Massachusetts Educational Financing Authority

Financial Statements with Management's Discussion and Analysis

June 30, 2017 and 2016

Massachusetts Educational Financing Authority
Index

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, 2017 ("FY17"), 2016 ("FY16") and 2015 ("FY15"). 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 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.

In addition to the proprietary, unsecured consumer loan programs, the Authority began participating in the Federal Family Education Loan Program (the "FFELP") in July 2002. The FFELP is a federal program that allows undergraduate and graduate borrowers at eligible postsecondary schools to obtain low cost education loans. Effective July 1, 2010, new legislation eliminated the ability to provide new loans under FFELP and requires that all new federal loans are to be made through the Direct Loan Program, which is administered by the Federal Government. The new law did not affect the terms and conditions of existing FFELP loans originated by the Authority.

The 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, Statement of Cash Flows and Statement of Fiduciary Net Position. 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.

The Statement of Fiduciary Net Position presents information on the assets and liabilities of the Attainable Savings Plan, which is a fiduciary fund of the Authority. The assets of the Attainable Savings Plan are held by the Authority on behalf of the account owners in an agency fund. An agency fund is a type of fiduciary fund used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the Authority's enterprise programs. The Governmental Accounting Standards Board requires fiduciary funds be reported separately from the basic financial statements of business type activities.

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 March 2017, the Authority adopted a resolution authorizing the issuance of commercial paper notes ("the Notes") as a temporary financing mechanism for its education loan programs. The Authority intends to issue a combination of revenue bonds and asset backed notes to permanently finance education loans originated with proceeds from the Notes. The Notes are special obligations of the Authority and are collateralized by the assets and associated revenues financed with Note proceeds and further supported by a letter of credit. The letter of credit and any associated bank note or bank obligation are general obligations of the Authority secured by the full faith and credit of the Authority.

In May 2017, the Authority, on behalf of the Commonwealth, introduced the Attainable Savings Plan (the "Attainable Plan"). The Attainable Plan, established under the Achieving a Better Life Experience (ABLE) Act of 2014, is a tax advantaged savings plan under Section 529A of the Internal Revenue Code that allows individuals with disabilities to save for qualifying disability expenses through investment vehicles such as mutual funds.

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 and non-operating revenues are primarily composed of gains on bond redemptions and investment income. The principal operating expenses are bond and note 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.

The Authority disbursed a total of $332M of private loans in FY17, which included disbursements of $212M in its core education loan programs and $120M in its refinancing loan program. Total FY17 loan disbursements represent a 64% increase from the $203M disbursed in FY16 mostly due to significant growth in the refinancing loan program. U.Fund net assets grew 11% and were $5.7B at the end of FY17. For the U.Plan, the Authority had $12.6M of matured tuition certificates on its financial statements as a liability to program participants at the end of FY17 and $7.1M of deposits for the purchase of tuition certificates effective August 1, 2017. Assets for the Attainable Plan were $666K at June 30, 2017.

Total net position was $214.2M at the end of FY17, which represents an increase of $11.7M or 5.8% 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 $95.3M and represents 85% of total revenues in an improved consumer credit environment. Interest expense on bonds and notes outstanding was $65.2M, or 65% of total expenses. The Authority’s general and administrative expenses increased to $20.6M in recognition of loan volume growth and represented 21% of total operating expenses. Non-operating revenues include interest and dividend income of $1.1M as assets continue to be invested in vehicles providing short-term flexibility and principal protection.

OPERATING AND NON-OPERATING RESULTS

The following illustrates the comparative results of total revenues from fiscal years ended June 30, 2017, 2016 and 2015, respectively:

(in thousands)

	2017	2016	2015
Operating revenues			
Interest on educational loan notes receivable	$ 95,318	$ 93,889	$ 93,721
Non-interest revenues	15,301	14,352	14,362
Total operating revenues	110,619	108,241	108,083
Non-operating revenues	1,145	746	802
Total revenues	$ 111,764	$ 108,987	$ 108,885

Total operating revenues for the Authority were $111M in FY17, a 2% increase over FY16 total operating revenues. FY16 total operating revenues were $108M an increase of less than 1% compared to FY15.

Interest income on education loan notes receivable was $95.3M in FY17 representing a 2% increase over FY16 as a result of significant growth in the Authority's refinancing loan program. FY16 interest income was level with FY15 as a 10% year over year increase in loan disbursements was mostly offset by the impact of a 10% increase in education loan notes principal repayments. Interest income represented 86% and 87% of total operating revenues in FY17 and FY16, respectively.

Non-interest revenues were $15.3M in FY17 and comprised of loan origination fees, college savings plan revenues and other income. Loan origination fees increased 9% to $9M in FY17 corresponding with a 9% increase in core program loan disbursements and represented 59% of non-interest revenues. College savings plan revenues increased 5% to $5.2M in FY17 due to growth in assets under management in the U.Fund and represented approximately 34% of non-interest revenues. Other income, which represented 7% of non-interest revenues, decreased 8% to $1.1M in FY17 as the prior year included non-recurring grant income. FY16 non-interest revenues of $14.4M remained level with FY15 non-interest revenues.

Total non-operating revenues for the Authority were $1.1M in FY17, an increase of 54% from FY16.

Short term investment vehicles posted modest gains in FY17 in a rising, but nominally low yield environment and the Authority's investment portfolio reacted accordingly by producing $1.1M of interest and dividend income compared to $334K in FY16. FY16 non-operating revenues included gains on bonds purchased in lieu of redemption of $412K and remained level with FY15 non-operating revenues.

As a result of these activities, total FY17 revenues increased by $2.8M or 3% compared to the prior fiscal year and FY16 total revenues remained flat increasing less than 1% compared to the prior year.

The following illustrates the comparative results of total expenses from fiscal years ended June 30, 2017, 2016 and 2015, respectively:

(in thousands)

	2017	2016	2015
Operating expenses			
Interest expense	$ 65,234	$ 66,455	$ 66,146
Non-interest expenses	34,827	25,304	22,995
Total operating expenses	100,061	91,759	89,141
Non-operating expenses	-	5,303	1,214
Total expenses	$ 100,061	$ 97,062	$ 90,355

Total operating expenses for the Authority were $100M in FY17, a 9% increase over FY16 operating expenses. FY16 operating expenses were $92M, an increase of 3% compared to the prior fiscal year.

Interest expense on bonds and notes outstanding decreased by $1.2M or 1.8% from FY16 due to the amortization of bond premiums on new issues and gains deferred in previous fiscal years. FY16 interest expense was relatively flat compared to FY15. Interest expense represented 65% and 72% of total operating expense in FY17 and FY16, respectively.

Non-interest operating expenses increased by $9.5M or 37.6% in FY17 and included the provision for doubtful education loans, general and administrative costs, bond issuance costs and operating expense.

General and administrative expenses increased by $3M in FY17 mostly due to marketing and loan origination costs related to loan growth. The provision for doubtful educational loans increased to $9.7M and reflective of a 64% increase in loan originations as well as recognition of lower recovery expectations. Bond and note issuance costs were $2.6M in FY17, a decrease of $2.3M compared to the prior fiscal year as three capital market transactions closed in FY16 compared to two in FY17. FY16 non-interest operating expense increased by $2.3M compared to FY15 mostly due to bond issuance costs relating to three deals closed in FY16.

The Authority did not incur any non-operating expense in FY17. FY16 operating non-operating expenses were $5.3M, an increase of $4.1M compared to the prior fiscal year.

FY16 and FY15 non-operating expenses consisted of commitment fee reimbursement accruals of $3.8M and $1.2M, respectively related to historical loan 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.

As a result of these activities, total FY17 expenses increased by $3M or 3% compared to the prior fiscal year and total FY16 expenses increased by $6.7M or 7%.

CHANGE IN NET POSITION

The following illustrates the comparative results of increases in net position from fiscal years ended June 30, 2017, 2016 and 2015, respectively:

(in thousands)

	2017	2016	2015
Operating revenues	$ 110,619	$ 108,241	$ 108,083
Operating expenses	100,061	91,759	89,141
Operating income	10,558	16,482	18,942
Non-operating revenues	1,145	746	802
Non-operating expenses	-	5,303	1,214
Non-operating income (loss)	1,145	(4,557)	(412)
Increase in net position	$ 11,703	$ 11,925	$ 18,530

The Authority's net operating income decreased to $10.6M in FY17. In recognition of a loan volume increase of $129M (or 64%), the $2.4M increase in operating revenues was offset by an $8.3M increase in operating expenses related to marketing, loan origination and the doubtful allowance. FY16 net operating income decreased by $2.5M from FY15 due to an increase in operating expense relating to bond issuance costs for three capital market transactions that closed in FY16.

The Authority had non-operating income of $1.1M in FY17 which represents interest income on the Authority's cash and investments. FY16 had a non-operating loss of $4.6M representing a $4.1M increase from the prior fiscal year resulting from commitment fee reimbursement accruals, arbitrage rebate expense and a decrease in fair value of non-hedging investment derivatives.

As a result of these activities, net position increased by $11.7M during FY17 and $11.9M in FY16.

FINANCIAL POSITION

The following table reflects the condensed Statement of Net Position at June 30, 2017 compared to the prior fiscal years ended 2016 and 2015. 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)

	2017	2016	2015
Assets			
Cash and investments	$ 481,353	$ 508,885	$ 247,128
Education loan notes receivable	1,541,791	1,454,899	1,469,761
Other assets	33,232	34,852	35,959
Total assets	2,056,376	1,998,636	1,752,848
Liabilities			
Notes payable	57, 800	-	-
Bonds payable	1,717,419	1,723,607	1,484,849
Bond and note interest payable	35,008	32,442	33,875
Other liabilities	22,673	27,644	28,063
Total liabilities	1,832,900	1,783,693	1,546,787
Deferred Inflows			
Gain on bond refunding	9,243	12,413	15,360
Hedging instruments	-	-	96
Total deferred inflows	9,243	12,413	15,456
Net Position			
Invested in capital assets	1,887	1,700	928
Restricted	136,232	139,016	177,047
Unrestricted	76,114	61,814	12,630
Total net position	$ 214,233	$ 202,530	$ 190,605

Total net position was $214.2M at June 30, 2017, an increase of $11.7M from the beginning of the fiscal year, or 5.8%.

Cash and investments decreased by 5.4% in FY17, the net result of $332M of loan disbursements and $291M of proceeds from bond issuances. The $262M increase in FY16 cash and investments was attributed to proceeds from new bond issuances, which were used to support FY17 education loan note originations. FY17 Education loan notes receivable increased by 6% primarily due to the growth in the Authority's education loan refinancing program. FY16 Education loan notes receivable decreased 1% and remained relatively consistent with the prior fiscal year. The ratio of education loan note receivables to total assets was 75% and 73% at June 30, 2017 and 2016, respectively.

In FY17, the Authority adopted a new resolution authorizing the issuance and sale of commercial paper notes as a short term mechanism for financing education loans. Outstanding commercial paper notes payable were $57.8M at June 30, 2017. The Authority also continued to manage its long-term capital plan and executed a capital market transaction totaling $170M in FY17, which was offset by bond retirements and net premium amortization of $176M. In FY16, three capital market transactions totaling $627M were executed and partially offset by $385M of bonds defeased or retired during the year. Accrued bond interest payable increased by 8% in FY17 as the Issue J 2016 accrual represents a full debt service term at the end of FY17 (versus a partial debt service term at the end of FY16). Other liabilities decreased as FY16 included a $5M accrual for commitment fee reimbursements due, which was paid in full in FY17. No further commitment fee reimbursements remain outstanding at June 30, 2017.

The gain on bond refunding decreased $3M in FY17 and FY16 due to the current year amortization of gains deferred in previous fiscal years.

Within net position, 64% is comprised of invested in capital assets and those assets that are restricted through bond and note resolutions or program specific regulations at June 30, 2017. 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 $398.6M, $444.5M, and $203.7M at June 30, 2017, 2016 and 2015, respectively. This cash ending balance reflects the net activity of raising proceeds in the capital markets, disbursing that cash into education and refinancing 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, 2017, 2016 and 2015, 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

	FY2017	FY2016	FY2015
Allowance at beginning of period	$51,061	$49,876	$46,273
Provision for education loan losses	$9,699	$1,185	$3,603
Allowance at end of period	$60,760	$51,061	$49,876
Gross loan defaults	$10,811	$12,892	$14,768
Recoveries	$6,438	$7,707	$8,541
Net loan defaults	$4,373	$5,185	$6,227
Net loan defaults as a percentage of average loans in repayment	0.36%	0.43%	0.52%
Allowance multiple of average non-current loans in repayment (90+ days)	4.17	2.88	2.39
Allowance as a percentage of the ending total loan balance	4.05%	3.63%	3.50%
Allowance as a percent of ending loans in repayment	4.81%	4.32%	4.15%
Ending total loans, gross	$1,500,121	$1,407,974	$1,426,918
12 month average in repayment	$1,214,152	$1,197,104	$1,208,297
Ending loans in repayment	$1,263,169	$1,181,147	$1,202,963
12 month average 90+ days delinquent	$14,562	$17,710	$20,895
90+ days delinquent % of avg. repayment	1.20%	1.48%	1.73%

The Authority, under the core education loan program, 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 also offers 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 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, 2017 and 2016, the total principal balance outstanding of loans in a modified status was $59M and $73M, respectively and represented approximately 4.9% and 6.6% of all loans in repayment, respectively. At June 30, 2017 and 2016, 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 FY17, 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 FY17 provision for education loan losses was $9.7M, which increased the allowance for doubtful accounts to $60.8M. The amount of loans in repayment increased by $82M, or 7%, in FY17. The amount of loans in deferment at June 30, 2017 increased by 5% to $237M or 16% of gross education loan receivables. Approximately $3.9M and $3.4M of the allowance for doubtful accounts is allocated to education loans in deferment in FY17 and FY16, respectively.

DEBT ADMINISTRATION

As of June 30, 2017, the Authority had $1.67B of bond principal outstanding which was consistent compared to FY16. All of the Authority's outstanding bonds are 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 and Issue J indentures are not insured and have published ratings of AA by S&P and A by Fitch. The Issue K indenture, also not insured, has published ratings of AA by S&P and Fitch as well as an A rating by S&P on the subordinate debt outstanding. 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 92% of the outstanding bond portfolio (an increase from 91% in FY16 and 90% in FY15)

- Taxable Floating Rate Notes indexed to Libor that were issued in 2008 to fund existing FFELP loan products represent 4% of the outstanding bond portfolio (a decrease from 5% in FY16 and 7% in FY15)

- Fixed rate taxable revenue bonds issued in 2016 to fund fixed rate refinancing loans represent 3% of the outstanding bond portfolio (no change from FY16)

- Taxable Floating Rate Notes indexed to Libor issued in 2016 to fund variable rate refinancing loans represent 1% of the outstanding bond portfolio (no change from FY16)

The Authority also has $57.8M of commercial paper notes outstanding at June 30, 2017, which are supported by a letter of credit. The notes have published short term ratings of A-1+ by S&P and F1+ by Fitch in each case based upon the issuance of the letter of credit by the bank. The letter of credit and any associated bank note or bank obligation are general obligations of the Authority.

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, 2017, the Authority had outstanding $143M in notional derivative products, a decrease of $12M from FY16.

CAPITAL ASSETS

For the year ended June 30, 2017, the Authority had \$1.9M invested in capital assets. This amount represents a net increase (additions and depreciation) of \$187K in such assets. The following reconciliation summarizes the change in capital assets. The Authority purchased \$957K of new capital assets during FY17 which were primarily related to computer hardware & software development related to loan program originations.

(in thousands)

	2017	2016	2015
Beginning balance, net	$ 1,700	$ 928	$ 884
Additions	957	1,294	496
Depreciation	(770)	(522)	(452)
Ending balance, net	$ 1,887	$ 1,700	$ 928

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 financial statements of the business-type activities and the fiduciary activities of Massachusetts Educational Financing Authority (the "Authority") as listed in the index appearing on page 1, which collectively comprise the Authority's basic 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Massachusetts Educational Financing Authority as of June 30, 2017 and 2016, and its changes in financial position and its cash flows for the years then ended, and the financial position of the fiduciary activities of Massachusetts Educational Financing Authority as of June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required supplemental information

The accompanying Management's Discussion and Analysis ("MD&A") on pages 2 through 11 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 an 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.

Supplemental information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental schedules on pages 38 through 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit 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 schedules on pages 38 through 45 are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

December 19, 2017

(in thousands)

	2017	2016
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 4)	$ 192,438	$ 152,952
Investments (Notes 3 and 4)	21,462	22,042
Education loan notes receivable, net (Notes 3, 5, and 11)	128,814	122,104
Interest receivable on educational loan notes	28,592	30,114
Prepaid expenses and other assets	2,556	2,860
Total current assets	373,862	330,072
Non-current assets		
Cash and cash equivalents (Notes 3 and 4)	206,129	291,516
Investments (Notes 3 and 4)	61,324	42,375
Derivative instruments (Notes 3 and 8)	197	178
Education loan notes receivable, net (Notes 3, 5, and 11)	1,412,977	1,332,795
Capital equipment, net of accumulated depreciation (Note 14)	1,887	1,700
Total assets	$ 2,056,376	$ 1,998,636
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 15,540	$ 16,285
Bonds payable – current portion (Note 6)	52,721	48,063
Certificates payable (Note 10)	7,084	6,191
Accrued interest payable	35,008	32,442
Other liabilities – current (Note 9)	-	5,059
Total current liabilities	110,353	108,040
Non-current liabilities		
Notes payable (Note 7)	57,800	-
Bonds payable – net of current portion (Note 6)	1,664,698	1,675,544
Other liabilities – non-current (Note 9)	49	109
Total liabilities	1,832,900	1,783,693
Deferred inflows of resources		
Net gain on bond refunding (Note 6)	9,243	12,413
Total deferred inflows of resources	9,243	12,413
Total liabilities and deferred inflows of resources	1,842,143	1,796,106
Net position		
Invested in capital assets	1,887	1,700
Restricted	136,232	139,016
Unrestricted	76,114	61,814
Total net position	214,233	202,530
Total liabilities, deferred inflows of resources and net position	$ 2,056,376	$ 1,998,636

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, 2017 and 2016
(in thousands)

	2017	2016
Operating revenues		
Interest on education loan notes receivable (Note 3)	$ 95,318	$ 93,889
Loan origination fees	8,971	8,200
College savings plan interest and fees	5,243	4,974
Other revenue	1,087	1,178
Total operating revenues	110,619	108,241
Operating expenses		
Bond and note interest expense (Notes 6 and 7)	65,234	66,455
Bond insurance	86	286
Costs of bond and note issuance	2,571	4,875
Provision for doubtful education loan notes receivable	9,699	1,185
Credit decision fees	1,452	1,096
General and administrative (Notes 3, 12, 13, and 14)	20,573	17,527
Other expense	446	335
Total operating expenses	100,061	91,759
Operating income	10,558	16,482
Non-operating revenues (expenses)		
Gain on bond redemption (Note 15)	-	412
Interest and dividends	1,124	334
Arbitrage rebate (expense) income (Note 3)	-	(718)
Increase (decrease) in fair value of derivative instruments	20	(742)
Commitment fees to participating schools (Note 9)	1	(3,843)
Net non-operating revenues (expenses)	1,145	(4,557)
Total increase in net position	11,703	11,925
Net position, beginning of year	202,530	190,605
Net position, end of year	$ 214,233	$ 202,530

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

(in thousands)

	2017	2016
Cash flows from operating activities:		
Payments for disbursed loans	$ (331,879)	$ (202,951)
Payments received on outstanding loan principal	261,860	242,818
General and administrative payments	(22,200)	(18,523)
Interest received on education loans	78,798	76,453
Proceeds from other sources	6,288	6,156
Net cash (used in) provided by operating activities	(7,133)	103,953
Cash flows from non-capital financing activities:		
Proceeds from issuance of bonds and notes	291,074	627,329
Costs of bond and note issuance	(2,571)	(4,875)
Bond and note interest paid	(70,432)	(74,541)
Principal payments on bonds and notes payable	(234,869)	(384,453)
Commitment fees refunded to participating schools	(5,059)	(2,913)
Net cash (used in) provided by non-capital financing activities	(21,857)	160,547
Cash flows from capital financing activities:		
Purchase of capital equipment and software development	(956)	(1,294)
Net cash used in capital financing activities	(956)	(1,294)
Cash flows from investing activities:		
Proceeds from maturity/sale of investments	34,106	17,456
Purchases of investments	(51,580)	(39,369)
Arbitrage rebate refund (payment)	397	(894)
Interest and dividends received on cash and investments	1,122	334
Net cash used in investing activities	(15,955)	(22,473)
Net (decrease) increase in cash and cash equivalents	(45,901)	240,733
Cash and cash equivalents, beginning of year	444,468	203,735
Cash and cash equivalents, end of year	$ 398,567	$ 444,468

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

(in thousands)

Reconciliation of operating income to net cash (used in) provided by operating activities	2017	2016
Operating income	$10,558	$16,482
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Depreciation expense	770	522
Provision for doubtful education loan notes receivable	9,699	1,185
Costs of bond and note issuance	2,571	4,875
Bond and note interest expense	65,234	66,455
Changes in assets and liabilities:		
Education loan notes receivable	(96,591)	13,678
Interest receivable on education loan notes	1,522	888
Accounts payable and accrued expenses	(801)	(460)
Prepaid expenses and other assets	(95)	328
Net cash (used in) provided by operating activities	($7,133)	$103,953

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

Massachusetts Educational Financing Authority
Statement of Fiduciary Net Position
As of June 30, 2017

	2017
Assets	
Investments, at value	$ 663,367
Receivable from manager	27
Receivable for fund shares sold	2,411
Dividend receivable	22
Total assets	665,827
Liabilities	
Payable for investments purchased	$ 2,397
Due to designated beneficiaries	663,351
Accrued management fee	79
Total liabilities	665,827

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

NOTES TO THE ENTERPRISE 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 on a long term funding basis 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 2017, 98 Massachusetts and 379 out of state public and private not for profit institutions participated in the loan programs.

The Authority’s 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. 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 March 2017, the Authority adopted a resolution (the “Note Resolution”) to authorize the issuance of commercial paper notes (“the Notes”) as a temporary financing mechanism for its loan programs (see *Note 7*). The Notes are supported by an irrevocable direct-pay letter of credit (the “Letter of Credit”) and payable primarily from draws on the Letter of Credit as well as revenues and the funds and accounts established and pledged under the resolution. The Authority intends to issue a combination of revenue bonds and asset backed notes to permanently finance education loans originated with proceeds from the Notes. The Notes are special obligations of the Authority. Neither the Commonwealth nor any political subdivision thereof is or shall be obligated to pay the principal of or interest on the Notes, and neither the full faith and credit, nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment.

In February 1995, the Authority, in cooperation with the Commonwealth and Massachusetts 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) and held in a contractual trust 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.

In May 2017, the Authority, on behalf of the Commonwealth, introduced the Attainable Savings Plan (the "Attainable Plan"). The Attainable Plan, established under the Achieving a Better Life Experience (ABLE) Act of 2014, is a tax advantaged savings plan that allows individuals with disabilities to save for qualifying expenses through investment vehicles such as stock, bond and money market mutual funds. Those funds are professionally managed by Fidelity and held by the Authority on behalf of the owners of the funds and accordingly are reported as an agency fiduciary fund of the Authority. The GASB requires fiduciary activities be excluded from the basic financial statements of business type activities and reported separately in fiduciary fund financial statements.

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 Bond Funds**
      The Bond resolutions for the Trusteed Bond 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 Bond 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 Bond Fund is presented in the accompanying Supplemental Schedule 2 to the financial statements.

- **Trusteed Notes Funds**
  The Notes issued under the Notes Resolution are special obligations of the Authority. The Notes are collateralized by the assets and associated revenues financed from Note proceeds and further supported by the Letter of Credit. The Letter of Credit and any associated bank note or bank obligation are general obligations of the Authority secured by the full faith and credit of the Authority.

  The Note Resolution established certain funds and accounts to provide a basis for the allocation and disbursement of monies received by the Notes funds. The use of the assets of these funds and accounts is governed and restricted by the Note Resolution (see *Note 7*).

  The Trusteed Notes Funds are included in the detailed financial information presented in the accompanying Supplemental Schedule 1 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 10*).

- **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 fees earned from 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 Bond 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 10).*

Detailed financial information for the condensed Trusteed Bond Funds, Trusteed Notes 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 Bond Funds and Trusteed Notes Funds is specified in the respective Bond and Notes Resolutions (*see Notes 6 and 7*).

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 Bond and Trusteed Note 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. 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 Bond 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 Bond 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 14).* 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, 2017 and 2016, advertising expense (included in general and administrative expenses) was $2.3M and $1.4M, respectively.

General and Administrative Expenses
General and administrative expenses are funded by the Trusteed Bond 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 money market investments (Level 1) and derivative instruments (Level 2) 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.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Authority's enabling legislation and its individual 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, 2017 and 2016, respectively.

(in thousands)	2017	2016
Cash deposits	$ 2,007	$ 3,914
Mutual funds:		
Money market funds – Authority and College Savings	82,786	64,417
Money market funds – Trusteed Bonds and Notes	396,560	440,554
Total cash, cash equivalents and investments	$ 481,353	$ 508,885

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, 2017 and June 30, 2016, $1.8M and $3.7M 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.

As of June 30, 2017, the Authority had the following cash and investments by financial institution within each outstanding trust and the Authority:

Authority, Trusteed Note Funds and College Savings Funds	Cash and Investments	% of Total
Bank of America	$ 1,861,463	2.2%
Fidelity U.S. Government Portfolio – Authority Funds	$ 61,323,174	71.4%
Fidelity U.S. Government Portfolio – Trusteed Note Funds	$ 1,077,719	1.3%
Fidelity Government Money Market Fund	$ 20,723,103	24.2%
First American Tax Free Obligations Fund	$ 739,046	0.9%

Issue FRN Indenture	Cash and Investments	% of Total
Fidelity U.S. Government Portfolio	$ 5,142,826	100.0%

Issue H Indenture	Cash and Investments	% of Total
Bank of America	$ 35,567	0.3%
Fidelity U.S. Government Portfolio	$ 13,908,704	99.7%

Issue I Indenture	Cash and Investments	% of Total
Bank of America	$ 79,858	0.1%
Fidelity U.S. Government Portfolio	$ 90,325,578	99.9%

Issue J Indenture	Cash and Investments	% of Total
Bank of America	$ 22,367	0.1%
Fidelity U.S. Government Portfolio	$ 88,871,877	99.9%

Issue K Indenture	Cash and Investments	% of Total
Bank of America	$ 7,676	0.1%
Fidelity U.S. Government Portfolio	$ 197,232,437	99.9%

5. EDUCATIONAL FINANCINGS

During the years ended June 30, 2017 and 2016, respectively, the activity for the Authority's Education Loan Notes receivable was as follows:

(in thousands)	2017	2016
Outstanding education loan notes receivable (beginning) gross	$ 1,505,960	$ 1,519,637
Increases to education loan notes receivable	358,885	229,357
Decreases to education loan notes receivable	(262,294)	(243,034)
Outstanding education loan notes receivable (ending) gross	1,602,551	1,505,960
Allowance for education loan notes receivable (beginning)	51,061	49,876
Increase to allowance for education loan notes receivable	9,699	1,185
Allowance for education loan notes receivable (ending)	60,760	51,061
Outstanding education loan notes receivable, net (ending)	$ 1,541,791	$ 1,454,899

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 $9.7M and $1.2M increase to the provision for doubtful education loan notes receivable in fiscal years 2017 and 2016, respectively. The increase in the allowance in FY17 reflects a 64% increase in loan originations as well as the recognition of a lower recoveries expectation. 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 2017. No allowance for yield restriction was required at June 30, 2017 and 2016. 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, 2017 and 2016, the total principal balance outstanding of loans in a modified status was $59M and $73M and represented approximately 4.9% and 6.6% of all loans in repayment, respectively. At June 30, 2017 and 2016, 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, 2017, the Authority had originated loans through 1,043 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 $19.6M and $20.6M for fiscal years 2017 and 2016, respectively.

6. BONDS PAYABLE

The activity related to the Authority's bonds payable for the fiscal years ended 2017 and 2016 was as follows:

(in thousands)	2017	2016
Bonds outstanding, gross beginning balance	$ 1,676,785	$ 1,460,890
Bonds issued	160,515	600,760
Bonds redeemed	(171,369)	(384,865)
Bonds outstanding, gross ending balance	1,665,931	1,676,785
Net unamortized issuance premiums	51,488	46,822
Bonds outstanding, net ending balance	$ 1,717,419	$ 1,723,607

Bonds payable issued under the individual Trust resolutions are payable from a pledge of the assets and revenues of each Trusteed Bond 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, 2017 mandatory annual maturities of bonds principal payable for the next five fiscal years and thereafter are as follows (in thousands):

	2018	2019	2020	2021	2022	Remaining Schedule	Total Payable
2008 FRN	-	-	-	-	-	58,776	58,776
2008 Issue H	-	-	-	-	-	65,855	65,855
2009 Issue I	17,195	11,995	17,210	8,075	-	44,165	98,640
2010 Issue I	11,145	14,065	14,855	2,390	34,915	62,205	139,575
2011 Issue J	530	3,065	5,480	5,610	6,460	53,080	74,225
2012 Issue J	-	7,020	13,555	15,010	16,305	73,195	125,085
2013 Issue K	1,190	8,540	13,455	14,735	16,320	117,315	171,555
2014 Issue I	11,000	13,000	4,000	40,000	5,000	104,275	177,275
2015A Issue I	1,500	17,000	11,000	22,000	39,000	92,260	182,760
2015B Issue I	8,140	7,110	6,590	6,420	6,230	37,180	71,670
2016 Issue J	-	20,000	13,500	12,000	16,600	277,900	340,000
2017 Issue K	-	-	500	3,500	10,955	145,560	160,515
	$50,700	$101,795	$100,145	$129,740	$151,785	$ 1,131,766	$1,665,931

In July 2017, the Authority redeemed fixed rate bonds outstanding of $66.4M and $4.8M 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, 2017 (in thousands):

Year Ending June 30	Principal	Interest	Total Debt Service
2018	50,700	73,499	124,199
2019	101,795	73,958	175,753
2020	100,145	69,279	169,424
2021	129,740	64,415	194,155
2022	151,785	57,811	209,596
2023-2027	592,440	193,940	786,380
2028-2032	397,935	62,412	460,347
2033-2037	39,815	16,352	56,167
2038-2042	58,776	10,720	69,496
2043-2047	42,800	8,186	50,986
	$1,665,931	$630,572	$2,296,503

Total interest expense for the years ended June 30, 2017 and 2016 was $65.2M and $66.5M, respectively. For fiscal years 2017 and 2016 there is $3.2M and $2.9M of amortization of the net deferred gain on bond program activities included in the total bond interest expense, respectively. Also, for fiscal years 2017 and 2016 bond interest expense includes $4.6M and $3.7M amortization of bond issuance premium, respectively.

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, 2017 is $58.8M.

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

As a result of redemptions of $18.1M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $65.9M.

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 $29.2M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $99M 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 $53.3M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $140.5M, 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 2011 Bonds 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 $6.8M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $74M, 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 $10.3M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $127.3M, 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 $25.1M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $174.3M, 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 $5.1M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $189.5M, 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.

As a result of scheduled maturities of $2M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $196M, 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.

As a result of scheduled maturities of $4.3M in fiscal year 2017, the ending balance of this entire series as of June 30, 2017 is $70.3M, 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, 2017 is $352M, including the unamortized premium that was incorporated in the initial sale of the bonds.

Issue K Series 2017A and 2017B
On June 1, 2017, under the Issue K 2017 Bond Resolution, the Authority issued $117.8M principal amount of Senior Series 2017A bonds dated June 13, 2017. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2018. Issue K Series 2017A Bonds mature as follows: $75.1M serial bonds which mature annually on July 1 from 2019 to 2026 in amounts ranging from $0.5M to $15M with interest at rates ranging from 3.00% to 5.00%; $42.7M term bonds which mature in 2032 with an interest rate of 3.6%. The Issue K Series 2017A Bonds are subject to sinking fund installments totaling $42.7M from fiscal 2027 to 2032 in annual amounts ranging from $3.1M to $10.7M.

On June 1, 2017, under the Issue K 2017 Bond Resolution, the Authority issued $42.8M principal amount of Subordinate Series 2017B bonds dated June 13, 2017. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2018. Issue K Series 2017B Bonds are term bonds which mature in 2046 with an interest rate of 4.3%.

Bonds maturing on or after July 1, 2032, are redeemable at the option of the Authority, in whole or in part, on any date on or after July 1, 2026.

The Issue K 2017 Bonds were issued with a premium of $9.3M.

The ending balance of this entire series as of June 30, 2017 is $169.8M, 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. NOTES PAYABLE

On March 30, 2017, the Authority adopted the Note Resolution authorizing the issuance and sale of up to $250M of Commercial Paper Revenue Notes, Series A. The Notes are interest bearing obligations with maturities no later than 270 days from their date of issuance and payable primarily from draws on the Letter of Credit at maturity as well as revenues and the funds and accounts established and pledged under the Note Resolution. There was no outstanding balance on the Letter of Credit at June 30, 2017.

The activity related to the Notes for the fiscal year ended 2017 was as follows:

(in thousands)	2017
Notes outstanding, beginning balance	$ -
Notes issued	121,300
Notes matured	(63,500)
Notes outstanding, ending balance	$ 57,800

Total interest expense on the Notes for the year ended June 30, 2017 was $103.8K. Interest rates on Notes issued during fiscal year 2017 range from 0.95% to 1.25% with maturities ranging from 5 days to 97 days.

As the Notes are a short term financing mechanism and the Authority intends to issue a combination of long term revenue bonds and asset backed notes to finance the education loans originated with proceeds from the Notes, the obligation is reported as a Non-current liability on the Statement of Net Position.

8. 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.

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

June 30, 2017
(in thousands)

Associated Bond Issue	Notional Amounts	Effective Date	Fair Values	Cap Maturity Date	Counterparty Credit Rating
Issue E 2003B	$7,430	3/13/2003	$0.3	January 2027	(A1/A)
Issue E 2003E	$10,380	3/10/2004	$0.2	January 2026	(A1/A)
Issue E 2004B	$12,270	3/31/2005	$0.4	January 2026	(A1/A)
Issue E 2006C	$27,400	6/13/2006	$8.5	July 2027	(A1/A)
Issue E 2007C	$85,000	4/5/2007	$188	January 2033	(A1/A)
	$142,480		**$197**		

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**		

Terms, fair value and credit risk
As of June 30, 2017, approximately 21% 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 79% 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 $143M in notional outstanding as of June 30, 2017, were structured to amortize until final maturity of the trade.

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).

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 2017, the increase in fair value for investment derivatives recorded as income was $20K. In fiscal year 2016, the fair value for investment derivatives decreased and the expense recorded was $742K.

Credit Risk: As of June 30, 2017, 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.

9. 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.

All accrued and outstanding commitment fees in the amount of $5.1M at June 30, 2016 were reimbursed in February 2017.

10. 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 colleges and universities in a manner designed to preserve the purchasing power of the savings.

As of June 30, 2017 and 2016, the Authority had deposits of $7.1M and $6.2M respectively, for the purchase of tuition certificates under the Commonwealth of Massachusetts General Obligation Bonds, effective August 1, 2017 and August 1, 2016, 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
2016 College Opportunity Bonds, Series A	$	8,675	August 1, 2016	August 1, 2021 / 2036
Total	$	226,756		

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, 2017 and 2016, included in accounts payable and accrued expenses, were matured certificates payable to U.Plan participants in the amounts of $12.6M and $13.5M, 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, 2017 and 2016, 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, 2017 and 2016, net assets for the U.Fund were $5,649M and $5,101M, respectively.

11. RELATED PARTIES

During fiscal years 2017 and 2016, two Members of the Authority were officers/trustees of participating institutions. During the years ended June 30, 2017 and 2016, the Authority purchased loans totaling $27.6M and $24.9M, respectively, in principal balance, from these institutions. At June 30, 2017 and 2016, $165.7M and $163.2M, respectively, of loans purchased from those institutions were outstanding.

12. 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, 2017 and 2016 were $320K and $377K, 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, 2017 and 2016 was $599K and $590K, respectively. The Authority pays administrative expenses of the plans for the plan participants and TD Ameritrade is the custodian of the plan assets.

13. LEASE COMMITMENT

The Authority's operating lease agreement for its current office space expires in February 2018. In June 2017, the Authority entered into a new ten year operating lease agreement to relocate the MEFA offices to 60 State Street, Boston, MA. The new lease commences in March 2018, with an initial term of ten years and a five year renewal option. 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. The Authority also has other operating lease arrangements for office equipment.

As of June 30, 2017, annual minimum operating lease payments for office space and office equipment are as follows for the following five fiscal years and thereafter:

(in thousands)

	2018	2019	2020	2021	2022	Thereafter
Minimum operating lease payments	$ 872	$ 714	$ 715	$ 728	$ 742	$ 4,456

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)

	2017	2016
Minimum operating lease expenses	$ 878	$ 875
Additional operating lease expenses	204	175
Total operating lease expenses	$ 1,082	$ 1,050

14. CAPITAL EQUIPMENT

The activity related to the Authority's capital assets for the fiscal years ended 2017 and 2016, respectively, was as follows:

(in thousands)

	June 30, 2016	Additions	Disposals	June 30, 2017
Computer hardware	$ 876	$ 9	$ -	$ 885
Computer software	6,174	940	-	7,114
Furniture	796	8	-	804
Equipment	158	-	-	158
Leasehold improvements	540	-	-	540
Total capital equipment (at cost)	8,544	957	-	9,501
Accumulated depreciation	(6,844)	(770)	-	(7,614)
Capital equipment, net	$ 1,700	$ 187	$ -	$ 1,887

	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

Included in general and administrative expenses are depreciation expenses of $770K and $522K for the years ended June 30, 2017 and June 30, 2016, respectively.

15. 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.

16. SUBSEQUENT EVENTS

On August 24, 2017, as part of the annual cycle of the U.Plan prepaid tuition program, the Authority purchased Commonwealth of Massachusetts General Obligation Bonds in the amount of $9.4M at which time the corresponding liability was removed from the Statement of Net Position of the Authority.

In May 2017, the Authority was notified by its loan servicer, Conduent Education Services, LLC, of its intent to exit the student loan servicing business. In December 2017, the Authority converted loans funded by its commercial paper program to a new servicer, American Education Services. Simultaneously, the Authority initiated a Request for Qualifications process to select a servicer for the remaining loan portfolio with conversion expected to occur in early 2018.

NOTES TO FIDUCIARY FUND FINANCIAL STATEMENTS

1. THE ATTAINABLE PLAN

In May 2017, the Authority, on behalf of the Commonwealth, introduced the Attainable Savings Plan (the "Attainable Plan"). The Attainable Plan, established under the Achieving a Better Life Experience (ABLE) Act of 2014, is a tax advantaged savings plan under Section 529A of the Internal Revenue Code that allows individuals with disabilities to save for qualifying disability expenses through investment vehicles such as mutual funds. Those funds are professionally managed by Fidelity Management & Research Company (FMR) and held by the Authority in investment Portfolios on behalf of the owners in an agency fund. An agency fund is a type of fiduciary fund used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support a government's own programs. Fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flow. The Governmental Accounting Standards Board ("GASB") requires fiduciary funds be reported separately from the basic financial statements of business type activities.

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 GASB, which requires management to make certain estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates.

The GASB defines the basic financial statements of a fiduciary agency fund as the Statement of Fiduciary Net Position, which presents information on the Attainable Plan's assets and liabilities. The following summarizes the significant accounts policies of the Attainable Plan:

Investment Valuation
Each Portfolio categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy: Level 1 inputs (quoted market prices), Level 2 inputs (inputs other than quoted prices that are observable) and Level 3 inputs (unobservable inputs). As of June 30, 2017, all investments held by the Portfolios are categorized as Level 1.

3. PLAN FEES

The Authority has entered into a Management & Administrative Services agreement with Fidelity Brokerage Services, LLC to provide administrative, record keeping, distribution and marketing services to the Attainable plan. Under this agreement and a related agreement with FMR, a Management and Administration Fee is charged to the Portfolios at an annual rate based on the net assets of each Portfolio. This fee has two components, a Program Manager fee paid to FMR, which ranges from .00% to .15% and a State Sponsor fee paid to the Authority, which ranges from .00% to .05%.

4. INVESTMENTS

The following summarizes the investments of the Attainable Plan at June 30, 2017:

Portfolios	Underlying Funds	Value
ABLE Conservative Income 20%	Fidelity Asset Manager® 20%	$24,330
ABLE Income 30% Portfolio	Fidelity Asset Manager® 30%	67,817
ABLE Moderate Income 40% Portfolio	Fidelity Asset Manager® 40%	15,671
ABLE Balanced 50% Portfolio	Fidelity Asset Manager® 50%	121,469
ABLE Moderate Growth 60% Portfolio	Fidelity Asset Manager® 60%	78,255
ABLE Growth 70% Portfolio	Fidelity Asset Manager® 70%	118,897
ABLE Aggressive Growth 85% Portfolio	Fidelity Asset Manager® 85%	150,573
ABLE Money Market Portfolio	Fidelity® Government Cash Reserves	86,355
		$663,367

Supplemental Schedules

Massachusetts Educational Financing Authority

Supplemental Schedule 1

Statements of Net Position

June 30, 2017 and 2016

	2017					2016			
Assets	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Bond Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Current assets									
Cash and cash equivalents (Notes 3 and 4)	$ 189,498	$ 1,072	$ 511	$ 1,357	$ 192,438	$ 146,717	$ 2,660	$ 3,575	$ 152,952
Investments (Notes 3 and 4)	-	-	21,462	-	21,462	-	22,042	-	22,042
Education loan notes receivable, net (Notes 3, 5, and 11)	123,701	2,595	-	2,518	128,814	118,766	-	3,338	122,104
Interest receivable on educational loan notes	28,510	82	-	-	28,592	30,114	-	-	30,114
Prepaid expenses and other assets	92	-	2,013	451	2,556	121	2,111	628	2,860
Interfund balances	(482)	-	-	482	-	(453)	-	453	-
Total current assets	341,319	3,749	23,986	4,808	373,862	295,265	26,813	7,994	330,072
Non-current assets									
Cash and cash equivalents (Notes 3 and 4)	206,129	-	-	-	206,129	291,516	-	-	291,516
Investments (Notes 3 and 4)	-	-	21,450	39,874	61,324	-	18,374	24,001	42,375
Derivative instruments - caps (Notes 3 and 8)	-	-	-	197	197	-	-	178	178
Educational loan notes receivable, net (Notes 3, 5, and 11)	1,338,860	53,928	-	20,189	1,412,977	1,307,897	-	24,898	1,332,795
Capital equipment, net of accumulated depreciation (Note 14)	-	-	-	1,887	1,887	-	-	1,700	1,700
Total assets	$ 1,886,308	$ 57,677	$ 45,436	$ 66,955	$ 2,056,376	$ 1,894,678	$ 45,187	$ 58,771	$ 1,998,636
Liabilities									
Current liabilities									
Accounts payable and accrued expenses	$ 1,015	$ -	$ 12,586	$ 1,939	$ 15,540	$ 915	$ 13,462	$ 1,908	$ 16,285
Bonds payable - current portion (Note 6)	52,721	-	-	-	52,721	48,063	-	-	48,063
Certificates payable (Note 10)	-	-	7,084	-	7,084	-	6,191	-	6,191
Accrued bond interest payable	34,960	48	-	-	35,008	32,442	-	-	32,442
Other liabilities - current (Note 9)	-	-	-	-	-	-	-	5,059	5,059
Total current liabilities	88,696	48	19,670	1,939	110,353	81,420	19,653	6,967	108,040
Non-current liabilities									
Notes payable (Note 7)	-	57,800	-	-	57,800	-	-	-	-
Bonds payable - net of current portion (Note 6)	1,664,698	-	-	-	1,664,698	1,675,544	-	-	1,675,544
Other liabilities - non-current (Note 9)	-	-	-	49	49	-	-	109	109
Total liabilities	1,753,394	57,848	19,670	1,988	1,832,900	1,756,964	19,653	7,076	1,783,693
Deferred inflows of resources									
Net gain on bond refunding (Note 6)	9,243	-	-	-	9,243	12,413	-	-	12,413
Total deferred inflows of resources	9,243	-	-	-	9,243	12,413	-	-	12,413
Total liabilities and deferred inflows of resources	1,762,637	57,848	19,670	1,988	1,842,143	1,769,377	19,653	7,076	1,796,106
Net position									
Invested in capital assets	-	-	-	1,887	1,887	-	-	1,700	1,700
Restricted	123,671	(171)	10,888	1,844	136,232	125,301	11,878	1,837	139,016
Unrestricted	-	-	14,878	61,236	76,114	-	13,656	48,158	61,814
Total net position	123,671	(171)	25,766	64,967	214,233	125,301	25,534	51,695	202,530
Total liabilities, deferred inflows and net position	$ 1,886,308	$ 57,677	$ 45,436	$ 66,955	$ 2,056,376	$ 1,894,678	$ 45,187	$ 58,771	$ 1,998,636

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, 2017 and 2016

	2017					2016			
Operating revenues	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Bond Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Interest on education loan notes receivable (Note 3)	$ 94,698	$ 478	$ -	$ 142	$ 95,318	$ 84,162	$ -	$ 9,727	$ 93,889
Loan origination fees	8,971	-	-	-	8,971	8,200	-	-	8,200
College savings plan interest and fees	-	-	5,243	-	5,243	-	4,974	-	4,974
Other revenue	-	-	1,087	-	1,087	-	1,174	4	1,178
Total operating revenues	103,669	478	6,330	142	110,619	92,362	6,148	9,731	108,241
Operating expenses									
Bond and note interest expense (Notes 6 and 7)	65,130	104	-	-	65,234	59,267	-	7,188	66,455
Bond insurance	86	-	-	-	86	108	-	178	286
Costs of bond and note issuance	1,899	-	-	672	2,571	4,875	-	-	4,875
Provision for doubtful educational loan notes receivable	6,340	550	-	2,809	9,699	2,924	-	(1,739)	1,185
Credit decision fees	1,263	-	-	189	1,452	1,096	-	-	1,096
General and administrative (Notes 3, 12, 13, and 14)	16,227	-	1,226	3,120	20,573	13,073	996	3,458	17,527
Other expense	424	-	-	22	446	248	-	87	335
Total operating expenses	91,369	654	1,226	6,812	100,061	81,591	996	9,172	91,759
Operating income	12,300	(176)	5,104	(6,670)	10,558	10,771	5,152	559	16,482
Non-operating revenues (expenses)									
Gain on bond redemption (Note 15)	-	-	-	-	-	-	-	412	412
Interest and dividends	881	5	128	110	1,124	200	48	86	334
Arbitrage rebate (expense) income (Note 3)	-	-	-	-	-	-	-	(718)	(718)
Increase (decrease) in fair value of derivative instruments	-	-	-	20	20	-	-	(742)	(742)
Commitment fees to participating schools (Note 9)	-	-	-	1	1	-	-	(3,843)	(3,843)
Net asset transfers	(14,811)	-	(5,000)	19,811	-	(11,038)	-	11,038	-
Net non-operating revenues (expenses)	(13,930)	5	(4,872)	19,942	1,145	(10,838)	48	6,233	(4,557)
Total increase (decrease) in net position	(1,630)	(171)	232	13,272	11,703	(67)	5,200	6,792	11,925
Net position, beginning of year	125,301	-	25,534	51,695	202,530	125,368	20,334	44,903	190,605
Net position, end of year	$ 123,671	$ (171)	$ 25,766	$ 64,967	$ 214,233	$ 125,301	$ 25,534	$ 51,695	$ 202,530

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, 2017 and 2016

	2017					2016			
Cash flows from operating activities:	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Bond Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Payments for disbursed loans	$ (274,127)	$ (57,633)	$ -	$ (119)	$ (331,879)	$ (202,951)	$ -	$ -	$ (202,951)
Payments received on outstanding loan principal	258,478	560	-	2,822	261,860	204,134	-	38,684	242,818
General & administrative payments	(17,450)	-	(1,966)	(2,784)	(22,200)	(14,567)	(1,235)	(2,721)	(18,523)
Interest received on education loans	78,265	396	-	137	78,798	66,210	-	10,243	76,453
Proceeds from other sources	-	-	6,291	(3)	6,288	-	6,156	-	6,156
Net cash provided by (used in) operating activities	45,166	(56,677)	4,325	53	(7,133)	52,826	4,921	46,206	103,953
Cash flows from non-capital financing activities:									
Proceeds from issuance of bonds and notes	169,774	121,300	-	-	291,074	627,329	-	-	627,329
Costs of bond and note issuance	(1,899)	-	-	(672)	(2,571)	(4,875)	-	-	(4,875)
Bond and note nterest paid	(70,376)	(56)	-	-	(70,432)	(63,501)	-	(11,040)	(74,541)
Principal payments on bonds and notes payable	(171,369)	(63,500)	-	-	(234,869)	(170,840)	-	(213,613)	(384,453)
Commitment fees refunded to participating schools	-	-	-	(5,059)	(5,059)	-	-	(2,913)	(2,913)
Net asset transfers	(14,782)	-	(5,000)	19,782	-	(171,486)	-	171,486	-
Net cash (used in) provided by non-capital financing activities	(88,652)	57,744	(5,000)	14,051	(21,857)	216,627	-	(56,080)	160,547
Cash flows from capital financing activities:									
Purchase of capital equipment and software development	-	-	-	(956)	(956)	-	-	(1,294)	(1,294)
Net cash used in capital financing activities	-	-	-	(956)	(956)	-	-	(1,294)	(1,294)
Cash flows from investing activities:									
Proceeds from maturity/sale of investments	-	-	14,116	19,990	34,106	-	14,407	3,049	17,456
Purchases of investments	-	-	(15,718)	(35,862)	(51,580)	-	(17,153)	(22,216)	(39,369)
Arbitrage rebate payment (refund)	-	-	-	397	397	-	-	(894)	(894)
Interest and dividends received on cash and investments	880	5	128	109	1,122	200	48	86	334
Net cash provided by (used in) investing activities	880	5	(1,474)	(15,366)	(15,955)	200	(2,698)	(19,975)	(22,473)
Net (decrease) increase in cash and cash equivalents	(42,606)	1,072	(2,149)	(2,218)	(45,901)	269,653	2,223	(31,143)	240,733
Cash and cash equivalents, beginning of year	438,233	-	2,660	3,575	444,468	168,580	437	34,718	203,735
Cash and cash equivalents, end of year	$ 395,627	$ 1,072	$ 511	$ 1,357	$ 398,567	$ 438,233	$ 2,660	$ 3,575	$ 444,468

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, 2017 and 2016

	2017					2016			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Bond Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Operating income (loss)	$ 12,300	$ (176)	$ 5,104	$ (6,670)	$ 10,558	$ 10,771	$ 5,152	$ 559	$ 16,482
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Depreciation expense	-	-	-	770	770	-	-	522	522
Provision for doubtful educational loan notes receivable	6,340	550	-	2,809	9,699	2,924	-	(1,739)	1,185
Costs of bond and note issuance	1,899	-	-	672	2,571	4,875	-	-	4,875
Bond and note interest expense	65,130	104	-	-	65,234	59,267	-	7,188	66,455
Changes in assets and liabilities:		-							
Educational loan notes receivable	(42,238)	(57,073)	-	2,720	(96,591)	(24,913)	-	38,591	13,678
Interest receivable on educational loan notes	1,604	(82)	-	-	1,522	192	-	696	888
Accounts payable and accrued expenses	102	-	(877)	(26)	(801)	(259)	(319)	118	(460)
Prepaid expenses and other assets	29	-	98	(222)	(95)	(31)	88	271	328
Net cash provided by (used in) operating activities	$ 45,166	$ (56,677)	$ 4,325	$ 53	$ (7,133)	$ 52,826	$ 4,921	$ 46,206	$ 103,953

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

Massachusetts Educational Financing Authority
Supplemental Schedule 2
Statements of Net Position
June 30, 2017 and 2016

	2017						2016					
Assets	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Bond Funds**	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Bond Funds**
Current assets												
Cash and cash equivalents (Notes 3 and 4)	$ 4,387	$ 11,969	$ 81,891	$ 81,094	$ 10,157	$ 189,498	$ 5,579	$ 14,727	$ 74,727	$ 28,923	$ 22,761	$ 146,717
Education loan notes receivable, net (Notes 3, 5, and 11)	7,704	5,782	53,722	41,978	14,515	123,701	10,289	6,294	54,703	32,027	15,453	118,766
Interest receivable on educational loan notes	415	274	15,891	7,408	4,522	28,510	334	436	14,188	8,182	6,974	30,114
Prepaid expenses and other assets	-	19	37	18	18	92	-	23	50	30	18	121
Interfund balances	-	(37)	(79)	(307)	(59)	(482)	-	(37)	(306)	(110)	-	(453)
Total current assets	12,506	18,007	151,462	130,191	29,153	341,319	16,202	21,443	143,362	69,052	45,206	295,265
Non-current assets												
Cash and cash equivalents (Notes 3 and 4)	755	1,976	8,515	7,800	187,083	206,129	754	2,520	80,296	204,012	3,934	291,516
Educational loan notes receivable, net (Notes 3, 5, and 11)	49,500	57,882	604,293	463,022	164,163	1,338,860	63,838	74,411	646,930	329,832	192,886	1,307,897
Total assets	$ 62,761	$ 77,865	$ 764,270	$ 601,013	$ 380,399	$ 1,886,308	$ 80,794	$ 98,374	$ 870,588	$ 602,896	$ 242,026	$ 1,894,678
Liabilities												
Current liabilities												
Accounts payable and accrued expenses	$ 64	$ 25	$ 253	$ 240	$ 433	$ 1,015	$ 73	$ 31	$ 311	$ 436	$ 64	$ 915
Bonds payable - current portion (Note 6)	-	-	50,815	513	1,393	52,721	-	-	46,254	-	1,809	48,063
Accrued interest payable	229	2,092	16,357	11,651	4,631	34,960	217	2,667	18,785	5,878	4,895	32,442
Other liabilities - current (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	293	2,117	67,425	12,404	6,457	88,696	290	2,698	65,350	6,314	6,768	81,420
Non-current liabilities												
Bonds payable - net of current portion (Note 6)	58,776	65,855	644,450	552,928	342,689	1,664,698	75,750	83,985	745,683	571,851	198,275	1,675,544
Total liabilities	59,069	67,972	711,875	565,332	349,146	1,753,394	76,040	86,683	811,033	578,165	205,043	1,675,544
Deferred inflows of resources												
Net gain on bond refunding (Note 6)	-	-	3,685	-	5,558	9,243	-	-	5,563	-	6,850	12,413
Total deferred inflows of resources	-	-	3,685	-	5,558	9,243	-	-	5,563	-	6,850	12,413
Total liabilities and deferred inflows of resources	59,069	67,972	715,560	565,332	354,704	1,762,637	76,040	86,683	816,596	578,165	211,893	1,769,377
Net position												
Restricted	3,692	9,893	48,710	35,681	25,695	123,671	4,754	11,691	53,992	24,731	30,133	125,301
Unrestricted	-	-	-	-	-	-	-	-	-	-	-	-
Total net position	3,692	9,893	48,710	35,681	25,695	123,671	4,754	11,691	53,992	24,731	30,133	125,301
Total liabilities, deferred inflows and net position	$ 62,761	$ 77,865	$ 764,270	$ 601,013	$ 380,399	$ 1,886,308	$ 80,794	$ 98,374	$ 870,588	$ 602,896	$ 242,026	$ 1,894,678

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, 2017 and 2016

	2017						2016					
Operating revenues	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Bond Funds**	**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)	$ 1,349	$ 5,684	$ 45,968	$ 30,075	$ 11,622	$ 94,698	$ 1,416	$ 7,163	$ 45,790	$ 16,981	$ 12,812	$ 84,162
Loan origination fees	-	-	19	8,952	-	8,971	-	-	8,200	-	-	8,200
Total operating revenues	1,349	5,684	45,987	39,027	11,622	103,669	1,416	7,163	53,990	16,981	12,812	92,362
Operating expenses												
Bond interest expense (Note 6)	1,246	4,461	30,070	22,068	7,285	65,130	1,180	5,644	33,062	11,059	8,322	59,267
Bond insurance	-	86	-	-	-	86	-	108	-	-	-	108
Costs of bond issuance	-	-	26	(9)	1,882	1,899	-	-	1,946	2,929	-	4,875
Provision for doubtful educational loan notes receivable	32	530	1,788	3,412	578	6,340	34	(1)	2,258	1,858	(1,225)	2,924
Credit decision fees	-	-	329	934	-	1,263	-	-	1,054	42	-	1,096
General and administrative (Notes 3, 12, 13, and 14)	1,147	1,347	10,573	1,837	1,323	16,227	1,332	2,044	2,387	3,852	3,458	13,073
Other expense	3	23	157	163	78	424	5	2	205	35	1	248
Total operating expenses	2,428	6,447	42,943	28,405	11,146	91,369	2,551	7,797	40,912	19,775	10,556	81,591
Operating (loss) income	(1,079)	(763)	3,044	10,622	476	12,300	(1,135)	(634)	13,078	(2,794)	2,256	10,771
Non-operating (expenses) revenues												
Interest and dividends	17	36	331	433	64	881	5	10	149	20	16	200
Net asset transfers	-	(1,071)	(8,657)	(105)	(4,978)	(14,811)	-	(375)	(14,599)	5,260	(1,324)	(11,038)
Net non-operating (expenses) revenues	17	(1,035)	(8,326)	328	(4,914)	(13,930)	5	(365)	(14,450)	5,280	(1,308)	(10,838)
Total (decrease) increase in net position	(1,062)	(1,798)	(5,282)	10,950	(4,438)	(1,630)	(1,130)	(999)	(1,372)	2,486	948	(67)
Net position, beginning of year	4,754	11,691	53,992	24,731	30,133	125,301	5,884	12,690	55,364	22,245	29,185	125,368
Net position, end of year	$ 3,692	$ 9,893	$ 48,710	$ 35,681	$ 25,695	$ 123,671	$ 4,754	$ 11,691	$ 53,992	$ 24,731	$ 30,133	$ 125,301

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, 2017 and 2016

	2017						2016					
Cash flows from operating activities:	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Bond Funds**	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Bond Funds**
Payments for disbursed loans	$ -	$ -	$ (62,094)	$ (212,033)	$ -	$ (274,127)	$ -	$ -	$ (202,951)	$ -	$ -	$ (202,951)
Payments received on outstanding loan principal	17,284	16,658	110,688	80,785	33,063	258,478	20,391	19,246	97,691	38,748	28,058	204,134
General & administrative payments	(1,157)	(1,436)	(10,947)	(2,955)	(955)	(17,450)	(1,393)	(2,181)	(4,015)	(3,525)	(3,453)	(14,567)
Interest received on education loans	872	5,677	37,364	24,334	10,018	78,265	857	7,086	34,894	13,685	9,688	66,210
Net cash provided by (used in) operating activities	16,999	20,899	75,011	(109,869)	42,126	45,166	19,855	24,151	(74,381)	48,908	34,293	52,826
Cash flows from non-capital financing activities:												
Proceeds from issuance of bonds and notes	-	-	-	-	169,774	169,774	-	-	274,354	352,975	-	627,329
Costs of bond and note issuance	-	-	(26)	9	(1,882)	(1,899)	-	-	(1,947)	(2,928)	-	(4,875)
Bond and note interest paid	(1,233)	(5,036)	(37,099)	(17,530)	(9,478)	(70,376)	(1,174)	(6,298)	(33,956)	(11,685)	(10,388)	(63,501)
Principal payments on bonds and notes payable	(16,974)	(18,130)	(93,950)	(17,175)	(25,140)	(171,369)	(19,885)	(20,600)	(84,415)	(28,500)	(17,440)	(170,840)
Net asset transfers	-	(1,071)	(8,884)	92	(4,919)	(14,782)	-	(375)	(14,568)	(155,219)	(1,324)	(171,486)
Net cash (used in) provided by non-capital financing activities	(18,207)	(24,237)	(139,959)	(34,604)	128,355	(88,652)	(21,059)	(27,273)	139,468	154,643	(29,152)	216,627
Cash flows from investing activities:												
Interest and dividends received on cash and investments	17	36	331	432	64	880	5	10	149	21	15	200
Net cash provided by (used in) investing activities	17	36	331	432	64	880	5	10	149	21	15	200
Net (decrease) increase in cash and cash equivalents	(1,191)	(3,302)	(64,617)	(144,041)	170,545	(42,606)	(1,199)	(3,112)	65,236	203,572	5,156	269,653
Cash and cash equivalents, beginning of year	6,333	17,247	155,023	232,935	26,695	438,233	7,532	20,359	89,787	29,363	21,539	168,580
Cash and cash equivalents, end of year	$ 5,142	$ 13,945	$ 90,406	$ 88,894	$ 197,240	$ 395,627	$ 6,333	$ 17,247	$ 155,023	$ 232,935	$ 26,695	$ 438,233

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, 2017 and 2016

	2017						2016					
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Bond Funds**	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Bond Funds**
Operating (loss) income	$ (1,079)	$ (763)	$ 3,044	$ 10,622	$ 476	$ 12,300	$ (1,135)	$ (634)	$ 13,078	$ (2,794)	$ 2,256	$ 10,771
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:												
Provision for doubtful educational loan notes receivable	32	530	1,788	3,412	578	6,340	34	(1)	2,258	1,858	(1,225)	2,924
Costs of bond and note issuance	-	-	26	(9)	1,882	1,899	-	-	1,946	2,929	-	4,875
Bond interest expense	1,246	4,461	30,070	22,068	7,285	65,130	1,180	5,644	33,062	11,059	8,322	59,267
Changes in assets and liabilities:												
Educational loan notes receivable	16,889	16,511	41,830	(146,552)	29,084	(42,238)	19,704	19,053	(121,249)	32,520	25,059	(24,913)
Interest receivable on educational loan notes	(81)	162	(1,703)	774	2,452	1,604	134	117	(2,902)	2,967	(124)	192
Accounts payable and accrued expenses	(8)	(7)	(56)	(196)	369	102	(62)	(5)	(571)	374	5	(259)
Prepaid expenses and other assets	-	5	12	12	-	29	-	(23)	(3)	(5)	-	(31)
Net cash provided by (used in) operating activities	$ 16,999	$ 20,899	$ 75,011	$ (109,869)	$ 42,126	$ 45,166	$ 19,855	$ 24,151	$ (74,381)	$ 48,908	$ 34,293	$ 52,826

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