Massachusetts Educational Financing Authority

Financial Statements with Management's Discussion and Analysis
June 30, 2016 and 2015

Massachusetts Educational Financing Authority
Index
June 30, 2016 and 2015

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, 2016 ("FY16"), 2015 ("FY15") and 2014 ("FY14"). 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 1981, 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 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 ("GAAP"), 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.

FISCAL YEAR DEVELOPMENTS

In FY16, the Authority expanded its loan programs to include loans to refinance higher education expenses for borrowers who, as undergraduate or graduate students, attended post-secondary education institutions which participated in the Authority's loan programs historically.

Issue J Series 2016 education loan revenue bonds were issued on May 25, 2016. A portion of the proceeds of this issuance (the "Refunding Bonds") were issued to defease and optionally redeem $171M of bonds previously issued under the Issue E resolution (the "Defeased Bonds"). At the time of issuance, the proceeds from the Refunding Bonds, together with other funds available under the Issue E resolution, were placed into an irrevocable refunding trust in an amount sufficient to pay the principal and interest on the Defeased Bonds on the optional redemption dates. Accordingly, the assets and liabilities of the irrevocable trust are not included in the Authority's financial statements.

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. The principal operating revenues for the Authority continue to be interest on education loans. Non-operating revenues are primarily composed of gains on bond redemptions and investment income. The principal operating expenses are bond interest expense and general and administrative costs. Non-operating expenses are primarily composed of loan program features, arbitrage rebate expense and decrease in fair value of derivatives.

Under the loan programs, the Authority disbursed $203M in private loans in FY16 compared to $185M in FY15. In the U.Fund, net assets grew 2% and were $5.1B at the end of FY16. For the U.Plan, the Authority had $13.5M of matured tuition certificates on its financial statements as a liability to program participants at the end of FY16 and $6M of deposits for the purchase of tuition certificates effective August 1, 2016.

Total net position was $202.5M at the end of FY16, which represents an increase of $11.9M 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 $93.9M and represents 86% of total revenues in an improved consumer credit environment. Interest expense on bonds outstanding was $66.5M, or 68% of total expenses. The Authority's general and administrative expenses increased by 4% to $17.5M and represented 19% of total operating expenses. Non-operating revenues include a gain on bonds purchased in lieu of redemption of $412K as well as interest and dividend income of $334K as assets continue to be invested in vehicles providing short-term flexibility and principal protection. Non-operating expenses were $5.3M and represent loan program related expenses ($3.8M), a decrease in fair value of derivatives ($742K) and arbitrage rebate expense ($718K).

OPERATING AND NON-OPERATING RESULTS

The following illustrates the comparative results of total revenues from fiscal years ended June 30, 2016, 2015 and 2014, respectively:

(in thousands)

	2016		2015		2014	
Operating revenues						
Interest on educational loan notes receivable	$	93,889	$	93,721	$	90,799
Non-interest revenues		14,352		14,362		13,466
Total operating revenues		108,241		108,083		104,265
Non-operating revenues		746		802		792
Total revenues	$	108,987	$	108,885	$	105,057

Total operating revenues for the Authority were $108M in FY16.

Interest income on education loan notes receivable was $93.9M and represented 87% of total operating revenues. The Authority disbursed $203M in new loans in FY16, representing a 10% increase from $185M disbursed in FY15. The increase in interest income related to new loan originations in FY16 was mostly offset by the impact of a 10% increase in education loan notes principal repayments.

Non-interest revenues were $14.4M in FY16 and were comprised of loan origination fees, college savings plan revenues and other income. Loan origination fees increased 5% to $8.2M in FY16 due to an increase in loan originations and represented 57% of non-interest revenues. College savings plan revenues remained level with the prior fiscal year at $5M and represented approximately 35% of non-interest revenues. Other income, which represented 8% of non-interest revenues, decreased 23% in FY16 as the prior year included non-recurring grant income.

Total non-operating revenues for the Authority were $746K in FY16 and included interest income and a gain on bonds purchased in lieu of redemption.

Gains on bonds purchased in lieu of redemption were $412K, $130K and $489K in FY16, FY15 and FY14 respectively. Interest rate levels remained suppressed in FY16 and the investment portfolio reacted accordingly by producing $334K of interest and dividend income compared to $205K and $291K in FY15 and FY14, respectively. The increase in FY16 interest income is due to an increase in cash balances designated for new loan originations. FY15 also includes $400K for arbitrage rebate related refunds.

As a result of these activities, total revenues increased by $102K or less than 1% compared to the prior fiscal year.

The following illustrates the comparative results of total expenses from fiscal years ended June 30, 2016, 2015 and 2014, respectively:

(in thousands)

	2016	2015	2014
Operating expenses			
Interest expense on bonds outstanding	$ 66,455	$ 66,146	$ 66,325
Non-interest expenses	25,304	22,995	27,457
Total operating expenses	91,759	89,141	93,782
Non-operating expenses	5,303	1,214	1,554
Total expenses	$ 97,062	$ 90,355	$ 95,336

Total operating expenses for the Authority were $92M in FY16, an increase of 3% compared to the prior fiscal year.

Interest expense on bonds outstanding remained relatively flat compared to FY15 and represented 72% of operating expenses, which is consistent with prior years. The consistency in interest expense is a result of the net impact of $627M of new bonds issued in FY16 and $385M of bond redemptions as well as the amortization of bond premiums on the associated new issues.

Non-interest operating expenses increased by $2.3M or 10% in FY16 due to an increase in bond issuance costs and general and administrative expenses and were partially offset by a decrease in the provision for doubtful education loan notes. Bond issuance costs were $4.9M, an increase of $4.1M compared to FY15, as three capital market transactions closed in FY16. No capital market transactions closed in FY15. General and administrative expenses were $17.5M in FY16, an increase of 4% from FY15 mostly due to marketing and professional services related to the expansion of the Authority's loan programs in FY16. General and administrative costs represented 69%, 73% and 64% of total non-interest operating expenses for each year presented. The provision for doubtful educational loan notes decreased to $1.2M in FY16 compared to $3.6M in FY15 as the allowance reflects a higher estimated recovery percentage based on historical performance. The provision for doubtful education loan notes receivable represented 5%, 16% and 23% of total non-interest operating expenses for each year presented.

Non-operating expenses for the Authority were $5.3M in FY16, an increase of $4.1M compared to the prior fiscal year.

Non-operating expenses consisted of commitment fee reimbursement accruals of $3.8M and $1.2M in FY16 and FY15, respectively related to historical originations that incorporated this loan program feature. The Authority also recognized non-operating expense of $718K for arbitrage rebate expense and $742K relating to the change in fair value of non-hedging derivatives in FY16 resulting from a decrease in long term interest rates. FY14 included $554K relating to the change in fair value of non-hedging derivatives and payments to the Commonwealth of $1M for program and administrative expenditures related to higher education services to Massachusetts students that began in fiscal year 2009. The Commonwealth's budget did not require a contribution from the Authority for these services in FY16 and FY15.

As a result of these activities, total expenses increased by $6.7M or 7% 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, 2016, 2015 and 2014, respectively:

(in thousands)

	2016	2015	2014
Operating revenues	$ 108,241	$ 108,083	$ 104,265
Operating expenses	91,759	89,141	93,782
Operating income	16,482	18,942	10,483
Non-operating revenues	746	802	792
Non-operating expenses	5,303	1,214	1,554
Non-operating loss	(4,557)	(412)	(762)
Increase in net position	$ 11,925	$ 18,530	$ 9,721

The Authority had net operating income of $16.5M in FY16, which was a decrease of $2.5M from the prior fiscal year materially due to an increase in operating expense relating to bond issuance costs for three capital market transactions that closed in FY16. FY15 net operating income increased by $8.5M as interest on education loan notes increased by $3.8M and operating expense decreased by $4.6M due to a decrease in the provision for doubtful education loan notes, bond issuance costs and general and administrative costs.

The Authority had a non-operating loss of $4.6M in FY16 representing a $4.1M increase from the prior fiscal year substantially due to commitment fee reimbursement accruals, arbitrage rebate expense and a decrease in fair value of non-hedging investment derivatives. Commitment fee reimbursement accruals were $3.8M and $1.2M in FY16 and FY15, respectively. FY16 also included an expense of $742K related to the change in fair value of non-hedging investment derivatives and $718K of arbitrage rebate related expense.

As a result of these activities, net position increased by $11.9M during FY16.

FINANCIAL POSITION

The following table reflects the condensed Statement of Net Position at June 30, 2016 compared to the prior fiscal years ended 2015 and 2014. 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)

	2016	2015	2014
Assets			
Cash and investments	$ 508,885	$ 247,128	$ 402,091
Education loan notes receivable	1,454,899	1,469,761	1,472,148
Other assets	34,852	35,959	37,893
Total assets	1,998,636	1,752,848	1,912,132
Liabilities			
Bonds payable	1,723,607	1,484,849	1,661,365
Bond interest payable	32,442	33,875	33,648
Other liabilities	27,644	28,063	26,990
Total liabilities	1,783,693	1,546,787	1,722,003
Deferred Inflows			
Gain on bond refunding	12,413	15,360	17,965
Hedging instruments	-	96	89
Total deferred inflows	12,413	15,456	18,054
Net Position			
Invested in capital assets	1,700	928	884
Restricted	139,016	177,047	162,904
Unrestricted	61,814	12,630	8,287
Total net position	$ 202,530	$ 190,605	$ 172,075

Total net position was $202.5M at June 30, 2016, an increase of $11.9M from the beginning of the fiscal year, or 6%.

As the Issue I 2015A capital market transaction closed in July 2016, the FY15 balance sheet does not include the related cash proceeds and corresponding bonds payable from that issuance.

The $262M increase in FY16 cash and investments is attributed to proceeds from new bond issuances, which will be used to support FY17 education loan note originations. Education loan notes receivable decreased 1% and remained relatively consistent over the past three fiscal years. The three-year ratio trend of education loan note receivables to total assets was 73%, 84% and 77% at June 30, 2016, 2015 and 2014, respectively.

The Authority, as discussed earlier, continued to manage to its long-term capital plan and executed three capital market transactions totaling $627M in FY16. This increase in bonds payable was partially offset by bonds retired or defeased during the year in the amount of $385M. Accrued bond interest payable decreased by 4% as the increase in interest payable related to new bond issuances was offset by a decrease in interest payable for existing bonds due to bond redemptions and defeasance in FY16. The gain on bond refunding decreased $3M or approximately 20% in FY16 due to the current year amortization of gains deferred in previous fiscal years.

Within net position, 69% is comprised of invested in capital assets and those assets that are restricted through bond resolutions and program specific regulations. In conjunction with the Issue J 2016 refinancing in FY16, restricted assets decreased by 22% over the prior fiscal year while unrestricted assets increased to $61.8M. The increase in unrestricted net assets relates to $47M of historical defaulted education loan notes receivable reclassified from restricted net assets upon the defeasance of all outstanding bonds in the Issue E trust in FY16.

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 $444.5M, $203.7M, and $365.1M at June 30, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, 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

	FY2016	FY2015	FY2014
Allowance at beginning of period	$49,876	$46,273	$39,867
Provision for education loan losses	$1,185	$3,603	$6,406
Allowance at end of period	$51,061	$49,876	$46,273
Gross loan defaults	$12,892	$14,768	$16,161
Recoveries	$7,707	$8,541	$9,983
Net loan defaults	$5,185	$6,227	$6,178
Net loan defaults as a percentage of average loans in repayment	0.43%	0.52%	0.52%
Allowance multiple of average non-current loans in repayment (90+ days)	2.88	2.39	2.13
Allowance as a percentage of the ending total loan balance	3.63%	3.50%	3.23%
Allowance as a percent of ending loans in repayment	4.32%	4.15%	3.88%
Ending total loans, gross	$1,407,974	$1,426,918	$1,432,072
12 month average in repayment	$1,197,104	$1,208,297	$1,192,776
Ending loans in repayment	$1,181,147	$1,202,963	$1,193,371
12 month average 90+ days delinquent	$17,710	$20,895	$21,683
90+ days delinquent % of avg. repayment	1.48%	1.73%	1.82%

The Authority purchases proprietary, unsecured consumer loans in cooperation with 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 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, 2016 the total principal balance outstanding of loans in a modification status was $73M and represented 6.6% of all loans in repayment. At June 30, 2016 and 2015, these modified loans were 97% current, defined as less than 30 days past due, in regard to monthly payments received under the modified terms.

During FY16, the Authority continued its methodology for estimating the allowance for doubtful accounts, which 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. The FY16 provision for education loan losses was $1.2M, which increased the allowance for doubtful accounts to $51.1M. The amount of loans in repayment decreased by $21M, or 1.8%, in FY16. The amount of loans in deferment at June 30, 2016 increased by 1% to $227M or 16% of gross education loan receivables. Approximately $3.4M and $3.7M of the allowance for doubtful accounts is allocated to education loans in deferment in FY16 and FY15, respectively.

DEBT ADMINISTRATION

As of June 30, 2016, the Authority had $1.7B of principal debt outstanding which represented a 15% increase from FY15. All of the Authority's outstanding debt is rated by the nationally recognized rating agencies. 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 91% of the outstanding bond portfolio (an increase from 90% in FY15 and FY14)

- Floating Rate Notes indexed to Libor that were issued in 2008 to fund existing FFELP loan products represent 5% of the outstanding bond portfolio (a decrease from 7% in FY15 and FY14)

- Fixed rate revenue bonds issued in 2016 to fund fixed rate refinancing loans represent 3% of the outstanding bond portfolio

- Floating Rate Notes indexed to Libor that were issued in 2016 to fund variable rate refinancing loans represent 1% of the outstanding bond portfolio

The Authority has historically used interest rate cap derivatives to provide a cap on debt service payments associated with variable rate bonds. The use of derivatives has multiple risks inherent in their overall structure. Such risks include credit risk, basis risk, termination 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, 2016, the Authority had outstanding $154M in notional derivative products, a decrease of $12M from FY15.

CAPITAL ASSETS

For the year ended June 30, 2016, the Authority had $1.7M invested in capital assets. This amount represents a net increase (additions and depreciation) of $772K in such assets. The following reconciliation summarizes the change in capital assets. The Authority purchased $1,294K of new capital assets during FY16 which were primarily related to computer hardware & software development related to loan program originations.

(in thousands)

	2016	2015	2014
Beginning balance, net	$ 928	$ 884	$ 1,314
Additions	1,294	496	150
Depreciation	(522)	(452)	(580)
Ending balance, net	$ 1,700	$ 928	$ 884

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.

Report of Independent Auditors

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, 2016 and June 30, 2015, and the related statements of revenues, expenses, and changes in net position and the statements of cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' 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, 2016 and 2015, and the changes in its net position, and its 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, 2016, 2015 and 2014 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 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 39 through 46 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

Boston, Massachusetts
December 6, 2016

Massachusetts Educational Financing Authority
Statements of Net Position
As of June 30, 2016 and 2015
(in thousands)

	2016	2015
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 4)	$ 152,952	$ 175,617
Investments (Notes 3 and 4)	22,042	24,218
Education loan notes receivable, net (Notes 3, 5, and 10)	122,104	201,677
Interest receivable on educational loan notes	30,114	31,003
Prepaid expenses and other assets	2,860	3,013
Total current assets	330,072	435,528
Non-current assets		
Cash and cash equivalents (Notes 3 and 4)	291,516	28,118
Investments (Notes 3 and 4)	42,375	19,175
Derivative instruments – caps (Notes 3 and 7)	178	1,015
Education loan notes receivable, net (Notes 3, 5, and 10)	1,332,795	1,268,084
Capital equipment, net of accumulated depreciation (Note 13)	1,700	928
Total assets	$ 1,998,636	$ 1,752,848
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 16,285	$ 16,693
Bonds payable – current portion (Note 6)	48,063	34,618
Certificates payable (Note 9)	6,191	7,079
Accrued bond interest payable	32,442	33,875
Other liabilities – current (Note 8)	5,059	2,916
Total current liabilities	108,040	95,181
Non-current liabilities		
Bonds payable – net of current portion (Note 6)	1,675,544	1,450,231
Other liabilities – non-current (Note 8)	109	1,375
Total liabilities	1,783,693	1,546,787
Deferred inflows of resources		
Net gain on bond refunding (Note 6)	12,413	15,360
Hedging instruments (Notes 3 and 7)	-	96
Total deferred inflows of resources	12,413	15,456
Total liabilities and deferred inflows of resources	1,796,106	1,562,243
Net position		
Invested in capital assets	1,700	928
Restricted	139,016	177,047
Unrestricted	61,814	12,630
Total net position	202,530	190,605
Total liabilities, deferred inflows of resources and net position	$ 1,998,636	$ 1,752,848

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, 2016 and 2015
(in thousands)

	2016	2015
Operating revenues		
Interest on education loan notes receivable (Note 3)	$ 93,889	$ 93,721
Loan origination fees	8,200	7,821
College savings plan interest and fees	4,974	5,013
Other revenue	1,178	1,528
Total operating revenues	108,241	108,083
Operating expenses		
Bond interest expense (Note 6)	66,455	66,146
Bond insurance	286	337
Costs of bond issuance	4,875	780
Provision for doubtful education loan notes receivable	1,185	3,603
Credit decision fees	1,096	882
General and administrative (Notes 3, 11, 12, and 13)	17,527	16,869
Other expense	335	524
Total operating expenses	91,759	89,141
Operating income	16,482	18,942
Non-operating (expenses) revenues		
Gain on bond redemption (Note 14)	412	130
Interest and dividends	334	205
Arbitrage rebate (expense) income (Note 3)	(718)	400
(Decrease) increase in fair value of derivative instruments	(742)	67
Commitment fees to participating schools (Note 8)	(3,843)	(1,214)
Net non-operating expenses	(4,557)	(412)
Total increase in net position	11,925	18,530
Net position, beginning of year	190,605	172,075
Net position, end of year	$ 202,530	$ 190,605

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, 2016 and 2015
(in thousands)

	2016	2015
Cash flows from operating activities:		
Payments for disbursed loans	$ (202,951)	$ (185,102)
Payments received on outstanding loan principal	242,818	212,591
General and administrative payments	(18,523)	(17,676)
Interest received on education loans	76,453	75,244
Proceeds from other sources	6,156	6,328
Net cash provided by operating activities	103,953	91,385
Cash flows from non-capital financing activities:		
Proceeds from issuance of bonds	627,329	-
Costs of bond issuance	(4,875)	(780)
Bond interest paid	(74,541)	(70,832)
Principal payments on bonds payable	(384,453)	(174,078)
Commitment fees refunded to participating schools	(2,913)	(415)
Net cash provided by (used in) non-capital financing activities	160,547	(246,105)
Cash flows from capital financing activities:		
Purchase of capital equipment and software development	(1,294)	(496)
Net cash used in capital financing activities	(1,294)	(496)
Cash flows from investing activities:		
Proceeds from maturity/sale of investments	17,456	22,404
Purchases of investments	(39,369)	(28,780)
Arbitrage rebate payment	(894)	-
Interest and dividends received on cash and investments	334	205
Net cash used in investing activities	(22,473)	(6,171)
Net increase (decrease) in cash and cash equivalents	240,733	(161,387)
Cash and cash equivalents, beginning of year	203,735	365,122
Cash and cash equivalents, end of year	$ 444,468	$ 203,735

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

(in thousands)

Reconciliation of operating income to net cash provided by operating activities	2016	2015
Operating income	$16,482	$18,942
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	522	452
Provision for doubtful education loan notes receivable	1,185	3,603
Costs of bond issuance	4,875	780
Bond interest expense	66,455	66,146
Changes in assets and liabilities:		
Education loan notes receivable	13,678	(1,216)
Interest receivable on education loan notes	888	2,931
Accounts payable and accrued expenses	(460)	226
Prepaid expenses and other assets	328	(479)
Net cash provided by operating activities	$103,953	$91,385

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 1981, 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 (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 fiscal year 2016, 94 Massachusetts and 370 out of state public and private not for profit institutions participated in the loan programs.

The loan programs were expanded in fiscal year 2016 to include loans to refinance higher education expenses for borrowers who, as undergraduate or graduate students, attended post-secondary education institutions which participate in the Authority's loan programs, whether located in or outside the Commonwealth.

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, which 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. 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. 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.

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.

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 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. Detailed financial information for each Trusteed Fund is presented in the accompanying Supplemental Schedule 2 to the financial statements.

    - **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 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).*

Detailed financial information for the condensed Trusteed Funds, College Savings Funds and Authority Funds is presented in the accompanying Supplemental Schedule 1 to the financial statements.

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 and money market funds in the Trusteed Funds. The investments of the Authority, the alternatives of which are governed by the Authority's enabling legislation, include money market funds within the Authority's General and U.Plan funds and guaranteed investment contracts. Cash and investments not intended to be used within one fiscal year are considered long term assets.

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 derivatives. The net increase/ (decrease) 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 costs as incurred. For the years ended June 30, 2016 and 2015, advertising expense (included in general and administrative expenses) was $1.4M and $886K, 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.

Fair Value
In February, 2015, the GASB issued and the Authority adopted statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), which established general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value.

GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The statement requires the use of certain valuation techniques when measuring fair value and also established a hierarchy of valuation inputs: Level 1 inputs (quoted market prices), Level 2 inputs (inputs other than quoted prices that are observable) and Level 3 inputs (unobservable inputs).

The Authority's derivative instruments are measured at fair value.

Derivative Instruments
GASB Statement No. 53 ("GASB 53"), *Accounting and Financial Reporting for Derivative Instruments* 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.

Change in Accounting Principle
During the period ending June 30, 2016, the Authority modified its accounting policy for the classification of defaulted education loan notes receivable as current and non-current assets. Current assets are defined as assets expected to be realized in cash or consumed within one fiscal year. Previously, the Authority classified defaulted loan notes receivable as current assets based on the terms of the original promissory notes, which state the entire balance of the loan becomes payable upon default. During the period ending June 30, 2016, based on analysis of more recent historical collection data, the Authority determined it would be more appropriate to classify the defaulted education loan notes receivable as non-current, with a portion in current assets based on expected collections using historical data. Management believes this method of classification is preferable as it more closely resembles the actual timing of the realization of these assets. This change in accounting principle did not impact net position. The impact in the Statement of Net Position at June 30, 2015 would be a reclassification of $82M from Current assets to Non-current assets.

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

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, 2016 and 2015, respectively.

(in thousands)	2016	2015
Cash deposits	$ 3,914	$ 1,608
Investment agreements	-	1,020
Mutual funds:		
Money market funds – Authority	64,417	42,373
Money market funds - Trusteed Funds	440,554	202,127
Total cash, cash equivalents and investments	$ 508,885	$ 247,128

Credit Risk and Custodial Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. 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. The Authority manages its exposure to credit risk and custodial credit risk by limiting investments to those permitted by the Authority's enabling legislation and its investment policy.

As of June 30, 2016 and June 30, 2015, $3.7M and $1.4M were exposed to custodial credit risk as uninsured and uncollateralized deposits, respectively. As stated in the Authority's investment policy, depository banks are required to be rated in the top three rating categories by S&P or Moody's.

The Authority had guaranteed investment contracts at June 30, 2015 with the following financial institutions:

Investment Agreement Contract Provider	Current S&P Ratings
Natixis Funding Corp	A-
Rabobank	A+

As of June 30, 2016, 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	$	3,483,932	5.1%
Fidelity U.S. Government Portfolio	$	63,949,700	94.2%
First American Tax Free Obligations Fund	$	467,922	0.7%

Retired Issue E Indenture		Cash and Investments	% of Total
Bank of America	$	263,798	9.6%
Fidelity U.S. Government Portfolio	$	2,486,356	90.4%

Issue FRN Indenture		Cash and Investments	% of Total
Fidelity U.S. Government Portfolio	$	6,333,170	100.0%

Issue H Indenture		Cash and Investments	% of Total
Bank of America	$	32,748	0.2%
Fidelity U.S. Government Portfolio	$	17,214,023	99.8%

Issue I Indenture		Cash and Investments	% of Total
Bank of America	$	101,486	0.1%
Fidelity U.S. Government Portfolio	$	154,922,057	99.9%

Issue J Indenture		Cash and Investments	% of Total
Bank of America	$	26,061	0.1%
Fidelity U.S. Government Portfolio	$	232,908,303	99.9%

Issue K Indenture		Cash and Investments	% of Total
Bank of America	$	5,933	0.1%
Fidelity U.S. Government Portfolio	$	26,689,418	99.9%

5. EDUCATIONAL FINANCINGS

During the years ended June 30, 2016 and 2015, respectively, the activity for the Authority's Education Loan Notes receivable was as follows:

(in thousands)

	2016	2015
Outstanding education loan notes receivable (beginning) gross	$ 1,519,637	$ 1,518,421
Increases to education loan notes receivable	229,357	214,318
Decreases to education loan notes receivable	(243,034)	(213,102)
Outstanding education loan notes receivable (ending) gross	1,505,960	1,519,637
Allowance for education loan notes receivable (beginning)	49,876	46,273
Increase to allowance for education loan notes receivable	1,185	3,603
Allowance for education loan notes receivable (ending)	51,061	49,876
Outstanding education loan notes receivable, net (ending)	$ 1,454,899	$ 1,469,761

The Authority purchases proprietary, unsecured consumer education loans in cooperation with 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 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 $1.2M and $3.6M increase to the provision for doubtful education loan notes receivable in fiscal years 2016 and 2015, respectively. The Authority has expensed historically in aggregate a net of $39M of education loan notes related to the tax-exempt yield restrictions through fiscal year 2016. No allowance for yield restriction was required at June 30, 2016 and 2015. Yield restriction expense is required in order to maintain the tax-exempt status of the bonds under Federal IRS regulations.

Defaulted loans are included in outstanding education loan notes receivable and classified as non-current assets with a portion classified as current assets based on estimated collections.

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, 2016 and 2015, the total principal balance outstanding of loans in a modified status was $73M and $70M, respectively and represented approximately 6.6% of all loans in repayment. At June 30, 2016 and 2015, respectively, these modified loans were 97% 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, 2016, the Authority had originated loans through 1,026 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 $20.6M and $21.3M for fiscal years 2016 and 2015, respectively.

6. BONDS PAYABLE

The activity related to the Authority's bonds payable for the fiscal years ended 2016 and 2015 was as follows:

(in thousands)

	2016	2015
Bonds outstanding, gross beginning balance	$ 1,460,890	$ 1,635,098
Bonds issued	600,760	-
Bonds redeemed	(384,865)	(174,208)
Bonds outstanding, gross ending balance	1,676,785	1,460,890
Net unamortized issuance premiums	46,822	23,959
Bonds outstanding, net ending balance	$ 1,723,607	$ 1,484,849

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 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, 2016 mandatory annual maturities of bonds principal payable for the next five fiscal years and thereafter are as follows (in thousands):

	2017	2018	2019	2020	2021	Remaining Schedule	Total Payable
2008 FRN	-	-	-	-	-	75,750	75,750
2008 Issue H	-	-	-	-	-	83,985	83,985
2009 Issue I	4,915	17,520	12,380	17,375	8,740	66,950	127,880
2010 Issue I	29,135	12,065	15,225	16,080	2,585	117,740	192,830
2011 Issue J	-	530	3,485	5,480	5,695	65,880	81,070
2012 Issue J	-	-	7,150	13,590	15,060	99,615	135,415
2013 Issue K	1,580	1,190	8,540	13,455	14,735	157,195	196,695
2014 Issue I	4,000	11,000	13,000	4,000	40,000	110,400	182,400
2015A Issue I	2,000	1,500	17,000	11,000	22,000	131,260	184,760
2015B Issue I	4,330	8,140	7,110	6,590	6,420	43,410	76,000
2016 Issue J	-	-	20,000	13,500	12,000	294,500	340,000
	$45,960	$51,945	$103,890	$101,070	$127,235	$ 1,246,685	$1,676,785

In July 2016, the Authority redeemed fixed rate bonds outstanding of $57.8M and $4.6M 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, 2016 (in thousands):

Year Ending June 30	Principal	Interest	Total Debt Service
2017	45,960	71,532	117,492
2018	51,945	75,728	127,673
2019	103,890	72,679	176,569
2020	101,070	67,922	168,992
2021	127,235	63,065	190,300
2022-2026	631,265	219,502	850,767
2027-2031	485,425	73,244	558,669
2032-2036	54,245	8,404	62,649
2037-2040	75,750	2,748	78,498
	$1,676,785	$654,824	$2,331,609

Total interest expense for the years ended June 30, 2016 and 2015 was $66.5M and $66.1M, respectively. For fiscal years 2016 and 2015 there is $2.9M and $2.6M of amortization of the net deferred gain on bond program activities included in the total bond interest expense, respectively. Also, for fiscal years 2016 and 2015 bond interest expense includes $3.7M and $2.3M 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 January 1, 2016, the final principal payment was made and the 2001A series was retired.

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 or more than 373 days. Under certain circumstances, the interest on all or a portion of the Series 2001B Bonds may be converted to a fixed rate. Interest on the Series 2001B Bonds is payable on each January 1 and July 1 commencing on July 1, 2001 and on any conversion date. On August 29, 2009, the remaining outstanding Series 2001B Bonds were repurchased and the series was retired.

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

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

As a result of scheduled maturities of $500K in fiscal year 2016, all bonds were retired at June 30, 2016.

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 January 1, 2015, the final principal payment was made and the 2002A series was retired.

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 or 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. 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. On June 16, 2016, the remaining outstanding Series 2002E Bonds were optionally refunded and the series was defeased.

As a result of optional refunding of $50K in fiscal year 2016, all bonds were defeased at June 30, 2016.

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. 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. On June 16, 2016, the remaining outstanding Series 2003A Bonds were optionally refunded and the series was defeased.

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 or 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. 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. 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. On June 16, 2016, the remaining outstanding Series 2003E Bonds were optionally refunded and the series was defeased.

As a result of optional refunding of $11.9M in fiscal year 2016, all bonds were defeased at June 30, 2016.

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. 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. On June 16, 2016, the remaining outstanding Series 2004A Bonds were optionally refunded and the series was defeased.

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. 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. 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. On June 16, 2016, the remaining outstanding Series 2004B Bonds were optionally refunded and the series was defeased.

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

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

As a result of optional refunding of $3.7M in fiscal year 2016, all bonds were defeased at June 30, 2016.

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. 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. On June 16, 2016, the remaining outstanding Series 2005A Bonds were optionally refunded and the series was defeased.

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. 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. On June 16, 2016, the remaining outstanding Series 2005B Bonds were optionally refunded and the series was defeased.

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 a purchase in lieu of redemption of $100K and optional refunding of the remaining $475K, all bonds were defeased at June 30, 2016.

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. 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. On June 16, 2016, the remaining outstanding Series 2006A Bonds were optionally refunded and the series was defeased.

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. 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. On June 16, 2016, the remaining outstanding Series 2006C Bonds were optionally refunded and the series was defeased.

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. 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. On June 16, 2016, the remaining outstanding Series 2006D Bonds were optionally refunded and the series was defeased.

As a result of a purchase in lieu of redemption of $1.7M and optional redemptions of the remaining $18.1M, all bonds were defeased at June 30, 2016.

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 June 16, 2016, the remaining outstanding Series 2007A Bonds were optionally refunded and the series was defeased.

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. 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. On June 16, 2016, the remaining outstanding Series 2007C Bonds were optionally refunded and the series was defeased.

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. 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. On June 16, 2016, the remaining outstanding Series 2007D Bonds were optionally refunded and the series was defeased.

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. 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. On June 16, 2016, the remaining outstanding Series 2007E Bonds were optionally refunded and the series was defeased.

As a result of purchases in lieu of redemption of $6M and optional refunding of the remaining $171.6M, all bonds were defeased at June 30, 2016.

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, 2016 is $75.7M.

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 $20.6M in fiscal year 2016, the ending balance of this entire series as of June 30, 2016 is $84M.

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 $39.9M in fiscal year 2016, the ending balance of this entire series as of June 30, 2016 is $128.4M 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 $41.3M in fiscal year 2016, the ending balance of this entire series as of June 30, 2016 is $194.2M, 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 $11.4M in fiscal year 2016, the ending balance of this entire series as of June 30, 2016 is $80.8M, 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 $17.1M in fiscal year 2016, the ending balance of this entire series as of June 30, 2016 is $138M, 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.

As a result of scheduled maturities and redemptions of $17.4M in fiscal year 2016, the ending balance of this entire series as of June 30, 2016 is $200.1M, 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.

As a result of scheduled maturities and redemptions of $3.3M in fiscal year 2016, the ending balance of this entire series as of June 30, 2016 is $195.9M, including the unamortized premium that was incorporated in the initial sale of the bonds.

Issue I Series 2015A
On May 28, 2015, under the Issue I 2015A Bond Resolution, the Authority issued $184.8M principal amount of bonds dated July 9, 2015 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, 2016. The Issue I Series 2015A Bonds mature annually from 2017 to 2032 in annual amounts ranging from $0.3M to $38.7M with interest at rates ranging from 3.00% to 5.00%. 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 2015A Bonds were issued with a premium of $15.2M.

The ending balance of this entire series as of June 30, 2016 is $199.1M, including the unamortized premium that was incorporated in the initial sale of the bonds.

Issue I Series 2015B-1 and 2015B-2

On November 18, 2015, under the Issue I 2015B Bond Resolution, the Authority issued $21M principal amount of floating rate planned amortization class (PAC) bonds dated November 30, 2015. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2016. Issue I Series 2015B-1 Bonds mature as follows: $6M PAC bonds maturing in 2031 with mandatory semi-annual PAC installments from 2017 to 2019 in amounts ranging from $0.2M to $2.3M bearing an interest rate of one-month LIBOR plus 1.75%; $15M PAC bonds maturing in 2032 with semi-annual mandatory PAC installments from 2019 to 2028 in amounts ranging from $0.1M to $1.0M bearing an interest rate of one month LIBOR plus 2.05%.

On November 18, 2015, under the Issue I 2015B Bond Resolution, the Authority issued $55M principal amount of fixed rate serial, term and PAC bonds dated November 30, 2015. Semiannual interest payments are required each January 1 and July 1 commencing on July 1, 2016. Issue I Series 2015B-2 Bonds mature as follows: $21.6M serial bonds which mature semi-annually from 2017 to 2023 in annual amounts ranging from $1.5M to $2.0M with interest at rates ranging from 2.00% to 3.875%; $22.2M term bonds maturing in 2025 and 2030 bearing interest rates of 4.0% and 4.7% respectively; $11.2M PAC bonds maturing in 2032 bearing an interest rate of 4% and requiring semi-annual mandatory PAC installments from 2017 to 2024 in amounts ranging from $0.01M to $2M. Term bonds are subject to sinking fund installments totaling $22M from 2024 to 2030 in amounts ranging from $900K to $2M. Bonds maturing on or after July 1, 2026 are redeemable at the option of the Authority, in whole or in part, on any date on or after January 1, 2026.

The Issue I Series 2015B Bonds were issued at a discount of $1.6M.

The ending balance of this entire series as of June 30, 2016 is $74.4M, including the unamortized discount that was incorporated in the initial sale of the bonds.

Issue J Series 2016

On May 25, 2016, under the Issue J 2016 Bond Resolution, the Authority issued $340M principal amount of bonds dated June 16, 2016 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, 2017. Issue J Series 2016 Bonds mature as follows: $137.7M serial bonds which mature annually from 2018 to 2024 in annual amounts ranging from $12M to $27.4M with interest at rates ranging from 4.00% to 5.00%, $202.3M of term bonds which mature in 2033 with an interest rate of 3.5%. The term bonds are subject to annual sinking fund installments totaling $202.3M from 2025 to 2033 in amounts ranging from $10.0M to $34.7M. Bonds maturing on or after July 1, 2033 are redeemable at the option of the Authority, in whole or in part, on any date on or after July 1, 2024. The Issue J Series 2016 Bonds were issued with a premium of $13M.

The ending balance of this entire series as of June 30, 2016 is $353M, including the unamortized premium that was incorporated in the initial sale of the bonds.

Debt Refunding Transactions

A portion of the Issue J Series 2016 bonds (the "Refunding Bonds") were issued to defease and optionally redeem $171M of bonds previously issued under the Issue E resolution (the "Defeased Bonds"). At the time of issuance, the proceeds from the Refunding Bonds, together with $24.3M of funds available under the Issue E Resolution, were placed into an irrevocable trust in an amount sufficient to pay the principal and interest on the Defeased Bonds on the optional redemption dates. Accordingly, the assets and liabilities of the irrevocable trust are not included in the Authority's financial statements. $188.3M of the Defeased Bonds were unredeemed at June 30, 2016 and subsequently redeemed in full in July 2016.

7. DERIVATIVES DISCLOSURE

As a method to manage the debt costs associated with financing student loans, the Authority has engaged in the use of interest rate cap derivatives which were structured specifically with regard to its underlying asset portfolio and included such risks as credit risk, basis risk, termination risk, tax risk and prepayment risk. In recognition of the potential risks associated with the products, the Authority 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 was to place a ceiling on the debt service payments associated with variable rate bonds that have since been retired. Capping the variable rate debt allowed the Authority to offer variable rate loans to borrowers with the assurance that the interest rate assessed on their loans would 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, 2016, approximately 24% 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 76% 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 were 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 $154M in notional outstanding as of June 30, 2016, were structured to amortize until final maturity of the trade.

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

June 30, 2016
(in thousands)

Associated Bond Issue	Notional Amounts	Effective Date	Fair Values	Cap Maturity Date	Counterparty Credit Rating
Issue E 2003B	$9,510	3/13/2003	$0.5	January 2027	(A1/A)
Issue E 2003E	$13,190	3/10/2004	$0.5	January 2026	(A1/A)
Issue E 2004B	$14,930	3/31/2005	$1	January 2026	(A1/A)
Issue E 2006C	$31,800	6/13/2006	$8	July 2027	(A1/A)
Issue E 2007C	$85,000	4/5/2007	$168	January 2033	(A1/A)
	$154,430		**$178**		

June 30, 2015
(in thousands)

Associated Bond Issue	Notional Amounts	Effective Date	Fair Values	Cap Maturity Date	Counterparty Credit Rating
Issue E 2003B	$11,570	3/13/2003	$6	January 2027	(A2/A)
Issue E 2003E	$16,000	3/10/2004	$6	January 2026	(A2/A)
Issue E 2004B	$17,600	3/31/2005	$10	January 2026	(A2/A)
Issue E 2006C	$36,600	6/13/2006	$104	July 2027	(A2/A)
Issue E 2007C	$85,000	4/5/2007	$889	January 2033	(A2/A)
	$166,770		**$1,015**		

Fair value: The fair values of the interest rate caps were developed using the zero-coupon discounting method which takes into consideration the prevailing benchmark interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the benchmark yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the transactions, where future amounts (the expected transaction cash flows) are converted to a single current (discounted) amount. Given the observability of inputs that are significant to the entire measurements, the fair values of the transactions are categorized as Level 2 inputs (inputs other than quoted prices that are observable).

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 $95.6K at June 30, 2015. Derivatives that do not meet the criteria of an effective hedging relationship are considered investment derivatives and changes in fair value are presented as an increase or decrease in fair value of investment derivatives on the Statement of Revenues, Expenses & Changes in Net Position. During fiscal year 2016, the decrease in fair value for investment derivatives recorded as expense was $742K. In fiscal year 2015, the fair value for investment derivatives increased and the income recorded was $67K.

Credit Risk: As of June 30, 2016, 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.

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.

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 are accrued when it is probable payment will be made and the liability can be reasonably estimated. Commitment fee reimbursements due within the next fiscal year are included in Other liabilities - current on the Statement of Net Position and were $5.1M and $2.9M at June 30, 2016 and June 30, 2015, respectively. Non-current commitment fee reimbursements are included in Other liabilities – non-current on the Statement of Net Position and were $1.2M at June 30, 2015.

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, 2016 and 2015, the Authority had deposits of $6.2M and $7.1M respectively, for the purchase of tuition certificates under the Commonwealth of Massachusetts General Obligation Bonds, effective August 1, 2016 and August 1, 2015, 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
2014 College Opportunity Bonds, Series A	$ 9,781	August 1, 2014	August 1, 2019 / 2034
2015 College Opportunity Bonds, Series A	$ 9,209	August 1, 2015	August 1, 2020 / 2035
Total	$ 218,081		

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 from participants and the purchase of the bonds, the amounts collected and a related liability to participants are recorded on the Statement of Net Position 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, 2016 and 2015, included in accounts payable and accrued expenses, were matured certificates payable to U.Plan participants in the amounts of $13.5M and $13.8M, 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, 2016 and 2015, the U.Fund was composed of thirty six mutual fund portfolios generally comprised of stock, bond, and money market funds. Each portfolio is designed to accommodate the asset allocation based on the risk profile of the participants. As of June 30, 2016 and 2015, net assets for the U.Fund were $5,101M and $5,019M, respectively.

10. RELATED PARTIES

During fiscal years 2016 & 2015, two Members of the Authority were officers/trustees of participating institutions. During the years ended June 30, 2016 and 2015, the Authority purchased loans totaling $24.9M and $22.2M, respectively, in principal balance, from these institutions. At June 30, 2016 and 2015, $163.2M and $161.5M, respectively, of loans purchased from those institutions were outstanding.

11. DEFINED CONTRIBUTION PLANS

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 to the Plan. Vesting at 100% occurs in the Plan after two years of employment. The Authority also matches 50% of employee salary 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, 2016 and 2015 were $377K and $312K, respectively. It is the Authority's policy to fund contributions to both plans on a current basis. Total retirement plan expense for the years ended June 30, 2016 and 2015 was $590K and $585K, respectively. The Authority pays administrative expenses of the plans for the plan participants and TD Ameritrade is the custodian of the plan 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, 2016, 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)

	2017	2018	2019	2020	2021	Thereafter
Minimum operating lease payments	$ 937	$ 639	$ 12	$ -	$ -	$ -

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)

	2016	2015
Minimum operating lease expenses	$ 875	$ 871
Additional operating lease expenses	175	157
Total operating lease expenses	$ 1,050	$ 1,028

13. CAPITAL EQUIPMENT

The activity related to the Authority's capital assets for the fiscal years ended 2016 and 2015, respectively, was as follows:

(in thousands)

	June 30, 2015	Additions	Disposals	June 30, 2016
Computer hardware	$ 684	$ 192	$ -	$ 876
Computer software	5,072	1,102	-	6,174
Furniture	796	-	-	796
Equipment	158	-	-	158
Leasehold improvements	540	-	-	540
Total capital equipment (at cost)	7,250	1,294	-	8,544
Accumulated depreciation	(6,322)	(522)	-	(6,844)
Capital equipment, net	$ 928	$ 772	$ -	$ 1,700

	June 30, 2014	Additions	Disposals	June 30, 2015
Computer hardware	$ 644	$ 40	$ -	$ 684
Computer software	4,665	407	-	5,072
Furniture	787	9	-	796
Equipment	155	3	-	158
Leasehold improvements	503	37	-	540
Total capital equipment (at cost)	6,754	496	-	7,250
Accumulated depreciation	(5,870)	(452)	-	(6,322)
Capital equipment, net	$ 884	$ 44	$ -	$ 928

Included in general and administrative expenses are depreciation expenses of $522K and $452K for the years ended June 30, 2016 and June 30, 2015, respectively.

14. GAINS RELATED TO THE BOND PROGRAM

During fiscal year 2016, the Authority purchased in lieu of redemption approximately $4.3M in outstanding auction rate bonds with cash on hand resulting in a current year gain on the retirement of debt totaling approximately $412K.

In fiscal year 2015, the Authority purchased in lieu of redemption approximately $1.2M in outstanding auction rate bonds with cash on hand resulting in a gain on the retirement of debt totaling approximately $130K.

15. SUBSEQUENT EVENTS

On August 18, 2016, 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 $8.7M at which time the corresponding liability was removed from the Statement of Net Position of the Authority.

On November 22, 2016, the Attorney General of Massachusetts filed a settlement agreement with Xerox Education Services, LLC, (XES) a national loan servicer who through a contractual arrangement provides servicing and origination functions for the Authority's portfolio of loans. The filing, which resulted from an investigation initiated by the Attorney General's office in December 2015, found that XES had violated Massachusetts and Federal law in servicing practices related to late fee charges, processing applications for federal income-based repayment programs, failing to protect active-duty service members, investigating credit reporting disputes and making excessive collection phone calls to borrowers. As part of the settlement, XES will pay a fine of $2.4M, immediately right the servicing practices found to be in the wrong and reform all borrower accounts affected by the findings. The settlement did not have a financial impact on the Authority.

Massachusetts Educational Financing Authority

Supplemental Schedule 1

Statements of Net Position

June 30, 2016 and 2015

	2016				2015			
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)	$ 149,502	$ 2,660	$ 790	$ 152,952	$ 174,432	$ 437	$ 748	$ 175,617
Investments (Notes 3 and 4)	-	22,042	-	22,042	1,020	23,198	-	24,218
Education loan notes receivable, net (Notes 3, 5, and 10)	121,949	-	155	122,104	199,848	-	1,829	201,677
Interest receivable on educational loan notes	30,114	-	-	30,114	31,001	-	2	31,003
Prepaid expenses and other assets	519	2,111	230	2,860	370	2,199	444	3,013
Interfund balances	(453)	-	453	-	(583)	-	583	-
Total current assets	301,631	26,813	1,628	330,072	406,088	25,834	3,606	435,528
Non-current assets								
Cash and cash equivalents (Notes 3 and 4)	291,516	-	-	291,516	27,460	-	658	28,118
Investments (Notes 3 and 4)	-	18,374	24,001	42,375	-	15,360	3,815	19,175
Derivative instruments - caps (Notes 3 and 7)	178	-	-	178	1,015	-	-	1,015
Educational loan notes receivable, net (Notes 3, 5, and 10)	1,331,185	-	1,610	1,332,795	1,267,883	-	201	1,268,084
Capital equipment, net of accumulated depreciation (Note 13)	-	-	1,700	1,700	-	-	928	928
Total assets	$ 1,924,510	$ 45,187	$ 28,939	$ 1,998,636	$ 1,702,446	$ 41,194	$ 9,208	$ 1,752,848
Liabilities								
Current liabilities								
Accounts payable and accrued expenses	$ 1,044	$ 13,462	$ 1,779	$ 16,285	$ 1,278	$ 13,781	$ 1,634	$ 16,693
Bonds payable - current portion (Note 6)	48,063	-	-	48,063	34,618	-	-	34,618
Certificates payable (Note 9)	-	6,191	-	6,191	-	7,079	-	7,079
Accrued bond interest payable	32,442	-	-	32,442	33,875	-	-	33,875
Other liabilities - current (Note 8)	2,475	-	2,584	5,059	2,916	-	-	2,916
Total current liabilities	84,024	19,653	4,363	108,040	72,687	20,860	1,634	95,181
Non-current liabilities								
Bonds payable - net of current portion (Note 6)	1,675,544	-	-	1,675,544	1,450,231	-	-	1,450,231
Other liabilities (Note 8)	-	-	109	109	-	-	1,375	1,375
Total liabilities	1,759,568	19,653	4,472	1,783,693	1,522,918	20,860	3,009	1,546,787
Deferred inflows of resources								
Net gain on bond refunding (Note 6)	12,413	-	-	12,413	15,360	-	-	15,360
Hedging instruments (Notes 3 and 7)	-	-	-	-	96	-	-	96
Total deferred inflows of resources	12,413	-	-	12,413	15,456	-	-	15,456
Total liabilities and deferred inflows of resources	1,771,981	19,653	4,472	1,796,106	1,538,374	20,860	3,009	1,562,243
Net position								
Invested in capital assets	-	-	1,700	1,700	-	-	928	928
Restricted	125,301	11,878	1,837	139,016	164,070	10,576	2,401	177,047
Unrestricted	27,228	13,656	20,930	61,814	2	9,758	2,870	12,630
Total net position	152,529	25,534	24,467	202,530	164,072	20,334	6,199	190,605
Total liabilities, deferred inflows and net position	$ 1,924,510	$ 45,187	$ 28,939	$ 1,998,636	$ 1,702,446	$ 41,194	$ 9,208	$ 1,752,848

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

Massachusetts Educational Financing Authority

Supplemental Schedule 1

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2016 and 2015

	2016				2015			
Operating revenues	**Trusteed Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Interest on education loan notes receivable (Note 3)	$ 93,873	$ -	$ 16	$ 93,889	$ 93,697	$ -	$ 24	$ 93,721
Loan origination fees	8,200	-	-	8,200	7,821	-	-	7,821
College savings plan interest and fees	-	4,974	-	4,974	-	5,013	-	5,013
Other revenue	-	1,174	4	1,178	-	1,334	194	1,528
Total operating revenues	102,073	6,148	20	108,241	101,518	6,347	218	108,083
Operating expenses								
Bond interest expense (Note 6)	66,455	-	-	66,455	66,146	-	-	66,146
Bond insurance	286	-	-	286	337	-	-	337
Costs of bond issuance	4,875	-	-	4,875	780	-	-	780
Provision for doubtful educational loan notes receivable	1,185	-	-	1,185	3,603	-	-	3,603
Credit decision fees	1,096	-	-	1,096	882	-	-	882
General and administrative (Notes 3, 11, 12, and 13)	15,958	996	573	17,527	14,555	1,511	803	16,869
Other expense	335	-	-	335	510	-	14	524
Total operating expenses	90,190	996	573	91,759	86,813	1,511	817	89,141
Operating income (loss)	11,883	5,152	(553)	16,482	14,705	4,836	(599)	18,942
Non-operating (expenses) revenues								
Gain on bond redemption (Note 14)	412	-	-	412	130	-	-	130
Interest and dividends	273	48	13	334	86	118	1	205
Arbitrage rebate (expense) income (Note 3)	(718)	-	-	(718)	400	-	-	400
(Decrease) increase in fair value of derivative instruments	(742)	-	-	(742)	67	-	-	67
Commitment fees to participating schools (Note 8)	(2,472)	-	(1,371)	(3,843)	-	-	(1,214)	(1,214)
Net asset transfers	(20,179)	-	20,179	-	(2,703)	-	2,703	-
Net non-operating (expenses) revenues	(23,426)	48	18,821	(4,557)	(2,020)	118	1,490	(412)
Total (decrease) increase in net position	(11,543)	5,200	18,268	11,925	12,685	4,954	891	18,530
Net position, beginning of year	164,072	20,334	6,199	190,605	151,387	15,380	5,308	172,075
Net position, end of year	$ 152,529	$ 25,534	$ 24,467	$ 202,530	$ 164,072	$ 20,334	$ 6,199	$ 190,605

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

Massachusetts Educational Financing Authority

Supplemental Schedule 1

Statements of Cash Flows

For the years ended June 30, 2016 and 2015

	2016				2015			
Cash flows from operating activities:	**Trusted Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusted Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Payments for disbursed loans	$ (202,951)	$ -	$ -	$ (202,951)	$ (185,102)	$ -	$ -	$ (185,102)
Payments received on outstanding loan principal	242,551	-	267	242,818	212,181	-	410	212,591
General & administrative payments	(17,548)	(1,235)	260	(18,523)	(15,367)	(2,250)	(59)	(17,676)
Interest received on education loans	76,437	-	16	76,453	75,216	-	28	75,244
Proceeds from other sources	-	6,156	-	6,156	-	6,328	-	6,328
Net cash provided by operating activities	98,489	4,921	543	103,953	86,928	4,078	379	91,385
Cash flows from non-capital financing activities:								
Proceeds from issuance of bonds	627,329	-	-	627,329	-	-	-	-
Costs of bond issuance	(4,875)	-	-	(4,875)	(780)	-	-	(780)
Bond interest paid	(74,541)	-	-	(74,541)	(70,832)	-	-	(70,832)
Principal payments on bonds payable	(384,453)	-	-	(384,453)	(174,078)	-	-	(174,078)
Commitment fees refunded to participating schools	(2,913)	-	-	(2,913)	(415)	-	-	(415)
Net asset transfers	(20,309)	-	20,309	-	(2,533)	-	2,533	-
Net cash provided by (used in) non-capital financing activities	140,238	-	20,309	160,547	(248,638)	-	2,533	(246,105)
Cash flows from capital financing activities:								
Purchase of capital equipment and software development	-	-	(1,294)	(1,294)	-	-	(496)	(496)
Net cash used in capital financing activities	-	-	(1,294)	(1,294)	-	-	(496)	(496)
Cash flows from investing activities:								
Proceeds from maturity/sale of investments	3,049	14,407	-	17,456	4,142	17,944	318	22,404
Purchases of investments	(2,030)	(17,153)	(20,186)	(39,369)	(4,761)	(21,947)	(2,072)	(28,780)
Arbitrage rebate payment	(894)	-	-	(894)	-	-	-	-
Interest and dividends received on cash and investments	274	48	12	334	86	118	1	205
Net cash provided by (used in) investing activities	399	(2,698)	(20,174)	(22,473)	(533)	(3,885)	(1,753)	(6,171)
Net increase (decrease) in cash and cash equivalents	239,126	2,223	(616)	240,733	(162,243)	193	663	(161,387)
Cash and cash equivalents, beginning of year	201,892	437	1,406	203,735	364,135	244	743	365,122
Cash and cash equivalents, end of year	$ 441,018	$ 2,660	$ 790	$ 444,468	$ 201,892	$ 437	$ 1,406	$ 203,735

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

Massachusetts Educational Financing Authority
Supplemental Schedule 1
Statements of Cash Flows, Continued
For the years ended June 30, 2016 and 2015

Reconciliation of operating income (loss) to net cash provided by operating activities:	2016 Trusteed Funds	2016 College Savings Funds	2016 Authority Funds	2016 Total	2015 Trusteed Funds	2015 College Savings Funds	2015 Authority Funds	2015 Total
Operating income (loss)	$ 11,883	$ 5,152	$ (553)	$ 16,482	$ 14,705	$ 4,836	$ (599)	$ 18,942
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:								
Depreciation expense	-	-	522	522	-	-	452	452
Provision for doubtful educational loan notes receivable	1,185	-	-	1,185	3,603	-	-	3,603
Costs of bond issuance	4,875	-	-	4,875	780	-	-	780
Bond interest expense	66,455	-	-	66,455	66,146	-	-	66,146
Changes in assets and liabilities:								
Educational loan notes receivable	13,412	-	266	13,678	(1,638)	-	422	(1,216)
Interest receivable on educational loan notes	887	-	1	888	2,926	-	5	2,931
Accounts payable and accrued expenses	(233)	(319)	92	(460)	272	(295)	249	226
Prepaid expenses and other assets	25	88	215	328	134	(463)	(150)	(479)
Net cash provided by operating activities	$ 98,489	$ 4,921	$ 543	$ 103,953	$ 86,928	$ 4,078	$ 379	$ 91,385

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

Massachusetts Educational Financing Authority

Supplemental Schedule 2

Statements of Net Position

June 30, 2016 and 2015

	2016							2015						
Assets	**Issue E Total**	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Funds**	**Issue E Total**	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Funds**
Current assets														
Cash and cash equivalents (Notes 3 and 4)	$ 2,785	$ 5,579	$ 14,727	$ 74,727	$ 28,923	$ 22,761	$ 149,502	$ 33,312	$ 6,778	$ 17,221	$ 75,401	$ 24,464	$ 17,256	$ 174,432
Investments (Notes 3 and 4)	-	-	-	-	-	-	-	1,020	-	-	-	-	-	1,020
Education loan notes receivable, net (Notes 3, 5, and 10)	3,183	10,289	6,294	54,703	32,027	15,453	121,949	66,895	11,855	14,023	68,675	20,427	17,973	199,848
Interest receivable on educational loan notes	-	334	436	14,188	8,182	6,974	30,114	695	469	553	11,285	11,149	6,850	31,001
Prepaid expenses and other assets	398	-	23	50	30	18	519	278	-	1	48	25	18	370
Interfund balances	-	-	(37)	(306)	(110)	-	(453)	(271)	-	(37)	(275)	-	-	(583)
Total current assets	6,366	16,202	21,443	143,362	69,052	45,206	301,631	101,929	19,102	31,761	155,134	56,065	42,097	406,088
Non-current assets														
Cash and cash equivalents (Notes 3 and 4)	-	754	2,520	80,296	204,012	3,934	291,516	-	754	3,138	14,386	4,899	4,283	27,460
Derivative instruments - caps (Notes 3 and 7)	178	-	-	-	-	-	178	1,015	-	-	-	-	-	1,015
Educational loan notes receivable, net (Notes 3, 5, and 10)	23,288	63,838	74,411	646,930	329,832	192,886	1,331,185	156,752	82,009	85,734	513,967	215,222	214,199	1,267,883
Total assets	$ 29,832	$ 80,794	$ 98,374	$ 870,588	$ 602,896	$ 242,026	$ 1,924,510	$ 259,696	$ 101,865	$ 120,633	$ 683,487	$ 276,186	$ 260,579	$ 1,702,446
Liabilities														
Current liabilities														
Accounts payable and accrued expenses	$ 129	$ 73	$ 31	$ 311	$ 436	$ 64	$ 1,044	$ 103	$ 134	$ 37	$ 882	$ 62	$ 60	$ 1,278
Bonds payable - current portion (Note 6)	-	-	-	46,254	-	1,809	48,063	500	-	-	31,276	-	2,842	34,618
Accrued bond interest payable	-	217	2,667	18,785	5,878	4,895	32,442	3,852	212	3,321	15,190	6,009	5,291	33,875
Other liabilities - current (Note 8)	2,475	-	-	-	-	-	2,475	2,916	-	-	-	-	-	2,916
Total current liabilities	2,604	290	2,698	65,350	6,314	6,768	84,024	7,371	346	3,358	47,348	6,071	8,193	72,687
Non-current liabilities														
Bonds payable - net of current portion (Note 6)	-	75,750	83,985	745,683	571,851	198,275	1,675,544	213,525	95,635	104,585	573,384	247,870	215,232	1,450,231
Total liabilities	2,604	76,040	86,683	811,033	578,165	205,043	1,759,568	220,896	95,981	107,943	620,732	253,941	223,425	1,522,918
Deferred inflows of resources														
Net gain on bond refunding (Note 6)	-	-	-	5,563	-	6,850	12,413	-	-	-	7,391	-	7,969	15,360
Hedging instruments (Notes 3 and 7)	-	-	-	-	-	-	-	96	-	-	-	-	-	96
Total deferred inflows of resources	-	-	-	5,563	-	6,850	12,413	96	-	-	7,391	-	7,969	15,456
Total liabilities and deferred inflows of resources	2,604	76,040	86,683	816,596	578,165	211,893	1,771,981	220,992	95,981	107,943	628,123	253,941	231,394	1,538,374
Net position														
Restricted	-	4,754	11,691	53,992	24,731	30,133	125,301	38,702	5,884	12,690	55,364	22,245	29,185	164,070
Unrestricted	27,228	-	-	-	-	-	27,228	2	-	-	-	-	-	2
Total net position	27,228	4,754	11,691	53,992	24,731	30,133	152,529	38,704	5,884	12,690	55,364	22,245	29,185	164,072
Total liabilities, deferred inflows and net position	$ 29,832	$ 80,794	$ 98,374	$ 870,588	$ 602,896	$ 242,026	$ 1,924,510	$ 259,696	$ 101,865	$ 120,633	$ 683,487	$ 276,186	$ 260,579	$ 1,702,446

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

Massachusetts Educational Financing Authority

Supplemental Schedule 2

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2016 and 2015

	2016							2015						
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)	$ 9,711	$ 1,416	$ 7,163	$ 45,790	$ 16,981	$ 12,812	$ 93,873	$ 12,226	$ 1,607	$ 8,873	$ 38,767	$ 18,463	$ 13,761	$ 93,697
Loan origination fees	-	-	-	8,200	-	-	8,200	-	-	-	7,805	(1)	17	7,821
Total operating revenues	9,711	1,416	7,163	53,990	16,981	12,812	102,073	12,226	1,607	8,873	46,572	18,462	13,778	101,518
Operating expenses														
Bond interest expense (Note 6)	7,188	1,180	5,644	33,062	11,059	8,322	66,455	8,467	1,279	6,880	28,134	11,808	9,578	66,146
Bond insurance	178	-	108	-	-	-	286	205	-	132	-	-	-	337
Costs of bond issuance	-	-	-	1,946	2,929	-	4,875	-	-	-	780	-	-	780
Provision for doubtful educational loan notes receivable	(1,739)	34	(1)	2,258	1,858	(1,225)	1,185	329	41	182	3,545	(402)	(92)	3,603
Credit decision fees	-	-	-	1,054	42	-	1,096	-	-	-	882	-	-	882
General and administrative (Notes 3, 11, 12, and 13)	2,885	1,332	2,044	2,387	3,852	3,458	15,958	3,369	1,140	1,890	2,296	3,076	2,784	14,555
Other expense	87	5	2	205	35	1	335	52	8	26	324	99	1	510
Total operating expenses	8,599	2,551	7,797	40,912	19,775	10,556	90,190	12,422	2,468	9,110	35,961	14,581	12,271	86,813
Operating (loss) income	1,112	(1,135)	(634)	13,078	(2,794)	2,256	11,883	(196)	(861)	(237)	10,611	3,881	1,507	14,705
Non-operating (expenses) revenues														
Gain on bond redemption (Note 14)	412	-	-	-	-	-	412	130	-	-	-	-	-	130
Interest and dividends	73	5	10	149	20	16	273	68	1	1	13	2	1	86
Arbitrage rebate (expense) income (Note 3)	(718)	-	-	-	-	-	(718)	400	-	-	-	-	-	400
Decrease (increase) in fair value of derivative instruments	(742)	-	-	-	-	-	(742)	67	-	-	-	-	-	67
Commitment fees to participating schools (Note 8)	(2,472)	-	-	-	-	-	(2,472)	-	-	-	-	-	-	-
Net asset transfers	(9,141)	-	(375)	(14,599)	5,260	(1,324)	(20,179)	63	-	-	7	(2,766)	(7)	(2,703)
Net non-operating (expenses) revenues	(12,588)	5	(365)	(14,450)	5,280	(1,308)	(23,426)	728	1	1	20	(2,764)	(6)	(2,020)
Total (decrease) increase in net position	(11,476)	(1,130)	(999)	(1,372)	2,486	948	(11,543)	532	(860)	(236)	10,631	1,117	1,501	12,685
Net position, beginning of year	38,704	5,884	12,690	55,364	22,245	29,185	164,072	38,172	6,744	12,926	44,733	21,128	27,684	151,387
Net position, end of year	$ 27,228	$ 4,754	$ 11,691	$ 53,992	$ 24,731	$ 30,133	$ 152,529	$ 38,704	$ 5,884	$ 12,690	$ 55,364	$ 22,245	$ 29,185	$ 164,072

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

Massachusetts Educational Financing Authority

Supplemental Schedule 2

Statements of Cash Flows

For the years ended June 30, 2016 and 2015

	2016							2015						
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	$ -	$ -	$ -	$ (202,951)	$ -	$ -	$ (202,951)	$ -	$ -	$ -	$ (184,891)	$ 10	$ (221)	$ (185,102)
Payments received on outstanding loan principal	38,417	20,391	19,246	97,691	38,748	28,058	242,551	42,852	24,085	18,923	79,437	26,984	19,900	212,181
General & administrative payments	(2,981)	(1,393)	(2,181)	(4,015)	(3,525)	(3,453)	(17,548)	(3,611)	(1,094)	(2,016)	(2,696)	(3,113)	(2,837)	(15,367)
Interest received on education loans	10,227	857	7,086	34,894	13,685	9,688	76,437	12,180	945	8,709	31,371	13,139	8,872	75,216
Net cash provided by (used in) operating activities	45,663	19,855	24,151	(74,381)	48,908	34,293	98,489	51,421	23,936	25,616	(76,779)	37,020	25,714	86,928
Cash flows from non-capital financing activities:														
Proceeds from issuance of bonds	-	-	-	274,354	352,975	-	627,329	-	-	-	-	-	-	-
Costs of bond issuance	-	-	-	(1,947)	(2,928)	-	(4,875)	-	-	-	(780)	-	-	(780)
Bond interest paid	(11,040)	(1,174)	(6,298)	(33,956)	(11,685)	(10,388)	(74,541)	(9,413)	(1,327)	(7,414)	(29,074)	(12,626)	(10,978)	(70,832)
Principal payments on bonds payable	(213,613)	(19,885)	(20,600)	(84,415)	(28,500)	(17,440)	(384,453)	(41,455)	(22,663)	(16,800)	(67,940)	(17,320)	(7,900)	(174,078)
Commitment fees refunded to participating schools	(2,913)	-	-	-	-	-	(2,913)	(415)	-	-	-	-	-	(415)
Net asset transfers	151,177	-	(375)	(14,568)	(155,219)	(1,324)	(20,309)	68	7	-	194	(2,795)	(7)	(2,533)
Net cash (used in) provided by non-capital financing activities	(76,389)	(21,059)	(27,273)	139,468	154,643	(29,152)	140,238	(51,215)	(23,983)	(24,214)	(97,600)	(32,741)	(18,885)	(248,638)
Cash flows from investing activities:														
Proceeds from maturity/sale of investments	3,049	-	-	-	-	-	3,049	4,142	-	-	-	-	-	4,142
Purchases of investments	(2,030)	-	-	-	-	-	(2,030)	(4,761)	-	-	-	-	-	(4,761)
Arbitrage rebate payments	(894)	-	-	-	-	-	(894)	-	-	-	-	-	-	-
Interest and dividends received on cash and investments	74	5	10	149	21	15	274	67	1	1	13	2	2	86
Net cash provided by (used in) investing activities	199	5	10	149	21	15	399	(552)	1	1	13	2	2	(533)
Net (decrease) increase in cash and cash equivalents	(30,527)	(1,199)	(3,112)	65,236	203,572	5,156	239,126	(346)	(46)	1,403	(174,366)	4,281	6,831	(162,243)
Cash and cash equivalents, beginning of year	33,312	7,532	20,359	89,787	29,363	21,539	201,892	33,658	7,578	18,956	264,153	25,082	14,708	364,135
Cash and cash equivalents, end of year	$ 2,785	$ 6,333	$ 17,247	$ 155,023	$ 232,935	$ 26,695	$ 441,018	$ 33,312	$ 7,532	$ 20,359	$ 89,787	$ 29,363	$ 21,539	$ 201,892

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

Massachusetts Educational Financing Authority
Supplemental Schedule 2
Statements of Cash Flows, Continued
For the years ended June 30, 2016 and 2015

	2016							2015						
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	**Issue E Total**	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Funds**	**Issue E Total**	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Funds**
Operating (loss) income	$ 1,112	$ (1,135)	$ (634)	$ 13,078	$ (2,794)	$ 2,256	$ 11,883	$ (196)	$ (861)	$ (237)	$ 10,611	$ 3,881	$ 1,507	$ 14,705
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:														
Provision for doubtful educational loan notes receivable	(1,739)	34	(1)	2,258	1,858	(1,225)	1,185	329	41	182	3,545	(402)	(92)	3,603
Costs of bond issuance	-	-	-	1,946	2,929	-	4,875	-	-	-	780	-	-	780
Bond interest expense	7,188	1,180	5,644	33,062	11,059	8,322	66,455	8,467	1,279	6,880	28,134	11,808	9,578	66,146
Changes in assets and liabilities:														
Educational loan notes receivable	38,325	19,704	19,053	(121,249)	32,520	25,059	13,412	42,674	23,334	17,740	(123,453)	20,357	17,710	(1,638)
Interest receivable on educational loan notes	695	134	117	(2,902)	2,967	(124)	887	183	98	1,044	3,122	1,414	(2,935)	2,926
Accounts payable and accrued expenses	26	(62)	(5)	(571)	374	5	(233)	(169)	39	7	487	(39)	(53)	272
Prepaid expenses and other assets	56	-	(23)	(3)	(5)	-	25	133	6	-	(5)	1	(1)	134
Net cash provided by (used in) operating activities	$ 45,663	$ 19,855	$ 24,151	$ (74,381)	$ 48,908	$ 34,293	$ 98,489	$ 51,421	$ 23,936	$ 25,616	$ (76,779)	$ 37,020	$ 25,714	$ 86,928

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