds payable	(157,517)	(323,813)
Contributions to the Commonwealth	(1,000)	(1,000)
Net cash used in non-capital financing activities	(27,252)	(167,556)
Cash flows from capital financing activities		
Purchase of capital equipment and software development	(150)	(366)
Net cash used in capital financing activities	(150)	(366)
Cash flows from investing activities		
Proceeds from maturity/sale of investments	34,534	38,641
Purchases of investments	(33,122)	(25,983)
Interest and dividends received on cash and investments	293	355
Arbitrage rebate receipts	-	505
Net cash provided by investing activities	1,705	13,518
Net increase (decrease) in cash and cash equivalents	36,361	(79,581)
Cash and cash equivalents, beginning of year	328,761	408,342
Cash and cash equivalents, end of year	$ 365,122	$ 328,761

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

(in thousands)

Reconciliation of operating income to net cash provided by operating activities	2014	2013
Operating income	$10,483	$7,699
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	580	790
Provision for doubtful education loan notes receivable	6,406	6,089
Costs of bond issuance	1,780	2,960
Bond interest expense	66,325	64,554
Changes in assets and liabilities:		
Education loan notes receivable	(20,458)	(7,526)
Interest receivable on education loan notes	(2,992)	(640)
Accounts payable, accrued expenses and other liabilities	(252)	1,123
Prepaid expenses and other assets	186	(226)
Net cash provided by operating activities	$62,058	$74,823

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 not-for-profit institutions in the Commonwealth as well as Commonwealth residents attending higher education institutions out of the state. During FY2014, 107 Massachusetts and 381 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. 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. The Authority's unrestricted assets are all expendable and discussed below:

  - **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. The Authority has 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. 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.

Capital Equipment

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).* Capital equipment is defined as assets over a certain dollar threshold with an estimated useful life in excess of one year.

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, 2014 and 2013, advertising expense (included in general and administrative expenses) was $677K and $814K, 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 an increase (decrease) in fair value of investment derivative 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 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). GASB 65 requires the following major changes:

- Loan origination fees 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.

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, 2014 and 2013, respectively.

(in thousands)	Fair Value June 30, 2014	Fair Value June 30, 2013
Cash deposits	$ 857	$ 1,876
Investment agreements	400	2,914
Mutual funds:		
Fidelity Money Market Authority Funds	36,497	35,234
Fidelity Money Market Trusteed Funds	364,265	326,885
Certificate of Deposit	72	72
Total cash, cash equivalents and investments	$ 402,091	$ 366,981

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, 2014 and June 30, 2013, $708K and $1.4M 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, 2014, 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, 2014, 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	$ 388,716	1.0%
Fidelity U.S. Government Portfolio	$ 13,435,829	35.8%
Fidelity MA Municipal Fund	$ 23,259,909	61.9%
Fidelity Treasury Portfolio	$ 471,204	1.3%

Issue E Indenture	Cash and Investments	% of Total
Natixis Funding Corp	$ 395,189	1.1%
Rabobank	$ 4,915	0.1%
Bank of America	$ 344,939	1.0%
Fidelity U.S. Government Portfolio	$ 33,312,998	97.8%

Issue FRN Indenture	Cash and Investments	% of Total
Bank of America	$ 7	0.1%
Fidelity U.S. Government Portfolio	$ 7,578,012	99.9%

Issue H Indenture	Cash and Investments	% of Total
Bank of America	$ 44,250	0.2%
Fidelity U.S. Government Portfolio	$ 18,910,898	99.8%

Issue I Indenture	Cash and Investments	% of Total
Bank of America	$ 130,452	0.1%
Fidelity U.S. Government Portfolio	$ 264,023,323	99.9%

Issue J Indenture	Cash and Investments	% of Total
Bank of America	$ 13,962	0.2%
Fidelity U.S. Government Portfolio	$ 25,068,021	99.8%

Issue K Indenture	Cash and Investments	% of Total
Bank of America	$ 6,016	0.1%
Fidelity U.S. Government Portfolio	$ 14,701,756	99.9%

5. EDUCATIONAL FINANCINGS

During the years ended June 30, 2014 and 2013, respectively, the activity for the Authority's Education Loan Notes receivable was as follows:

(in thousands)

	2014	2013
Outstanding education loan notes receivable (beginning) gross	$ 1,497,963	$ 1,490,436
Increases to education loan notes receivable	200,612	189,140
Decreases to education loan notes receivable	(180,154)	(181,613)
Outstanding education loan notes receivable (ending) gross	1,518,421	1,497,963
Allowance for education loan notes receivable (beginning)	39,867	33,777
Increase to allowance for education loan notes receivable	6,406	6,090
Allowance for education loan notes receivable (ending)	46,273	39,867
Outstanding education loan notes receivable, net (ending)	$ 1,472,148	$ 1,458,096

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 for educational loan notes receivable 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. The allowance increased as a result of a $6.4M and $6.1M increase to the provision for doubtful education loan notes receivable in fiscal years 2014 and 2013, respectively. The Authority has expensed historically in aggregate a net of $39M of education loan notes related to the tax-exempt yield restrictions through FY2014. No allowance for yield restriction was required at June 30, 2014 and 2013. 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, 2014 and 2013, the total principal balance outstanding of loans in a modified status was $57M and $44M, respectively and represented approximately 5% and 4% of all loans in repayment. At June 30, 2014 and 2013, respectively, these modified loans were 93% and 94% 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, 2014, the Authority had originated loans through 985 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 $23.5M and $25.7M for fiscal years 2014 and 2013, respectively.

6. BONDS PAYABLE

The activity related to the Authority's bonds payable for the fiscal years ended 2014 and 2013 was as follows:

(in thousands)

	2014	2013
Bonds outstanding, gross beginning balance	$ 1,607,403	$ 1,731,884
Bonds issued	185,700	222,035
Bonds redeemed	(158,005)	(346,516)
Bonds outstanding, gross ending balance	1,635,098	1,607,403
Net unamortized issuance premiums	26,267	12,064
Bonds outstanding, net ending balance	$ 1,661,365	$ 1,619,467

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, 2014 mandatory annual maturities of bonds principal payable for the next five fiscal years and thereafter are as follows (in thousands):

June 30, 2014	2015	2016	2017	2018	2019	Remaining Schedule	Total Payable
2001 Issue E	-	500	-	-	-	-	500
2002 Issue E	3,035	-	-	-	-	50	3,085
2003 Issue E	-	-	-	-	-	12,900	12,900
2004 Issue E	-	-	-	-	-	3,700	3,700
2005 Issue E	-	-	-	-	-	675	675
2006 Issue E	-	-	-	-	-	19,775	19,775
2007 Issue E	-	-	-	4,370	7,430	203,175	214,975
2008 FRN	-	-	-	-	-	118,298	118,298
2008 Issue H	-	-	-	-	-	121,385	121,385
2009 Issue I	16,610	19,550	6,935	19,255	14,460	124,985	201,795
2010 Issue I	7,390	13,560	30,515	17,020	21,460	178,025	267,970
2011 Issue J	-	-	-	530	4,615	94,180	99,325
2012 Issue J	-	-	-	-	7,485	155,495	162,980
2013 Issue K	-	2,600	1,580	1,190	8,540	208,125	222,035
2014 Issue I	-	-	4,000	11,000	13,000	157,700	185,700
	$27,035	$36,210	$43,030	$53,365	$76,990	$ 1,398,468	$1,635,098

The Authority purchased in lieu of redemption $3.5M in outstanding auction rate bonds in fiscal year 2014 resulting in a gain on the retirement of the debt totaling approximately $489K, which was recognized immediately.

In July 2014, the Authority redeemed fixed rate bonds outstanding of $62.6M and $5.7M of floating rate notes.

The following is a summary of the principal maturities and estimated interest expense for the bonds payable outstanding at June 30, 2014 (in thousands):

Year Ending June 30	**Principal**	**Interest**	**Total Debt Service**
2015	27,035	69,683	96,718
2016	36,210	72,567	108,777
2017	43,030	71,046	114,076
2018	53,365	69,065	122,430
2019	76,990	66,304	143,294
2020-2024	460,865	265,871	726,736
2025-2029	609,460	133,252	742,712
2030-2034	170,720	20,741	191,461
2035-2039	157,423	6,471	163,894
	$1,635,098	$775,000	$2,410,098

Total interest expense for the years ended June 30, 2014 and 2013 was $66.3M and $64.6M, respectively. For fiscal years 2014 and 2013 there is $2.8M and $2.4M of amortization of the net deferred gain on bond program activities included in the total bond interest expense, respectively. Also, for fiscal years 2014 and 2013 bond interest expense includes $1.3M and $914K 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 and redemptions of $14.9M in 2014, the ending balance of this entire series at June 30, 2014 is $500K.

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, 2014, the rate was 0.263%). 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 redemptions of $12.6M in 2014, the ending balance of this entire series at June 30, 2014 is $3.1M.

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, 2014, the rate was 0.228%). 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, 2014, the rate was 0.30%). 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.

The ending balance of this entire series at June 30, 2014 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, 2014, 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, 2014, the rate was 0.228%). 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.

The ending balance of this entire series at June 30, 2014 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, 2014, the rate was 0.228%). 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, 2014, the rate was 0.228%). 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.

As a result of purchases in lieu of redemption of $125K in 2014, the ending balance of this entire series at June 30, 2014 is $675K.

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, 2014, the rate for 2006A-1 was 0.140% and the rate for the 2006A-2 was 0.047%). 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, 2014, the rate was 1.651%). 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, 2014, the rate was 1.260%). 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 purchases in lieu of redemption of $400K in 2014, the ending balance of this entire series at June 30, 2014 is $19.8M.

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. 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. On June 30, 2014, the remaining outstanding Series 2007B Bonds were repurchased and the series was retired.

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, 2014, the rate was 0.120%). 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, 2014, the rate was 0.146%). 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, 2014, the rate was 0.000%). 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 purchases in lieu of redemption of $2.9M in 2014, the ending balance of this entire series at June 30, 2014 is $215.0M.

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, 2014 is $118.3M.

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 redemptions of $18.9M in 2014, the ending balance of this entire series as of June 30, 2014 is $121.4M.

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 redemptions of $32.8M in FY2014, the ending balance of this entire series as of June 30, 2014 is $202.7M 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 redemptions of $42.4M in 2014, the ending balance of this entire series as of June 30, 2014 is $270.2M, 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.

As a result of redemptions of $3.5M in 2014, the ending balance of this entire series as of June 30, 2014 is $99.0M, 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.

As a result of redemptions of $5.4M in 2014, the ending balance of this entire series as of June 30, 2014 is $166.6M, including the unamortized premium that was incorporated in the initial sale of the bonds.

Issue K Series 2013
On June 20, 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 2016 to 2026 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 premium of $4.6M.

The ending balance of this entire series as of June 30, 2014 is $226.4M, including the unamortized premium that was incorporated in the initial sale of the bonds.

Issue I Series 2014
On May 8, 2014, under the Issue I 2014 Bond Resolution, the Authority issued $185.7M principal amount of bonds dated June 17, 2014 requiring annual principal payments each January 1 commencing January 1, 2017. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2015. Issue I Series 2014 Bonds mature as follows: $167.6M serial bonds which mature annually from fiscal year 2017 to 2027 in annual amounts ranging from $0.8M to $37.5M with interest at rates ranging from 3.00% to 5.00%, $18.1M of term bonds maturing in 2032 with an interest rate of 4.375%. Bonds maturing on or after January 1, 2026 are redeemable at the option of the Authority, in whole or in part, on any date on or after January 1, 2025. The Issue I Series 2014 Bonds were issued with a premium of $15.5M.

The ending balance of this entire series as of June 30, 2014 is $201.2M, 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 strategy.

Terms, fair value and credit risk

As of June 30, 2014, approximately 29% 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 71% 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 $180M in notional outstanding as of June 30, 2014, were structured to amortize until final maturity of the trade.

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

June 30, 2014
(in thousands)

Associated Bond Issue	Notional Amounts	Effective Date	Fair Values	Cap Maturity Date	Counterparty Credit Rating
Issue E 2003B	$13,640	3/13/2003	$7	January 2027	(A2/A)
Issue E 2003E	$18,830	3/10/2004	$8	January 2026	(A2/A)
Issue E 2004B	$20,280	3/31/2005	$12	January 2026	(A2/A)
Issue E 2006C	$41,800	6/13/2006	$98	July 2027	(A2/A)
Issue E 2007C	$85,000	4/5/2007	$816	January 2033	(A2/A)
	$179,550		**$941**		

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**		

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 $89.4K & $151.3K at June 30, 2014 & 2013, respectively. Derivatives that do not meet the criteria of an effective hedging relationship are considered investment derivatives and changes in fair value are presented as increase or decrease in fair value of investment derivatives on the Statement of Revenues, Expenses & Changes in Net Position. During FY2014, the decrease in fair value for investment derivatives recorded as expense was $554K. In FY2013, the fair value for investment derivatives increased and the income recorded in was $961K.

Credit Risk: As of June 30, 2014, 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 included in the other liabilities section of the Statement of Net Position at June 30, 2014 and June 30, 2013.

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, 2014 and 2013, the Authority had deposits of $7.0M and $6.9M respectively, for the purchase of tuition certificates under the Commonwealth of Massachusetts General Obligation Bonds, effective August 1, 2014 and August 1, 2013, 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
2013 College Opportunity Bonds, Series A	$	10,998	August 1, 2013	August 1, 2018 / 2033
Total	$	199,091		

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, 2014 and 2013, included in accounts payable and accrued expenses, were certificate redemptions to U.Plan participants in the amounts of $14.1M and $14.2M, 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, 2014 and 2013, the U.Fund was composed of thirty six and thirty eight 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, 2014 and 2013, net assets for the U.Fund were $4,827M and $4,182M, respectively.

10. RELATED PARTIES

During FY2014, three Members of the Authority were officers/trustees of participating institutions and during FY2013, four Members of the Authority were officers/trustees of participating institutions. During the years ended June 30, 2014 and 2013, the Authority purchased loans totaling $21.3M and $22.9M, respectively, in principal balance, from the institutions. At June 30, 2014 and 2013, $171.1M and $182.7M, 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, 2014 and 2013 were $350K and $362K, 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, 2014 and 2013 was $594K and $575K, 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, 2014, 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)

	2015	2016	2017	2018	2019	Thereafter
Minimum operating lease payments	$ 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)

	2014	2013
Minimum operating lease expenses	$ 871	$ 873
Additional operating lease expenses	135	117
Total operating lease expenses	$ 1,006	$ 990

13. CAPITAL EQUIPMENT

The activity related to the Authority's capital assets for the fiscal years ended 2014 and 2013, respectively, was as follows:

(in thousands)

	June 30, 2013	Additions	Disposals	June 30, 2014
Computer hardware	$ 597	$ 47	$ -	$ 644
Computer software	4,570	39	-	4,609
Furniture	787	-	-	787
Equipment	155	-	-	155
Leasehold improvements	495	64	-	559
Total capital equipment (at cost)	6,604	150	-	6,754
Accumulated depreciation	(5,290)	(580)	-	(5,870)
Capital equipment, net	$ 1,314	$ (430)	$ -	$ 884

	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

Included in general and administrative expenses are depreciation expenses of $580K and $790K for the years ended June 30, 2014 and June 30, 2013, 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 2014 and 2013 $1M was contributed for funding toward program and administrative expenditures related to this program.

15. GAINS RELATED TO THE BOND PROGRAM

During FY2014, the Authority purchased in lieu of redemption approximately $3.5M in outstanding auction rate bonds with cash on hand resulting in a current year gain on the retirement of debt totaling approximately $489K.

In FY2013, the Authority purchased in lieu of redemption approximately $223M in outstanding auction rate bonds. These purchases resulted in a net gain on the retirement of the debt totaling $23M, of which $9M was deferred and will be recognized over the life of the new debt in accordance with GASB 23.

16. SUBSEQUENT EVENTS

On September 30, 2014 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 $9.8M at which time the corresponding liability was removed from the Statement of Net Position.

On October 16, 2014, the Consumer Financial Protection Bureau (“CFPB”) released its third 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, 2013 through September 30, 2014. 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.

Massachusetts Educational Financing Authority

Statements of Net Position

June 30, 2014 and 2013

	2014				2013			
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)	$ 138,149	$ 244	$ 85	$ 138,478	$ 123,659	$ 648	$ 836	$ 125,143
Investments, at fair value (Notes 3 and 4)	400	23,731	-	24,131	2,914	21,720	-	24,634
Education loan notes receivable, net (Notes 5 and 10)	191,587	-	2,090	193,677	181,079	-	2,457	183,536
Interest receivable on educational loan notes	33,927	-	7	33,934	30,922	-	20	30,942
Prepaid expenses and other assets	105	1,736	293	2,134	63	1,964	293	2,320
Interest receivable for cash, cash equivalents, and investments	-	-	-	-	2	-	-	2
Interfund balances	(413)	-	413	-	(400)	-	400	-
Total current assets	363,755	25,711	2,888	392,354	338,239	24,332	4,006	366,577
Non-current assets								
Cash and cash equivalents (Notes 3 and 4)	225,986	-	658	226,644	202,960	-	658	203,618
Investments, at fair value (Notes 3 and 4)	-	10,776	2,062	12,838	-	11,275	2,311	13,586
Derivative instruments - caps (Notes 3 and 7)	941	-	-	941	1,557	-	-	1,557
Educational loan notes receivable, net (Notes 5 and 10)	1,278,109	-	362	1,278,471	1,273,975	-	585	1,274,560
Capital equipment, net of accumulated depreciation (Note 13)	-	-	884	884	-	-	1,314	1,314
Total assets	$ 1,868,791	$ 36,487	$ 6,854	$ 1,912,132	$ 1,816,731	$ 35,607	$ 8,874	$ 1,861,212
Liabilities								
Current liabilities								
Accounts payable and accrued expenses	$ 1,007	$ 14,077	$ 1,359	$ 16,443	$ 1,003	$ 14,235	$ 1,266	$ 16,504
Bonds payable - current portion (Note 6)	27,253	-	-	27,253	30,642	-	-	30,642
Certificates payable (Note 9)	-	7,030	-	7,030	-	6,870	-	6,870
Accrued bond interest payable	33,648	-	-	33,648	31,394	-	-	31,394
Total current liabilities	61,908	21,107	1,359	84,374	63,039	21,105	1,266	85,410
Non-current liabilities								
Bonds payable - net of current portion (Note 6)	1,634,112	-	-	1,634,112	1,588,825	-	-	1,588,825
Other liabilities (Note 8)	3,330	-	187	3,517	3,521	-	199	3,720
Total liabilities	1,699,350	21,107	1,546	1,722,003	1,655,385	21,105	1,465	1,677,955
Deferred inflows of resources								
Net gain on bond refunding (Note 6 and 15)	17,965	-	-	17,965	20,752	-	-	20,752
Hedging instruments (Note 3 and 7)	89	-	-	89	151	-	-	151
Total deferred inflows of resources	18,054	-	-	18,054	20,903	-	-	20,903
Total liabilities and deferred inflows of resources	1,717,404	21,107	1,546	1,740,057	1,676,288	21,105	1,465	1,698,858
Net position								
Invested in capital assets	-	-	884	884	-	-	1,314	1,314
Restricted	151,384	9,119	2,401	162,904	140,440	7,752	2,401	150,593
Unrestricted	3	6,261	2,023	8,287	3	6,750	3,694	10,447
Total net position	151,387	15,380	5,308	172,075	140,443	14,502	7,409	162,354
Total liabilities, deferred inflows and net position	$ 1,868,791	$ 36,487	$ 6,854	$ 1,912,132	$ 1,816,731	$ 35,607	$ 8,874	$ 1,861,212

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, 2014 and 2013

	2014				2013			
	Trusteed Funds	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Operating revenues								
Interest on education loan notes receivable (Note 3)	$ 90,748	$ -	$ 51	$ 90,799	$ 87,512	$ -	$ 89	$ 87,601
Loan origination fees	7,449	-	-	7,449	6,921	-	-	6,921
College savings plan interest and fees	-	4,722	-	4,722	-	4,468	-	4,468
Other revenue	-	1,294	1	1,295	-	1,413	301	1,714
Total operating revenues	98,197	6,016	52	104,265	94,433	5,881	390	100,704
Operating expenses								
Bond interest expense	66,325	-	-	66,325	64,554	-	-	64,554
Bond insurance	397	-	-	397	625	-	-	625
Costs of bond issuance	1,780	-	-	1,780	2,960	-	-	2,960
Provision for doubtful educational loan notes receivable	6,406	-	-	6,406	6,089	-	-	6,089
Credit decision fees	843	-	-	843	797	-	-	797
General and administrative (Notes 3, 11, 12, and 13)	11,500	5,200	912	17,612	11,897	4,603	901	17,401
Other expense	418	-	1	419	574	-	5	579
Total operating expenses	87,669	5,200	913	93,782	87,496	4,603	906	93,005
Operating income (loss)	10,528	816	(861)	10,483	6,937	1,278	(516)	7,699
Non-operating revenues (expenses)								
Gain on bond redemption (Note 15)	489	-	-	489	13,885	-	-	13,885
Interest and dividends	228	62	1	291	299	56	-	355
Arbitrage rebate income (Note 3)	12	-	-	12	191	-	548	739
(Decrease) increase in fair value of derivative instruments	(554)	-	-	(554)	961	-	-	961
Commitment fees to participating schools (Note 8)	-	-	-	-	(1,437)	-	-	(1,437)
Contributions to the Commonwealth (Note 14)	-	-	(1,000)	(1,000)	-	-	(1,000)	(1,000)
Net asset transfers	241	-	(241)	-	6,563	(1,350)	(5,213)	-
Net non-operating revenues (expenses)	416	62	(1,240)	(762)	20,462	(1,294)	(5,665)	13,503
Total increase (decrease) in net position	10,944	878	(2,101)	9,721	27,399	(16)	(6,181)	21,202
Net position, beginning of year	140,443	14,502	7,409	162,354	113,044	14,518	13,590	141,152
Net position, end of year	$ 151,387	$ 15,380	$ 5,308	$ 172,075	$ 140,443	$ 14,502	$ 7,409	$ 162,354

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, 2014 and 2013

	2014				2013			
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	$ (177,017)	$ -	$ -	$ (177,017)	$ (164,789)	$ -	$ -	$ (164,789)
Payments received on outstanding loan principal	179,138	-	605	179,743	180,310	-	781	181,091
General & administrative payments	(12,956)	(5,104)	(453)	(18,513)	(13,324)	(3,736)	(28)	(17,088)
Interest received on education loans	71,604	-	49	71,653	69,393	-	87	69,480
Proceeds from other sources	-	5,990	202	6,192	(5)	5,833	301	6,129
Net cash provided by operating activities	60,769	886	403	62,058	71,585	2,097	1,141	74,823
Cash flows from non-capital financing activities:								
Proceeds from issuance of bonds	201,234	-	-	201,234	226,606	-	-	226,606
Costs of bond issuance	(1,780)	-	-	(1,780)	(2,960)	-	-	(2,960)
Bond interest paid	(68,189)	-	-	(68,189)	(66,389)	-	-	(66,389)
Principal payments on bonds payable	(157,517)	-	-	(157,517)	(323,813)	-	-	(323,813)
Contribution to the Commonwealth	-	-	(1,000)	(1,000)	-	-	(1,000)	(1,000)
Net asset transfers	255	-	(255)	-	6,591	(1,350)	(5,241)	-
Net cash used in non-capital financing activities	(25,997)	-	(1,255)	(27,252)	(159,965)	(1,350)	(6,241)	(167,556)
Cash flows from capital financing activities:								
Purchase of capital equipment and software development	-	-	(150)	(150)	-	-	(366)	(366)
Net cash used in capital financing activities	-	-	(150)	(150)	-	-	(366)	(366)
Cash flows from investing activities:								
Proceeds from maturity/sale of investments	18,649	15,385	500	34,534	15,356	17,735	5,550	38,641
Purchases of investments	(16,135)	(16,737)	(250)	(33,122)	(7,274)	(18,708)	(1)	(25,983)
Interest and dividends received on cash and investments	230	62	1	293	298	56	1	355
Arbitrage rebate (payments) receipts	-	-	-	-	(43)	-	548	505
Net cash provided by (used in) investing activities	2,744	(1,290)	251	1,705	8,337	(917)	6,098	13,518
Net increase (decrease) in cash and cash equivalents	37,516	(404)	(751)	36,361	(80,043)	(170)	632	(79,581)
Cash and cash equivalents, beginning of year	326,619	648	1,494	328,761	406,662	818	862	408,342
Cash and cash equivalents, end of year	$ 364,135	$ 244	$ 743	$ 365,122	$ 326,619	$ 648	$ 1,494	$ 328,761

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, 2014 and 2013

Reconciliation of operating income (loss) to net cash provided by operating activities:	2014 Trusteed Funds	2014 College Savings Funds	2014 Authority Funds	2014 Total	2013 Trusteed Funds	2013 College Savings Funds	2013 Authority Funds	2013 Total
Operating income (loss)	$ 10,528	$ 816	$ (861)	$ 10,483	$ 6,937	$ 1,278	$ (516)	$ 7,699
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:								
Depreciation expense	-	-	580	580	-	-	790	790
Provision for doubtful educational loan notes receivable	6,406	-	-	6,406	6,089	-	-	6,089
Costs of bond issuance	1,780	-	-	1,780	2,960	-	-	2,960
Bond interest expense	66,325	-	-	66,325	64,554	-	-	64,554
Changes in assets and liabilities:								
Educational loan notes receivable	(21,050)	-	592	(20,458)	(8,309)	-	783	(7,526)
Interest receivable on educational loan notes	(3,006)	-	14	(2,992)	(639)	-	1	(638)
Accounts payable, accrued expenses and other liabilities	(171)	(159)	78	(252)	(24)	1,037	110	1,123
Prepaid expenses and other assets	(43)	229	-	186	17	(218)	(27)	(228)
Net cash provided by operating activities	$ 60,769	$ 886	$ 403	$ 62,058	$ 71,585	$ 2,097	$ 1,141	$ 74,823

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

Massachusetts Educational Financing Authority

Statements of Net Position

June 30, 2014 and 2013

2014

Assets	Issue E Total	FRN of 2008	Issue H of 2008	Issue I Total	Issue J Total	Issue K Total	Trusteed Funds
Current assets							
Cash and cash equivalents (Notes 3 and 4)	$ 33,658	$ 6,824	$ 15,314	$ 55,620	$ 18,407	$ 8,326	$ 138,149
Investments, at fair value (Notes 3 and 4)	400	-	-	-	-	-	400
Education loan notes receivable, net (Notes 5 and 10)	70,600	13,524	13,845	57,424	19,139	17,055	191,587
Interest receivable on educational loan notes	879	566	1,597	14,408	12,563	3,914	33,927
Prepaid expenses and other assets	11	7	1	43	26	17	105
Interest receivable for cash, cash equivalents, and investments	-	-	-	-	-	-	-
Interfund balances	(267)	7	(37)	(88)	(28)	-	(413)
Total current assets	105,281	20,928	30,720	127,407	50,107	29,312	363,755
Non-current assets							
Cash and cash equivalents (Notes 3 and 4)	-	754	3,642	208,533	6,675	6,382	225,986
Derivative instruments - caps (Notes 3 and 7)	941	-	-	-	-	-	941
Educational loan notes receivable, net (Notes 5 and 10)	196,051	103,716	103,833	405,310	236,464	232,735	1,278,109
Total assets	$ 302,273	$ 125,398	$ 138,195	$ 741,250	$ 293,246	$ 268,429	$ 1,868,791
Liabilities							
Current liabilities							
Accounts payable and accrued expenses	$ 273	$ 96	$ 30	$ 395	$ 101	$ 112	$ 1,007
Bonds payable - current portion (Note 6)	3,035	-	-	24,218	-	-	27,253
Accrued bond interest payable	4,799	260	3,854	12,816	6,430	5,489	33,648
Total current liabilities	8,107	356	3,884	37,429	6,531	5,601	61,908
Non-current liabilities							
Bonds payable - net of current portion (Note 6)	252,575	118,298	121,385	649,898	265,587	226,369	1,634,112
Other liabilities (Note 8)	3,330	-	-	-	-	-	3,330
Total liabilities	264,012	118,654	125,269	687,327	272,118	231,970	1,699,350
Deferred inflows of resources							
Net gain on bond refunding (Notes 6 and 15)	-	-	-	9,190	-	8,775	17,965
Hedging instruments (Notes 3 and 7)	89	-	-	-	-	-	89
Total deferred inflows of resources	89	-	-	9,190	-	8,775	18,054
Total liabilities and deferred inflows of resources	264,101	118,654	125,269	696,517	272,118	240,745	1,717,404
Net position							
Restricted	38,169	6,744	12,926	44,733	21,128	27,684	151,384
Unrestricted	3	-	-	-	-	-	3
Total net position	38,172	6,744	12,926	44,733	21,128	27,684	151,387
Total liabilities, deferred inflows and net position	$ 302,273	$ 125,398	$ 138,195	$ 741,250	$ 293,246	$ 268,429	$ 1,868,791

2013

Assets	Issue E Total	FRN of 2008	Issue H of 2008	Issue I Total	Issue J Total	Issue K 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
Investments, at fair value (Notes 3 and 4)	2,914	-	-	-	-	-	2,914
Education loan notes receivable, net (Notes 5 and 10)	71,879	14,913	13,323	57,697	16,511	6,756	181,079
Interest receivable on educational loan notes	1,012	861	4,235	16,464	8,203	147	30,922
Prepaid expenses and other assets	10	5	1	29	18	-	63
Interest receivable for cash, cash equivalents, and investments	2	-	-	-	-	-	2
Interfund balances	(231)	-	-	-	-	(169)	(400)
Total current assets	96,795	23,893	34,683	139,276	35,940	7,652	338,239
Non-current assets							
Cash and cash equivalents (Notes 3 and 4)	-	754	4,208	10,900	34,607	152,491	202,960
Derivative instruments - caps (Notes 3 and 7)	1,557	-	-	-	-	-	1,557
Educational loan notes receivable, net (Notes 5 and 10)	237,071	126,660	118,326	462,961	227,469	101,488	1,273,975
Total assets	$ 335,423	$ 151,307	$ 157,217	$ 613,137	$ 298,016	$ 261,631	$ 1,816,731
Liabilities							
Current liabilities							
Accounts payable and accrued expenses	$ 135	$ 110	$ 50	$ 161	$ 113	$ 434	$ 1,003
Bonds payable - current portion (Note 6)	12,735	-	-	17,907	-	-	30,642
Accrued bond interest payable	5,536	326	4,453	14,310	6,647	122	31,394
Total current liabilities	18,406	436	4,503	32,378	6,760	556	63,039
Non-current liabilities							
Bonds payable - net of current portion (Note 6)	273,840	142,443	140,250	530,891	274,795	226,606	1,588,825
Other liabilities (Note 8)	3,521	-	-	-	-	-	3,521
Total liabilities	295,767	142,879	144,753	563,269	281,555	227,162	1,655,385
Deferred inflows of resources							
Net gain on bond refunding (Notes 6 and 15)	-	-	-	11,489	-	9,263	20,752
Hedging instruments (Notes 3 and 7)	151	-	-	-	-	-	151
Total deferred inflows of resources	151	-	-	11,489	-	9,263	20,903
Total liabilities and deferred inflows of resources	295,918	142,879	144,753	574,758	281,555	236,425	1,676,288
Net position							
Restricted	39,502	8,428	12,464	38,379	16,461	25,206	140,440
Unrestricted	3	-	-	-	-	-	3
Total net position	39,505	8,428	12,464	38,379	16,461	25,206	140,443
Total liabilities, deferred inflows and net position	$ 335,423	$ 151,307	$ 157,217	$ 613,137	$ 298,016	$ 261,631	$ 1,816,731

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, 2014 and 2013

	2014							2013						
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**	**Issue K Total**	**Trusteed Funds**
Interest on education loan notes receivable (Note 3)	$ 14,513	$ 1,990	$ 10,217	$ 35,018	$ 18,925	$ 10,085	$ 90,748	$ 20,567	$ 2,554	$ 11,376	$ 39,105	$ 13,861	$ 49	$ 87,512
Loan origination fees	-	-	-	11	1,080	6,358	7,449	-	-	-	(2)	6,923	-	6,921
Total operating revenues	14,513	1,990	10,217	35,029	20,005	16,443	98,197	20,567	2,554	11,376	39,103	20,784	49	94,433
Operating expenses														
Bond interest expense	10,633	1,566	7,984	23,119	12,770	10,253	66,325	13,827	2,075	9,137	26,299	13,094	122	64,554
Bond insurance	244	-	153	-	-	-	397	450	-	175	-	-	-	625
Costs of bond issuance	-	-	-	1,780	-	-	1,780	-	-	-	-	6	2,954	2,960
Provision for doubtful educational loan notes receivable	1,360	98	244	1,486	917	2,301	6,406	1,361	134	601	751	2,152	1,090	6,089
Credit decision fees	-	-	-	72	88	683	843	-	-	-	-	797	-	797
General and administrative (Notes 3, 11, 12, and 13)	3,855	1,997	1,347	2,097	1,534	670	11,500	5,769	2,831	511	2,154	580	52	11,897
Other expense	154	14	28	125	32	65	418	326	5	41	202	-	-	574
Total operating expenses	16,246	3,675	9,756	28,679	15,341	13,972	87,669	21,733	5,045	10,465	29,406	16,629	4,218	87,496
Operating (loss) income	(1,733)	(1,685)	461	6,350	4,664	2,471	10,528	(1,166)	(2,491)	911	9,697	4,155	(4,169)	6,937
Non-operating revenues (expenses)														
Gain on bond redemption (Note 15)	489	-	-	-	-	-	489	13,885	-	-	-	-	-	13,885
Interest and dividends	212	1	1	4	3	7	228	281	1	2	5	10	-	299
Arbitrage rebate income (Note 3)	12	-	-	-	-	-	12	191	-	-	-	-	-	191
(Decrease) increase in fair value of derivative instruments	(554)	-	-	-	-	-	(554)	961	-	-	-	-	-	961
Commitment fees to participating schools (Note 8)	-	-	-	-	-	-	-	(1,437)	-	-	-	-	-	(1,437)
Net asset transfers	241	-	-	-	-	-	241	(22,812)	-	-	-	-	29,375	6,563
Net non-operating revenues (expenses)	400	1	1	4	3	7	416	(8,931)	1	2	5	10	29,375	20,462
Total increase (decrease) in net position	(1,333)	(1,684)	462	6,354	4,667	2,478	10,944	(10,097)	(2,490)	913	9,702	4,165	25,206	27,399
Net position, beginning 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
Net position, end of year	$ 38,172	$ 6,744	$ 12,926	$ 44,733	$ 21,128	$ 27,684	$ 151,387	$ 39,505	$ 8,428	$ 12,464	$ 38,379	$ 16,461	$ 25,206	$ 140,443

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, 2014 and 2013

	2014							2013						
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**	**Issue K Total**	**Trusteed Funds**
Payments for disbursed loans	$ -	$ -	$ -	$ (262)	$ (25,866)	$ (150,889)	$ (177,017)	$ -	$ -	$ -	$ -	$ (164,789)	$ -	$ (164,789)
Payments received on outstanding loan principal	40,984	25,389	16,941	63,752	18,116	13,956	179,138	53,181	35,414	17,064	64,344	10,056	251	180,310
General & administrative payments	(4,141)	(2,012)	(1,518)	(1,949)	(1,643)	(1,693)	(12,956)	(6,257)	(2,858)	(686)	(2,175)	(1,730)	382	(13,324)
Interest received on education loans	14,447	1,118	9,611	29,908	10,821	5,699	71,604	20,449	1,575	9,982	31,406	6,080	(99)	69,393
Proceeds from other sources	-	-	-	-	-	-	-	-	(5)	-	-	-	-	(5)
Net cash provided by (used in) operating activities	51,290	24,495	25,034	91,449	1,428	(132,927)	60,769	67,373	34,126	26,360	93,575	(150,383)	534	71,585
Cash flows from non-capital financing activities														
Proceeds from issuance of bonds	-	-	-	201,234	-	-	201,234	-	-	-	-	-	226,606	226,606
Costs of bond issuance	-	-	-	(1,780)	-	-	(1,780)	-	-	-	-	(6)	(2,954)	(2,960)
Bond interest paid	(11,370)	(1,633)	(8,583)	(27,698)	(13,294)	(5,611)	(68,189)	(14,432)	(2,223)	(9,666)	(30,628)	(9,440)	-	(66,389)
Principal payments on bonds payable	(30,476)	(24,145)	(18,865)	(75,130)	(8,900)	(1)	(157,517)	(211,736)	(37,292)	(16,660)	(58,125)	-	-	(323,813)
Net asset transfers	276	(7)	37	88	29	(168)	255	77,403	-	-	-	(35)	(70,777)	6,591
Net cash (used in) provided by non-capital financing activities	(41,570)	(25,785)	(27,411)	96,714	(22,165)	(5,780)	(25,997)	(148,765)	(39,515)	(26,326)	(88,753)	(9,481)	152,875	(159,965)
Cash flows from investing activities:														
Proceeds from maturity/sale of investments	18,649	-	-	-	-	-	18,649	15,356	-	-	-	-	-	15,356
Purchases of investments	(16,135)	-	-	-	-	-	(16,135)	(7,274)	-	-	-	-	-	(7,274)
Interest and dividends received on cash and investments	215	-	1	4	4	6	230	281	1	1	5	10	-	298
Arbitrage rebate payments	-	-	-	-	-	-	-	(43)	-	-	-	-	-	(43)
Net cash provided by (used in) investing activities	2,729	-	1	4	4	6	2,744	8,320	1	1	5	10	-	8,337
Net increase (decrease) in cash and cash equivalents	12,449	(1,290)	(2,376)	188,167	(20,733)	(138,701)	37,516	(73,072)	(5,388)	35	4,827	(159,854)	153,409	(80,043)
Cash and cash equivalents, beginning 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
Cash and cash equivalents, end of year	$ 33,658	$ 7,578	$ 18,956	$ 264,153	$ 25,082	$ 14,708	$ 364,135	$ 21,209	$ 8,868	$ 21,332	$ 75,986	$ 45,815	$ 153,409	$ 326,619

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, 2014 and 2013

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	2014 Issue E Total	2014 FRN of 2008	2014 Issue H of 2008	2014 Issue I Total	2014 Issue J Total	2014 Issue K Total	2014 Trusteed Funds	2013 Issue E Total	2013 FRN of 2008	2013 Issue H of 2008	2013 Issue I Total	2013 Issue J Total	2013 Issue K Total	2013 Trusteed Funds
Operating (loss) income	$ (1,733)	$ (1,685)	$ 461	$ 6,350	$ 4,664	$ 2,471	$ 10,528	$ (1,166)	$ (2,491)	$ 911	$ 9,697	$ 4,155	$ (4,169)	$ 6,937
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:														
Provision for doubtful educational loan notes receivable	1,360	98	244	1,486	917	2,301	6,406	1,361	134	601	751	2,152	1,090	6,089
Costs of bond issuance	-	-	-	1,780	-	-	1,780	-	-	-	-	6	2,954	2,960
Educational loan notes swap	-	-	-	-	-	-	-	(109,585)	-	-	-	-	109,585	-
Bond interest expense	10,633	1,566	7,984	23,119	12,770	10,253	66,325	13,827	2,075	9,137	26,299	13,094	122	64,554
Changes in assets and liabilities:														
Educational loan notes receivable	40,939	24,235	13,725	56,437	(12,541)	(143,845)	(21,050)	159,107	33,955	13,079	58,246	(163,361)	(109,335)	(8,309)
Interest receivable on educational loan notes	133	295	2,638	2,056	(4,360)	(3,768)	(3,006)	3,867	480	2,633	(1,397)	(6,075)	(147)	(639)
Accounts payable, accrued expenses and other liabilities	(41)	(13)	(18)	234	(13)	(320)	(171)	(38)	(27)	(46)	(10)	(337)	434	(24)
Prepaid expenses and other assets	(1)	(1)	-	(13)	(9)	(19)	(43)	-	-	45	(11)	(17)	-	17
Net cash provided by (used in) operating activities	$ 51,290	$ 24,495	$ 25,034	$ 91,449	$ 1,428	$ (132,927)	$ 60,769	$ 67,373	$ 34,126	$ 26,360	$ 93,575	$ (150,383)	$ 534	$ 71,585

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