Massachusetts Educational Financing Authority

Financial Statements with Management's Discussion and Analysis

June 30, 2018 and 2017

Massachusetts Educational Financing Authority
Index

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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, 2018 ("FY18"), 2017 ("FY17") and 2016 ("FY16"). 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 2015, the Authority has maintained a AA- issuer credit rating from Standard and Poor's Ratings Services.

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, not-for-profit, degree granting education institutions, which participated in the Authority's loan programs historically.

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 FY17, the Authority adopted a resolution authorizing the issuance of commercial paper notes ("the Notes") as a short term financing mechanism for its education loan programs. 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. 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.

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.

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.

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.

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

At the end of FY17, the Authority's loan originator and servicer, Conduent Education Services, LLC, notified the Authority of its intent to exit the student loan business. The Authority initiated Requests for Qualifications in FY18 and selected American Education Services (AES) as its new loan servicer and expanded its relationship with Entech Consulting LLC (Entech) as the loan originator for its portfolio. As a result of the requirement to change service providers, the Authority's main focus in FY18 was centered on restructuring business partner relationships and incorporating these relationships and processes into MEFA's business model. During FY18, the Authority's portfolio of approximately 130,000 loans were successfully converted to AES and Entech was fully integrated as loan originator.

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 $330M of education loans in a competitive student loan market in FY18, consistent with $332M disbursed in FY17. U.Fund net assets, which are not a component of the Authority's financial statements, grew 7% and were $6.1B at the end of FY18. For the U.Plan, the Authority had $12M of matured tuition certificates on its financial statements as a liability to program participants at the end of FY18 and $5.7M of deposits for the purchase of tuition certificates effective August 1, 2018. Assets for the Attainable plan, which the Authority holds in a fiduciary capacity, were $9.6M at June 30, 2018.

Total net position was $233.6M at the end of FY18, which represents an increase of $19.4M or 9% 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 $100M and represents 83% of total revenues in a consistent consumer credit environment. Interest expense on bonds and notes outstanding was $66.1M, or 66% of total expenses. The Authority's general and administrative expenses increased to $26.3M related to the FY18 servicer conversion, new commercial paper program and expanded loan program operations and represented 26% of total operating expenses. Non-operating revenues include interest and dividend income of $4.1M 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, 2018, 2017 and 2016, respectively:

(in thousands)

	2018		2017		2016	
Operating revenues						
Interest on educational loan notes receivable	$	99,877	$	95,318	$	93,889
Non-interest revenues		16,213		15,301		14,352
Total operating revenues		116,090		110,619		108,241
Non-operating revenues		4,110		1,145		746
Total revenues	$	120,200	$	111,764	$	108,987

Total operating revenues for the Authority were $116M in FY18, a 5% increase over FY17 total operating revenues. FY17 total operating revenues were $111M an increase of 2% compared to FY16.

Interest income on education loan notes receivable was $99.9M in FY18 and $95.3M in FY17, representing year over year growth of 4.8% and 2%, respectively, resulting from growth in the Authority's loan programs over the past two fiscal years. Interest income represented 86% of total operating revenues in FY18 and FY17 and 87% of total operating revenue in FY16.

Non-interest revenues were $16.2M in FY18 and comprised of loan origination fees of $9.5M, college savings plans revenue of $5.7M and other income of $1M. Loan origination fees increased by 6% in FY18 resulting from a corresponding increase in loan program disbursements and represented 59% of non-interest revenues. College savings plan revenues increased 9% in FY18 as assets under management in the U.Fund have grown approximately $1B over the past three fiscal years and was responsible for 35% of non-interest revenues. Other income was $1M in FY18, consistent with prior fiscal years and represented 6% of non-interest revenues. Increase in FY17 non-interest revenues were similarly due to growth in loan program disbursements and U.Fund assets under management.

Total non-operating revenues for the Authority were $4.1M in FY18, over three and a half times non-operating revenue earned in FY17.

Authority investment vehicles posted gains in FY18 as short duration investments yields have increased over the past fiscal year with Federal Reserve policy initiatives. $4.1M of interest and dividend income was earned in FY18 compared to $1.1M in FY17 and $334K in FY16. FY16 non-operating revenues also included gains on bonds purchased in lieu of redemption of $412K.

As a result of these activities, FY18 total revenues increased by $8.4M or 7.5% compared to 3% growth in FY17 and growth of less than 1% in FY16.

The following illustrates the comparative results of total expenses from fiscal years ended June 30, 2018, 2017 and 2016, respectively:

(in thousands)

	2018		2017		2016	
Operating expenses						
Interest expense	$	66,125	$	65,234	$	66,455
Non-interest expenses		34,669		34,827		25,304
Total operating expenses		100,794		100,061		91,759
Non-operating expenses		27		-		5,303
Total expenses	$	100,821	$	100,061	$	97,062

Total operating expenses for the Authority were $100.8M in FY18, an increase of less than 1% over prior fiscal year operating expenses. FY17 operating expenses were $100M, an increase of 9% compared to the prior fiscal year.

Interest expense on bonds and notes outstanding increased by $891K or 1.4% from FY17 due to a full year of commercial paper note interest partially offset by the amortization of bond premiums on new issues and gains deferred in previous fiscal years. FY17 interest expense decreased by $1.2M or 1.8% from FY16 due to the net amortization of bond premiums and deferred gains. Interest expense represented 66%, 65% and 72% of total operating expense in FY18, FY17 and FY16, respectively.

Non-interest operating expenses were $34.7M in FY18, level with the prior fiscal year and included general and administrative cost, provision for doubtful education loans and bond issuance costs.

General and administrative expenses increased by $4.2M in FY18 mostly due to non-recurring costs relating to the conversion of new loan originator and servicer, a full year of credit facility fees for the commercial paper program launched in April 2017, and loan origination expenses. Offsetting the increase in general and administrative expenses was a $4.9M decrease in the provision for doubtful educational loans. FY17 non-interest operating expenses increased by $9.5M as the provision for doubtful educational loans increased by $8.5M, reflective of a 64% increase in loan originations and recognition of lower recovery expectations.

FY18 non-operating expense represents the decrease in fair value of non-hedging derivatives. Non-operating expense was not incurred in FY17 and FY16 expense consisted of commitment fee reimbursements of $3.8M, $718K of arbitrage rebate expense and $742K relating to the decrease in fair value of non-hedging derivatives.

As a result of these activities, total FY18 expenses increased by $760K or less than 1% compared to 3% growth in FY17 and 7% growth in FY16.

CHANGE IN NET POSITION

The following illustrates the comparative results of increases in net position from fiscal years ended June 30, 2018, 2017 and 2016, respectively:

(in thousands)

	2018	2017	2016
Operating revenues	$ 116,090	$ 110,619	$ 108,241
Operating expenses	100,794	100,061	91,759
Operating income	15,296	10,558	16,482
Non-operating revenues	4,110	1,145	746
Non-operating expenses	27	-	5,303
Non-operating income (loss)	4,083	1,145	(4,557)
Increase in net position	$ 19,379	$ 11,703	$ 11,925

The Authority's net operating income increased by $4.7M in FY18 due to the growth in the Authority's loan programs over the past two years and its impact on loan interest income. The decrease in FY17 operating income resulted as the provision for doubtful accounts increased by $8.5M, compared to FY16 reflective of a 64% increase in loan originations in FY17 as well as recognition of lower recovery expectations.

The Authority's non-operating income increased by $2.9M in FY18 to $4M due to an increase in interest income on the Authority's cash and investments resulting from improved short duration investment yields in FY18. FY16 non-operating loss of $4.6M represents commitment fee reimbursements, arbitrage rebate expense and a decrease in fair value of non-hedging investment derivatives.

As a result of these activities, net position increased by $19.4M during FY18, $11.7M in FY17 and $11.9M in FY16.

FINANCIAL POSITION

The following table reflects the condensed Statement of Net Position at June 30, 2018 compared to the prior fiscal years ended 2017 and 2016. 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)

	2018	2017	2016
Assets			
Cash and investments	$ 608,405	$ 481,353	$ 508,885
Education loan notes receivable	1,613,926	1,541,791	1,454,899
Other assets	34,007	33,232	34,852
Total assets	2,256,338	2,056,376	1,998,636
Liabilities			
Bonds payable	1,795,942	1,717,419	1,723,607
Notes payable	163,500	57, 800	-
Bond and note interest payable	33,637	35,008	32,442
Other liabilities	21,882	22,673	27,644
Total liabilities	2,014,961	1,832,900	1,783,693
Deferred Inflows			
Gain on bond refunding	7,765	9,243	12,413
Total deferred inflows	7,765	9,243	12,413
Net Position			
Net investment in capital assets	2,589	1,887	1,700
Restricted	131,498	136,232	139,016
Unrestricted	99,525	76,114	61,814
Total net position	$ 233,612	$ 214,233	$ 202,530

Total net position was $233.6M at June 30, 2018, an increase of $19.4M from the beginning of the fiscal year, or 9%.

Cash and investments increased by 26% in FY18 attributable to proceeds from the Issue L of 2018 capital market transaction that closed at fiscal year-end and will be used to support FY19 education loan programs. The $28M decrease in FY17 cash and investments was the net result of $332M of loan disbursements and $291M of proceeds from bond issuances. Education loan notes receivable increased by 5% and 6% in FY18 and FY17, respectively, due to growth in the Authority's education loan programs over the past three fiscal years. The ratio of education loan note receivables to total assets was 72%, 75% and 73% at June 30, 2018, 2017 and 2016, respectively. Other assets include interest receivable on education loan notes, prepaid expenses and capital assets and have remained relatively consistent over the past three fiscal years.

Notes payable increased by $106M in FY18 due to a full year of short-term commercial paper note issuance, compared to three months of issuance when the program was launched in FY17. The Authority also continued to manage its long-term capital plan and executed a capital market transaction totaling $314M in FY18, which was partially offset by bond retirements and net premium amortization of $236M. In FY17, the Authority executed a capital market transaction totaling $170M, which was offset by bond retirements and net premium amortization of $176M. Accrued bond and note interest payable decreased by 4% in FY18 as Issue H was fully refunded and all interest accrued paid prior to fiscal year end. Accrued bond and note 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 included a $5M accrual in FY16 for commitment fee reimbursements due, which was paid in full in FY17. No further commitment fee reimbursements remain outstanding.

The gain on bond refunding decrease of $1.5M in FY18 and $3.2M in FY17 relates to the amortization of gains deferred in previous fiscal years.

Within net position, 57% is comprised of net investment in capital assets and those assets that are restricted through bond and note resolutions or program specific regulations at June 30, 2018. Unrestricted net position increased by 30.8% to $99.5M in FY18 due to $5M of historical defaulted education loan notes receivable reclassified from restricted net position upon the refunding of Issue H trust in FY18 and effective portfolio performance in the structured finance trusts.

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 $508.5M, $398.6M, and $444.5M at June 30, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, 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

	FY2018	FY2017	FY2016
Allowance at beginning of period	$60,760	$51,061	$49,876
Provision for education loan losses	$4,791	$9,699	$1,185
Allowance at end of period	$65,551	$60,760	$51,061
Gross loan defaults	$12,988	$10,811	$12,892
Recoveries	$5,213	$6,438	$7,707
Net loan defaults	$7,775	$4,373	$5,185
Net loan defaults as a percentage of average loans in repayment	0.61%	0.36%	0.43%
Allowance multiple of average non-current loans in repayment (90+ days)	4.32	4.17	2.88
Allowance as a percentage of the ending total loan balance	4.18%	4.05%	3.63%
Allowance as a percent of ending loans in repayment	5.00%	4.81%	4.32%
Ending total loans, gross	$1,569,535	$1,500,121	$1,407,974
12 month average in repayment	$1,264,629	$1,214,152	$1,197,104
Ending loans in repayment	$1,312,310	$1,263,169	$1,181,147
12 month average 90+ days delinquent	$15,168	$14,562	$17,710
90+ days delinquent % of avg. repayment	1.20%	1.20%	1.48%

The Authority, under the education loan programs, 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, not-for-profit, degree granting education institutions.

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, 2018 and 2017, the total principal balance outstanding of loans in a modified status was $42M and $59M, respectively and represented approximately 3.3% and 4.9% of all eligible loans in repayment, respectively. At June 30, 2018 and 2017, these modified loans were 96% and 97% current, respectively, defined as less than 30 days past due, in regard to monthly payments received under the modified terms.

During FY18, 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 FY18 provision for education loan losses was $4.8M, which increased the allowance for doubtful accounts to $65.6M. The amount of loans in repayment increased by $49M, or 4%, in FY18. The amount of loans in deferment at June 30, 2018 increased by 9% to $257M or 16% of gross education loan receivables. Approximately $4.7M and $3.9M of the allowance for doubtful accounts is allocated to education loans in deferment in FY18 and FY17, respectively.

DEBT ADMINISTRATION

As of June 30, 2018, the Authority had $1.74B of bond principal outstanding compared to $1.67B at the end of FY17. All of the Authority's outstanding bonds are rated by nationally recognized rating agencies. The FRN indenture is rated AAA by S&P and Fitch. The Issue I and Issue J indentures have published ratings of AA by S&P and A by Fitch. The Issue K indenture 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 Issue L indenture has published ratings of AA by S&P as well as a BBB 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 84% of the outstanding bond portfolio (a decrease from 92% in FY17 and 91% in FY16)

- Taxable Floating Rate Notes indexed to Libor that were issued in 2008 to fund existing FFELP loan products represent 3% of the outstanding bond portfolio (a decrease from 4% in FY17 and 5% in FY16)

- Fixed rate taxable revenue bonds issued to fund fixed rate refinancing loans represent 3% of the outstanding bond portfolio (no change from FY17 and FY16)

- Taxable Floating Rate Notes indexed to Libor issued to fund variable rate refinancing loans represent 1% of the outstanding bond portfolio (no change from FY17 and FY16)

- Fixed rate taxable revenue bonds issued in FY18 to refund certain previously issued bonds as well as fund new fixed rate loans represent 9% of the outstanding bond portfolio

The Authority also has $163.5M of commercial paper notes outstanding at June 30, 2018, 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. Commercial paper notes outstanding at June 30, 2017 were $57.8M.

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. 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, 2018, the Authority had outstanding $124M in notional derivative products, a decrease of $18M from FY17.

CAPITAL ASSETS

For the year ended June 30, 2018, the Authority had $2.6M invested in capital assets, representing a net increase (additions and depreciation) of $702K in such assets. The reconciliation below summarizes the change in capital assets by fiscal year. The Authority purchased $1.8M in capital assets during FY18, which were primarily related to office relocation, computer hardware and software development costs relating to loan origination platforms and servicer conversion.

(in thousands)

	2018	2017	2016
Beginning balance, net	$ 1,887	$ 1,700	$ 928
Additions	1,751	957	1,294
Depreciation	(1,049)	(770)	(522)
Ending balance, net	$ 2,589	$ 1,887	$ 1,700

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 60 State Street, Suite 900, Boston, MA 02109.

Report of Independent Auditors

To the Management of the Massachusetts Educational Financing Authority

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of the Massachusetts Educational Financing Authority (the “Authority”) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the index.

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 the Massachusetts Educational Financing Authority as of June 30, 2018 and 2017, and its changes in financial position and its cash flows for the years then ended, and the financial position of the fiduciary activities of the Massachusetts Educational Financing Authority as of June 30, 2018 and 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

Boston, Massachusetts
December 19, 2018

Massachusetts Educational Financing Authority
Statements of Net Position
As of June 30, 2018 and 2017
(in thousands)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 4)	$ 221,194	$ 192,438
Investments (Notes 3 and 4)	18,888	21,462
Education loan notes receivable, net (Notes 3, 5, and 10)	113,912	128,814
Interest receivable on educational loan notes	27,437	28,592
Prepaid expenses and other assets	3,811	2,556
Total current assets	385,242	373,862
Non-current assets		
Cash and cash equivalents (Notes 3 and 4)	287,311	206,129
Investments (Notes 3 and 4)	81,012	61,324
Derivative instruments (Notes 3 and 8)	170	197
Education loan notes receivable, net (Notes 3, 5, and 10)	1,500,014	1,412,977
Capital equipment, net of accumulated depreciation (Note 13)	2,589	1,887
Total assets	$ 2,256,338	$ 2,056,376
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 16,188	$ 15,540
Bonds payable – current portion (Note 6)	102,611	52,721
Certificates payable (Note 9)	5,674	7,084
Accrued interest payable	33,637	35,008
Total current liabilities	158,110	110,353
Non-current liabilities		
Notes payable (Note 7)	163,500	57,800
Bonds payable – net of current portion (Note 6)	1,693,331	1,664,698
Other liabilities – non-current	20	49
Total liabilities	2,014,961	1,832,900
Deferred inflows of resources		
Net gain on bond refunding (Note 6)	7,765	9,243
Total deferred inflows of resources	7,765	9,243
Total liabilities and deferred inflows of resources	2,022,726	1,842,143
Net position		
Net investment in capital assets	2,589	1,887
Restricted	131,498	136,232
Unrestricted	99,525	76,114
Total net position	233,612	214,233
Total liabilities, deferred inflows of resources and net position	$ 2,256,338	$ 2,056,376

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

(in thousands)

	2018	2017
Operating revenues		
Interest on education loan notes receivable (Note 3)	$ 99,877	$ 95,318
Loan origination fees	9,505	8,971
College savings plan interest and fees	5,701	5,243
Other revenue	1,007	1,087
Total operating revenues	116,090	110,619
Operating expenses		
Bond and note interest expense (Notes 6 and 7)	66,125	65,234
Costs of bond and note issuance	2,792	2,571
Provision for doubtful education loan notes receivable	4,791	9,699
General and administrative (Notes 3, 11, 12, and 13)	26,298	22,111
Other expense	788	446
Total operating expenses	100,794	100,061
Operating income	15,296	10,558
Non-operating revenues (expenses)		
Interest and dividends	4,110	1,124
Increase (decrease) in fair value of derivative instruments	(27)	20
Commitment fees to participating schools	-	1
Net non-operating revenues	4,083	1,145
Total increase in net position	19,379	11,703
Net position, beginning of year	214,233	202,530
Net position, end of year	$ 233,612	$ 214,233

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

Massachusetts Educational Financing Authority
Statements of Cash Flows
For the years ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Cash flows from operating activities:		
Payments for disbursed loans	$ (329,427)	$ (331,879)
Payments received on outstanding loan principal	279,067	261,860
General and administrative payments	(25,197)	(22,200)
Interest received on education loans	83,184	78,798
Proceeds from other sources	6,680	6,288
Net cash provided by (used in) operating activities	14,307	(7,133)
Cash flows from non-capital financing activities:		
Proceeds from issuance of bonds	313,966	169,774
Proceeds from issuance of commercial paper notes	131,500	57,800
Costs of bond and note issuance	(2,792)	(2,571)
Bond and note interest paid	(75,830)	(70,432)
Principal payments on bonds payable	(228,585)	(171,369)
Principal payments on commercial paper notes	(25,800)	-
Commitment fees refunded to participating schools	-	(5,059)
Net cash provided by (used in) non-capital financing activities	112,459	(21,857)
Cash flows from capital financing activities:		
Purchase of capital equipment and software development	(1,752)	(956)
Net cash used in capital financing activities	(1,752)	(956)
Cash flows from investing activities:		
Proceeds from maturity/sale of investments	24,277	34,106
Purchases of investments	(42,802)	(51,580)
Arbitrage rebate refund (payment)	-	397
Interest and dividends received on cash and investments	3,449	1,122
Net cash used in investing activities	(15,076)	(15,955)
Net increase (decrease) in cash and cash equivalents	109,938	(45,901)
Cash and cash equivalents, beginning of year	398,567	444,468
Cash and cash equivalents, end of year	$ 508,505	$ 398,567

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

(in thousands)

Reconciliation of operating income to net cash provided by (used in) operating activities	2018	2017
Operating income	$15,296	$10,558
Adjustments to reconcile operating income to net cash provided by (used in) by operating activities:		
Depreciation expense	1,049	770
Provision for doubtful education loan notes receivable	4,791	9,699
Costs of bond and note issuance	2,792	2,571
Bond and note interest expense	66,125	65,234
Changes in assets and liabilities:		
Education loan notes receivable	(76,925)	(96,591)
Interest receivable on education loan notes	1,155	1,522
Accounts payable and accrued expenses	619	(801)
Prepaid expenses and other assets	(595)	(95)
Net cash provided by (used in) by operating activities	$14,307	($7,133)

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

Massachusetts Educational Financing Authority
Statements of Fiduciary Net Position
As of June 30, 2018 and 2017

	2018	2017
Assets		
Investments, at value	$9,615,618	$663,367
Receivable for securities sold	450	-
Receivable for fund shares sold	24,326	2,411
Dividend receivable	2,123	22
Receivable from manager	-	27
Total assets	9,642,517	665,827
Liabilities		
Payable for investments purchased	$ 26,449	$ 2,397
Accrued management fee	1,530	79
Payable for fund shares purchased	353	-
Due to designated beneficiaries	9,614,185	663,351
Total liabilities	9,642,517	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 2018, 92 Massachusetts and 383 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.

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 Governmental Accounting Standards Board ("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. The Authority accounts for and reports its activities by applying Standards of Governmental Accounting and Financial Reporting, as promulgated by the GASB. The statements are prepared utilizing the economic resources measurement focus and the accrual basis of accounting, wherein revenues are recognized when earned and expenses when incurred. Detailed financial information segregated by fund is also presented in the accompanying Supplemental Schedules to the financial statements.

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 any supplemental information. 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.

The GASB requires the categorization of net position into three components. 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 components:

- **Net investment in capital assets**: capital assets, net of accumulated depreciation.

- **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 9*).

- **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 9).*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

General and Administrative Expenses
General and administrative expenses include personnel costs, professional fees, marketing costs and office expense and are funded by the Trusteed Bond Funds, College Savings Plans and Authority based on an operating budget prepared by Authority management and approved annually by the Board of Directors. Loan program administration costs are also included in general and administrative costs and funded by the Trusteed Bond Funds in accordance with the Trusteed Bond Fund resolutions requirements.

Fair Value
GASB statement No. 72, *Fair Value Measurement and Application* 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 prices in active markets for identical investments), Level 2 inputs (inputs other than quoted prices that are observable) and Level 3 inputs (unobservable inputs). As of June 30, 2018 and June 30, 2017, the Authority's money market investments are categorized as Level 1 and derivative instruments are categorized as Level 2.

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.

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

Recently Issued Accounting Pronouncements
In January 2017, GASB approved Statement No. 84, "Fiduciary Activities" ("GASB 84"). The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement describes four fiduciary funds that should be reported, if

applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds.

GASB 84 is effective for periods beginning after December 15, 2018. The Authority is currently assessing the impact of GASB 84 and will implement the standard in fiscal year 2020.

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, 2018 and 2017, respectively.

(in thousands)	2018	2017
Cash deposits	$ 2,858	$ 2,007
Mutual funds:		
Money market funds – Authority and College Savings	99,901	82,786
Money market funds – Trusteed Bonds and Notes	505,646	396,560
Total cash, cash equivalents and investments	$ 608,405	$ 481,353

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, 2018 and June 30, 2017, $2.5M and $1.8M 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, 2018, 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	$ 2,448,530	2.1%
Fidelity U.S. Government Portfolio – Authority Funds	$ 81,012,439	68.0%
Fidelity U.S. Government Portfolio – Trusteed Note Funds	$ 16,728,326	14.0%
Fidelity Government Money Market Fund	$ 18,392,551	15.5%
First American Government Obligations Fund	$ 495,542	0.4%

Issue FRN Indenture	Cash and Investments	% of Total
Bank of America	$ 5,791	0.1%
Fidelity U.S. Government Portfolio	$ 4,085,893	99.9%

Issue H Indenture	Cash and Investments	% of Total
Bank of America	$ 52,645	42.2%
Fidelity U.S. Government Portfolio	$ 71,985	57.8%

Issue I Indenture	Cash and Investments	% of Total
Bank of America	$ 241,004	0.3%
Fidelity U.S. Government Portfolio	$ 91,438,080	99.7%

Issue J Indenture	Cash and Investments	% of Total
Bank of America	$ 26,667	0.1%
Fidelity U.S. Government Portfolio	$ 79,112,605	99.9%

Issue K Indenture	Cash and Investments	% of Total
U.S. Bank	$ 82,457	0.1%
Fidelity U.S. Government Portfolio	$ 44,872,880	99.9%

Issue L Indenture	Cash and Investments	% of Total
Fidelity U.S. Government Portfolio	$ 269,337,692	100%

5. EDUCATIONAL FINANCINGS

During the years ended June 30, 2018 and 2017, respectively, the activity for the Authority's Education Loan Notes receivable was as follows:

(in thousands)

	2018	2017
Outstanding education loan notes receivable (beginning) gross	$ 1,602,551	$ 1,505,960
Increases to education loan notes receivable	356,745	358,885
Decreases to education loan notes receivable	(279,819)	(262,294)
Outstanding education loan notes receivable (ending) gross	1,679,477	1,602,551
Allowance for education loan notes receivable (beginning)	60,760	51,061
Increase to allowance for education loan notes receivable	4,791	9,699
Allowance for education loan notes receivable (ending)	65,551	60,760
Outstanding education loan notes receivable, net (ending)	$ 1,613,926	$ 1,541,791

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 $4.8M and $9.7M increase to the provision for doubtful education loan notes receivable in fiscal years 2018 and 2017, respectively. The Authority has expensed historically in aggregate a net of $39M of education loan notes related to the tax-exempt yield restrictions through fiscal year 2018. No allowance for yield restriction was required at June 30, 2018 and 2017. 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, 2018 and 2017, the total principal balance outstanding of loans in a modified status was $42M and $59M and represented approximately 3.3% and 4.9% of all loans in repayment, respectively. At June 30, 2018 and 2017, these modified loans were 96% and 97% current, respectively, 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, 2018, the Authority had originated loans through 1,060 out of state higher education institutions since 1998 when the program was implemented.

The loan and debt service reserve funds are designed and funded to provide another level of support for defaulted loans and debt service payments that provide stability to the cash flow of the bond issuance. On an annual basis, the reserve requirements are reviewed and funded by cash balances or surety bond agreements at levels approved by the insurer or rating agencies of each specific bond issue. The fund balance of the loan and debt service reserve requirements in aggregate was $20.2M and $19.6M for fiscal years 2018 and 2017, respectively.

6. BONDS PAYABLE

The activity related to the Authority's bonds payable for the fiscal years ended 2018 and 2017 was as follows:

(in thousands)	2018	2017
Bonds outstanding, gross beginning balance	$ 1,665,931	$ 1,676,785
Bonds issued	306,346	160,515
Bonds redeemed	(228,585)	(171,369)
Bonds outstanding, gross ending balance	1,743,692	1,665,931
Net unamortized issuance premiums	52,250	51,488
Bonds outstanding, net ending balance	$ 1,795,942	$ 1,717,419

Bonds payable issued under the individual Trust resolutions are payable from a pledge of the assets and revenues of each Trusteed Bond Fund. Bonds may be redeemed at par and ahead of scheduled maturity under circumstances specified in the Bond Resolutions.

As of June 30, 2018 mandatory annual maturities of bonds principal payable for the next five fiscal years and thereafter are as follows (in thousands):

	2019	2020	2021	2022	2023	Remaining Schedule	Total Payable
2008 FRN	-	-	-	-	-	45,862	45,862
2009 Issue I	11,995	15,360	-	-	11,495	32,670	71,520
2010 Issue I	14,065	1,170	-	34,915	-	62,205	112,355
2011 Issue J	2,220	5,480	5,440	6,460	7,010	33,330	59,940
2012 Issue J	6,760	13,485	14,905	16,210	8,100	44,850	104,310
2013 Issue K	8,540	13,455	14,735	16,320	17,895	99,420	170,365
2014 Issue I	13,000	4,000	40,000	5,000	8,000	89,145	159,145
2015A Issue I	17,000	11,000	22,000	39,000	9,000	65,390	163,390
2015B Issue I	6,260	6,590	6,420	6,230	5,750	31,230	62,480
2016 Issue J	20,000	13,500	12,000	16,600	22,100	243,265	327,465
2017 Issue K	-	500	3,500	10,955	10,000	135,559	160,514
2018 Issue L	-	-	-	11,710	18,880	275,756	306,346
	$99,840	$84,540	$119,000	$163,400	$118,230	$ 1,158,682	$1,743,692

In July 2018, the Authority redeemed fixed rate bonds outstanding of $83.7M and $3.4M 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, 2018 (in thousands):

Year Ending June 30	Principal	Interest	Total Debt Service
2019	99,840	72,452	172,292
2020	84,540	74,143	158,683
2021	119,000	70,040	189,040
2022	163,400	63,786	227,186
2023	118,230	55,665	173,895
2024-2028	667,000	181,021	848,021
2029-2033	333,830	60,799	394,629
2034-2038	81,652	26,780	108,432
2039-2043	-	14,385	14,385
2044-2048	76,200	11,189	87,389
	$1,743,692	$630,260	$2,373,952

Total interest expense for the years ended June 30, 2018 and 2017 was $66.1M and $65.2M, respectively. For fiscal years 2018 and 2017 there is $1.5M and $3.2M of amortization of net deferred gain on bond program activities included in the total bond interest expense, respectively. Also, for fiscal years 2018 and 2017 bond interest expense includes $6.9M and $4.6M 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. As a result of redemptions of $12.9M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $45.9M.

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 $8.1M and an optional refunding of the remaining $57.8M on June 28, 2018, all bonds in the series were retired at June 30, 2018.

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 $27.1M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $71.8M 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 $27.2M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $113M, 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 scheduled maturities and redemptions of $14.3M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $59.8M, including the unamortized discount that was incorporated in the initial sale of the bonds.

Issue J Series 2012

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

As a result of redemptions of $20.8M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $106M, 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 of $1.2M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $172.9M, 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 $18.1M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $169.3M, 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 and redemptions of $19.4M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $174.4M, 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 and redemptions of $9.2M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $61.4M, including the unamortized discount that was incorporated in the initial sale of the bonds.

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

As a result of redemptions of $12.5M in fiscal year 2018, the ending balance of this entire series as of June 30, 2018 is $338.3M, 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, 2018 is $169.2M, including the unamortized premium that was incorporated in the initial sale of the bonds.

Issue L Series 2018A, 2018B & 2018C
On May 17, 2018, under the Issue L 2018 Bond Resolution, the Authority issued $159M principal amount of Senior Series 2018A Bonds dated June 13, 2018. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2019. Issue L Series 2018A Bonds mature as follows: $93.2M serial bonds which mature annually on July 1 from 2021 to 2028 in amounts ranging from $7.1M to $14.4M with interest at rates ranging from 3.48% to 4.16%; $65.8M term bonds which mature in 2034 with an interest rate of 4.408%. The Issue L Series 2018A Bonds are subject to sinking fund installments totaling $65.8M from 2029 to 2034 in annual amounts ranging from $7.3M to $13.7M. 2018A Bonds maturing on or after July 1, 2029, are redeemable at the option of the Authority, in whole or in part, on any date on or after July 1, 2028.

On May 17, 2018, under the Issue L 2018 Bond Resolution, the Authority issued $114M principal amount of Senior Series 2018B Bonds dated June 13, 2018. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2019. Issue L Series 2018B Bonds mature as follows: $77.8M serial bonds which mature annually on July 1 from 2021 to 2028 in amounts ranging from $4.7M to $11.8M with an interest rate of 5%; $36.3M term bonds which mature in 2034 with an interest rate of 3.625%. The Issue L Series 2018B Bonds are subject to sinking fund installments totaling $36.1M from 2029 to 2034 in annual amounts ranging from $2.8M to $6.8M. 2018B Bonds maturing on or after July 1, 2027, are redeemable at the option of the Authority, in whole or in part, on any date on or after July 1, 2026.

On May 17, 2018, under the Issue L 2018 Bond Resolution, the Authority issued $33.4M principal amount of Subordinate Series 2018C Bonds dated June 13, 2018. Semiannual interest payments are required each January 1 and July 1 commencing on January 1, 2019. Issue L Series 2018C Bonds are term bonds which mature in 2046 with an interest rate of 4.125%. 2018C Bonds are redeemable at the option of the Authority, in whole or in part, on any date on or after July 1, 2026.

The Issue L 2018 Bonds were issued with a premium of $7.6M.

The ending balance of this entire series as of June 30, 2018 is $314M, including the unamortized premium that was incorporated in the initial sale of the bonds.

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, 2018.

The activity related to the Notes for the fiscal years ended 2018 and 2017 was as follows:

(in thousands)	2018	2017
Notes outstanding, beginning balance	$ 57,800	$ -
Net commercial paper notes issued	105,700	57,800
Notes outstanding, ending balance	$ 163,500	$ 57,800

Total interest expense on the Notes for the fiscal years ended June 30, 2018 and June 30, 2017 was $1.9M and $103.8K, respectively. Interest rates on Notes issued during fiscal year 2018 range from 1.20% to 2.18% with maturities ranging from 1 day to 98 days. Interest rates on Notes issued during fiscal year 2017 ranged from 0.95% to 1.25% with maturities ranging from 5 days to 97 days.

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. As the Authority has the ability to consummate the financing as it refinanced the Notes on a long-term basis subsequent to year-end (see Note 14), 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. 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, 2018
(in thousands)

Associated Bond Issue	**Notional Amounts**	**Effective Date**	**Fair Values**	**Cap Maturity Date**	**Counterparty Credit Rating**
Issue E 2003B	$5,350	3/13/2003	$0.2	January 2027	(Aa3/A+)
Issue E 2003E	$7,590	3/10/2004	$0.1	January 2026	(Aa3/A+)
Issue E 2004B	$9,600	3/31/2005	$0.2	January 2026	(Aa3/A+)
Issue E 2006C	$23,300	6/13/2006	$8.9	July 2027	(Aa3/A+)
Issue E 2007C	$78,600	4/5/2007	$161	January 2033	(Aa3/A+)
	$124,440		**$170**		

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**		

Terms, fair value and credit risk
As of June 30, 2018, approximately 18% 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 82% 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 $124M in notional outstanding as of June 30, 2018, 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 2018, the decrease in fair value for investment derivatives recorded as expense was $27K. In fiscal year 2017, the fair value of investment derivatives increased and $20K of income was recognized.

Credit Risk: As of June 30, 2018, 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 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. 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, 2018 and 2017, the Authority had deposits of $5.7M and $7.1M respectively, for the purchase of tuition certificates under the Commonwealth of Massachusetts General Obligation Bonds, effective August 1, 2018 and August 1, 2017, 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
2017 College Opportunity Bonds, Series A	$	9,442	August 1, 2017	August 1, 2022 / 2037
Total	$	236,198		

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, 2018 and 2017, included in accounts payable and accrued expenses, were matured certificates payable to U.Plan participants in the amounts of $12M and $12.6M, 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, 2018 and 2017, 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, 2018 and 2017, net assets for the U.Fund were $6,079M and $5,649M, respectively.

10. RELATED PARTIES

During fiscal year 2018, four members of the Authority were officers/trustees of participating institutions and 2 members of the Authority were officers/trustees of participating institutions in fiscal year 2017. For the fiscal years ended June 30, 2018 and 2017, the Authority purchased loans totaling $30.2M and $27.6M, respectively, in principal balance, from these institutions. At June 30, 2018 and 2017, $179.4M and $165.7M, respectively, of loans purchased from those institutions were outstanding.

11. DEFINED CONTRIBUTION PLANS

All employees of the Authority participate in a defined contribution plan, the Massachusetts Educational Financing Authority Retirement Saving Plan (the "Plan"). The Authority annually contributes an amount equal to 11% of an employee's annual gross salary to the Plan. Vesting at 100% occurs in the Plan after two years of employment. The Authority also matches 50% of employee salary contributions up to a maximum of 6% to the Deferred Compensation Plan of the Massachusetts Education Financing Authority (the "Deferred Plan"). Total employee contributions to the Deferred Plan for the years ended June 30, 2018 and 2017 were $341K and $320K, 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, 2018 and 2017 was $705K and $599K, respectively. The Authority pays administrative expenses of the plans for the plan participants and TD Ameritrade is the custodian of the plan assets.

12. LEASE COMMITMENT

The Authority's operating lease agreement for its former office space expired in February 2018 and a new operating lease agreement was entered into to relocate the MEFA office. The new operating lease agreement commenced 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, 2018, annual minimum operating lease payments for office space and office equipment are as follows for the following five fiscal years and thereafter:

(in thousands)

	2019	2020	2021	2022	202	Thereafter
Minimum operating lease payments	$ 714	$ 715	$ 728	$ 742	$ 755	$ 3,700

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)

	2018	2017
Minimum operating lease expenses	$ 824	$ 878
Additional operating lease expenses	167	204
Total operating lease expenses	$ 991	$ 1,082

13. CAPITAL EQUIPMENT

The activity related to the Authority's capital assets for the fiscal years ended 2018 and 2017, respectively, was as follows:

(in thousands)

	June 30, 2017	Additions	Disposals	June 30, 2018
Computer hardware	$ 885	$ 81	$ (428)	$ 538
Computer software	7,114	576	(5)	7,685
Furniture	804	405	(775)	434
Equipment	158	125	(6)	277
Leasehold improvements	540	564	(540)	564
Total capital equipment (at cost)	9,501	1,751	(1,754)	9,498
Accumulated depreciation	(7,614)	(1,049)	1,754	(6,909)
Capital equipment, net	$ 1,887	$ 702	$ -	$ 2,589

	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

Fiscal year 2018 disposals include the retirement of fully depreciated leasehold improvements and other capital equipment related to the decommissioning of the Authority's former office space.

Included in general and administrative expenses are depreciation expenses of $1,049K and $770K for the years ended June 30, 2018 and June 30, 2017, respectively.

14. SUBSEQUENT EVENTS

On August 27, 2018, as part of the annual cycle of the U.Plan prepaid tuition program, the Authority purchased Commonwealth of Massachusetts General Obligation Bonds in the amount of $8.1M at which time the corresponding liability to program participants was removed from the Statement of Net Position of the Authority.

On October 3, 2018, the Authority issued $164.1M of Education Loan Asset-Backed Notes, Series 2018-A ("ABS Notes") for the purpose of securitizing certain refinancing loans initially originated under the Authority's Education Loan Commercial Paper Revenue Note Resolution (the "Notes") and the I15B-1 Trust. Proceeds from the ABS Notes will be used redeem the outstanding Notes and I15B-1 bonds.

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 accounting 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 prices in active markets for identical investments), Level 2 inputs (inputs other than quoted prices that are observable) and Level 3 inputs (unobservable inputs). As of June 30, 2018 and 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 value of the investments of the Attainable Plan:

Portfolios	Underlying Funds	June 30, 2018	June 30, 2017
ABLE Conservative Income 20%	Fidelity Asset Manager® 20%	$531,289	$24,330
ABLE Income 30% Portfolio	Fidelity Asset Manager® 30%	573,174	67,817
ABLE Moderate Income 40% Portfolio	Fidelity Asset Manager® 40%	543,380	15,671
ABLE Balanced 50% Portfolio	Fidelity Asset Manager® 50%	1,366,853	121,469
ABLE Moderate Growth 60% Portfolio	Fidelity Asset Manager® 60%	1,322,776	78,255
ABLE Growth 70% Portfolio	Fidelity Asset Manager® 70%	1,362,515	118,897
ABLE Aggressive Growth 85% Portfolio	Fidelity Asset Manager® 85%	2,098,889	150,573
ABLE Money Market Portfolio	Fidelity® Government Cash Reserves	1,816,742	86,355
		$9,615,618	$663,367

Supplemental Schedules

Massachusetts Educational Financing Authority

Supplemental Schedule 1

Statements of Net Position

June 30, 2018 and 2017

	2018					2017				
Assets	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Current assets										
Cash and cash equivalents	$ 202,014	$ 16,733	$ 1,185	$ 1,262	$ 221,194	$ 189,498	$ 1,072	$ 511	$ 1,357	$ 192,438
Investments	-	-	18,888	-	18,888	-	-	21,462	-	21,462
Education loan notes receivable, net	104,836	7,273	-	1,803	113,912	123,701	2,595	-	2,518	128,814
Interest receivable on educational loan notes	27,212	225	-	-	27,437	28,510	82	-	-	28,592
Prepaid expenses and other assets	584	23	2,654	550	3,811	92	-	2,013	451	2,556
Interfund balances	(650)	-	-	650	-	(482)	-	-	482	-
Total current assets	333,996	24,254	22,727	4,265	385,242	341,319	3,749	23,986	4,808	373,862
Non-current assets										
Cash and cash equivalents	287,311	-	-	-	287,311	206,129	-	-	-	206,129
Investments	-	-	26,683	54,329	81,012	-	-	21,450	39,874	61,324
Derivative instruments - caps	-	-	-	170	170	-	-	-	197	197
Educational loan notes receivable, net	1,337,057	142,768	-	20,189	1,500,014	1,338,860	53,928	-	20,189	1,412,977
Capital equipment, net of accumulated depreciation	-	-	-	2,589	2,589	-	-	-	1,887	1,887
Total assets	$ 1,958,364	$ 167,022	$ 49,410	$ 81,542	$ 2,256,338	$ 1,886,308	$ 57,677	$ 45,436	$ 66,955	$ 2,056,376
Liabilities										
Current liabilities										
Accounts payable and accrued expenses	$ 1,575	$ 3	$ 11,975	$ 2,635	$ 16,188	$ 1,015	$ -	$ 12,586	$ 1,939	$ 15,540
Bonds payable - current portion	102,611	-	-	-	102,611	52,721	-	-	-	52,721
Certificates payable	-	-	5,674	-	5,674	-	-	7,084	-	7,084
Accrued bond interest payable	33,379	258	-	-	33,637	34,960	48	-	-	35,008
Total current liabilities	137,565	261	17,649	2,635	158,110	88,696	48	19,670	1,939	110,353
Non-current liabilities										
Notes payable	-	163,500	-	-	163,500	-	57,800	-	-	57,800
Bonds payable - net of current portion	1,693,331	-	-	-	1,693,331	1,664,698	-	-	-	1,664,698
Other liabilities - non-current	-	-	-	20	20	-	-	-	49	49
Total liabilities	1,830,896	163,761	17,649	2,655	2,014,961	1,753,394	57,848	19,670	1,988	1,832,900
Deferred inflows of resources										
Net gain on bond refunding	7,765	-	-	-	7,765	9,243	-	-	-	9,243
Total deferred inflows of resources	7,765	-	-	-	7,765	9,243	-	-	-	9,243
Total liabilities and deferred inflows of resources	1,838,661	163,761	17,649	2,655	2,022,726	1,762,637	57,848	19,670	1,988	1,842,143
Net position										
Net investment in capital assets	-	-	-	2,589	2,589	-	-	-	1,887	1,887
Restricted	114,262	3,261	12,108	1,867	131,498	123,671	(171)	10,888	1,844	136,232
Unrestricted	5,441	-	19,653	74,431	99,525	-	-	14,878	61,236	76,114
Total net position	119,703	3,261	31,761	78,887	233,612	123,671	(171)	25,766	64,967	214,233
Total liabilities, deferred inflows and net position	$ 1,958,364	$ 167,022	$ 49,410	$ 81,542	$ 2,256,338	$ 1,886,308	$ 57,677	$ 45,436	$ 66,955	$ 2,056,376

Massachusetts Educational Financing Authority

Supplemental Schedule 1

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2018 and 2017

	2018					2017				
Operating revenues	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Interest on education loan notes receivable	$ 93,782	$ 6,062	$ -	$ 33	$ 99,877	$ 94,698	$ 478	$ -	$ 142	$ 95,318
Loan origination fees	9,505	-	-	-	9,505	8,971	-	-	-	8,971
College savings plan interest and fees	-	-	5,699	2	5,701	-	-	5,243	-	5,243
Other revenue	-	-	1,007	-	1,007	-	-	1,087	-	1,087
Total operating revenues	103,287	6,062	6,706	35	116,090	103,669	478	6,330	142	110,619
Operating expenses										
Bond and note interest expense	64,214	1,911	-	-	66,125	65,130	104	-	-	65,234
Costs of bond and note issuance	2,827	-	-	(35)	2,792	1,899	-	-	672	2,571
Provision for doubtful educational loan notes receivable	5,130	836	-	(1,175)	4,791	6,340	550	-	2,809	9,699
General and administrative	18,090	-	1,102	7,106	26,298	17,576	-	1,226	3,309	22,111
Other expense	788	-	-	-	788	424	-	-	22	446
Total operating expenses	91,049	2,747	1,102	5,896	100,794	91,369	654	1,226	6,812	100,061
Operating income (loss)	12,238	3,315	5,604	(5,861)	15,296	12,300	(176)	5,104	(6,670)	10,558
Non-operating revenues (expenses)										
Interest and dividends	2,994	117	391	608	4,110	881	5	128	110	1,124
Increase (decrease) in fair value of derivative instruments	-	-	-	(27)	(27)	-	-	-	20	20
Commitment fees to participating schools (Note 9)	-	-	-	-	-	-	-	-	1	1
Net non-operating (expenses) revenues	2,994	117	391	581	4,083	881	5	128	131	1,145
Income (loss) income before interfund transfers	15,232	3,432	5,995	(5,280)	19,379	13,181	(171)	5,232	(6,539)	11,703
Interfund transfers	(19,200)	-	-	19,200	-	(14,811)	-	(5,000)	19,811	-
Total (decrease) increase in net position	(3,968)	3,432	5,995	13,920	19,379	(1,630)	(171)	232	13,272	11,703
Net position, beginning of year	123,671	(171)	25,766	64,967	214,233	125,301	-	25,534	51,695	202,530
Net position, end of year	$ 119,703	$ 3,261	$ 31,761	$ 78,887	$ 233,612	$ 123,671	$ (171)	$ 25,766	$ 64,967	$ 214,233

Massachusetts Educational Financing Authority

Supplemental Schedule 1

Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	2018					2017				
Cash flows from operating activities:	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**	**Trusteed Bond Funds**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Payments for disbursed loans	$ (224,917)	$ (104,482)	$ -	$ (28)	$ (329,427)	$ (274,127)	$ (57,633)	$ -	$ (119)	$ (331,879)
Payments received on outstanding loan principal	267,013	10,137	-	1,917	279,067	258,478	560	-	2,822	261,860
General & administrative payments	(17,498)	3	(2,289)	(5,413)	(25,197)	(17,450)	-	(1,966)	(2,784)	(22,200)
Interest received on education loans	77,240	5,911	-	33	83,184	78,265	396	-	137	78,798
Proceeds from other sources	-	-	6,678	2	6,680	-	-	6,291	(3)	6,288
Net cash provided by (used in) operating activities	101,838	(88,431)	4,389	(3,489)	14,307	45,166	(56,677)	4,325	53	(7,133)
Cash flows from non-capital financing activities:										
Proceeds from issuance of bonds	313,966	-	-	-	313,966	169,774	-	-	-	169,774
Proceeds from issuance of commercial paper notes	-	131,500	-	-	131,500	-	57,800	-	-	57,800
Costs of bond and note issuance	(2,827)	-	-	35	(2,792)	(1,899)	-	-	(672)	(2,571)
Bond and note nterest paid	(74,128)	(1,702)	-	-	(75,830)	(70,376)	(56)	-	-	(70,432)
Principal payments on bonds payable	(228,585)	-	-	-	(228,585)	(171,369)	-	-	-	(171,369)
Principal payments on commercial paper notes	-	(25,800)	-	-	(25,800)	-	-	-	-	-
Commitment fees refunded to participating schools	-	-	-	-	-	-	-	-	(5,059)	(5,059)
Net asset transfers	(19,034)	-	-	19,034	-	(14,782)	-	(5,000)	19,782	-
Net cash (used in) provided by non-capital financing activities	(10,608)	103,998	-	19,069	112,459	(88,652)	57,744	(5,000)	14,051	(21,857)
Cash flows from capital financing activities:										
Purchase of capital equipment and software development	-	-	-	(1,752)	(1,752)	-	-	-	(956)	(956)
Net cash used in capital financing activities	-	-	-	(1,752)	(1,752)	-	-	-	(956)	(956)
Cash flows from investing activities:										
Proceeds from maturity/sale of investments	-	-	13,027	11,250	24,277	-	-	14,116	19,990	34,106
Purchases of investments	-	-	(17,096)	(25,706)	(42,802)	-	-	(15,718)	(35,862)	(51,580)
Arbitrage rebate payment (refund)	-	-	-	-	-	-	-	-	397	397
Interest and dividends received on cash and investments	2,468	94	354	533	3,449	880	5	128	109	1,122
Net cash provided by (used in) investing activities	2,468	94	(3,715)	(13,923)	(15,076)	880	5	(1,474)	(15,366)	(15,955)
Net increase (decrease) in cash and cash equivalents	93,698	15,661	674	(95)	109,938	(42,606)	1,072	(2,149)	(2,218)	(45,901)
Cash and cash equivalents, beginning of year	395,627	1,072	511	1,357	398,567	438,233	-	2,660	3,575	444,468
Cash and cash equivalents, end of year	$ 489,325	$ 16,733	$ 1,185	$ 1,262	$ 508,505	$ 395,627	$ 1,072	$ 511	$ 1,357	$ 398,567

Massachusetts Educational Financing Authority
Supplemental Schedule 1
Statements of Cash Flows, Continued
For the years ended June 30, 2018 and 2017

	2018					2017				
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**	**Trusteed Note Funds**	**College Savings Funds**	**Authority Funds**	**Total**
Operating income (loss)	$ 12,238	$ 3,315	$ 5,604	$ (5,861)	$ 15,296	$ 12,300	$ (176)	$ 5,104	$ (6,670)	$ 10,558
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation expense	-	-	-	1,049	1,049	-	-	-	770	770
Provision for doubtful educational loan notes receivable	5,130	836	-	(1,175)	4,791	6,340	550	-	2,809	9,699
Costs of bond and note issuance	2,827	-	-	(35)	2,792	1,899	-	-	672	2,571
Bond and note interest expense	64,215	1,910	-	-	66,125	65,130	104	-	-	65,234
Changes in assets and liabilities:		-								
Educational loan notes receivable	15,538	(94,354)	-	1,891	(76,925)	(42,238)	(57,073)	-	2,720	(96,591)
Interest receivable on educational loan notes	1,298	(141)	-	(2)	1,155	1,604	(82)	-	-	1,522
Accounts payable and accrued expenses	561	3	(613)	668	619	102	-	(877)	(26)	(801)
Prepaid expenses and other assets	31	-	(602)	(24)	(595)	29	-	98	(222)	(95)
Net cash provided by (used in) operating activities	$ 101,838	$ (88,431)	$ 4,389	$ (3,489)	$ 14,307	$ 45,166	$ (56,677)	$ 4,325	$ 53	$ (7,133)

Massachusetts Educational Financing Authority

Supplemental Schedule 2

Statements of Net Position

June 30, 2018 and 2017

	2018							2017					
Assets	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Issue L 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	$ 3,332	$ 124	$ 83,176	$ 74,211	$ 39,600	$ 1,571	$ 202,014	$ 4,387	$ 11,969	$ 81,891	$ 81,094	$ 10,157	$ 189,498
Education loan notes receivable, net	5,988	345	43,323	32,630	17,589	4,961	104,836	7,704	5,782	53,722	41,978	14,515	123,701
Interest receivable on educational loan notes	449	-	12,520	8,981	5,024	238	27,212	415	274	15,891	7,408	4,522	28,510
Prepaid expenses and other assets	5	10	147	123	67	232	584	-	19	37	18	18	92
Interfund balances	-	-	(95)	(134)	(220)	(201)	(650)	-	(37)	(79)	(307)	(59)	(482)
Total current assets	9,774	479	139,071	115,811	62,060	6,801	333,996	12,506	18,007	151,462	130,191	29,153	341,319
Non-current assets													
Cash and cash equivalents	759	-	8,503	4,928	5,355	267,766	287,311	755	1,976	8,515	7,800	187,083	206,129
Educational loan notes receivable, net	38,603	4,963	505,476	428,125	319,482	40,408	1,337,057	49,500	57,882	604,293	463,022	164,163	1,338,860
Total assets	$ 49,136	$ 5,442	$ 653,050	$ 548,864	$ 386,897	$ 314,975	$ 1,958,364	$ 62,761	$ 77,865	$ 764,270	$ 601,013	$ 380,399	$ 1,886,308
Liabilities													
Current liabilities													
Accounts payable and accrued expenses	$ 254	$ 1	$ 351	$ 298	$ 316	$ 355	$ 1,575	$ 64	$ 25	$ 253	$ 240	$ 433	$ 1,015
Bonds payable - current portion	-	-	63,982	29,887	8,742	-	102,611	-	-	50,815	513	1,393	52,721
Accrued interest payable	282	-	14,122	10,581	7,740	654	33,379	229	2,092	16,357	11,651	4,631	34,960
Total current liabilities	536	1	78,455	40,766	16,798	1,009	137,565	293	2,117	67,425	12,404	6,457	88,696
Non-current liabilities													
Bonds payable - net of current portion	45,862	-	525,862	474,254	333,387	313,966	1,693,331	58,776	65,855	644,450	552,928	342,689	1,664,698
Total liabilities	46,398	1	604,317	515,020	350,185	314,975	1,830,896	59,069	67,972	711,875	565,332	349,146	1,664,698
Deferred inflows of resources													
Net gain on bond refunding	-	-	2,665	-	5,100	-	7,765	-	-	3,685	-	5,558	9,243
Total deferred inflows of resources	-	-	2,665	-	5,100	-	7,765	-	-	3,685	-	5,558	9,243
Total liabilities and deferred inflows of resources	46,398	1	606,982	515,020	355,285	314,975	1,838,661	59,069	67,972	715,560	565,332	354,704	1,762,637
Net position													
Restricted	2,738	-	46,068	33,844	31,612	-	114,262	3,692	9,893	48,710	35,681	25,695	123,671
Unrestricted	-	5,441	-	-	-	-	5,441	-	-	-	-	-	-
Total net position	2,738	5,441	46,068	33,844	31,612	-	119,703	3,692	9,893	48,710	35,681	25,695	123,671
Total liabilities, deferred inflows and net position	$ 49,136	$ 5,442	$ 653,050	$ 548,864	$ 386,897	$ 314,975	$ 1,958,364	$ 62,761	$ 77,865	$ 764,270	$ 601,013	$ 380,399	$ 1,886,308

Massachusetts Educational Financing Authority

Supplemental Schedule 2

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2018 and 2017

	2018							2017					
Operating revenues	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Issue L Total**	**Trusteed Bond Funds**	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Trusteed Bond Funds**
Interest on education loan notes receivable	$ 1,499	$ 4,200	$ 39,463	$ 31,301	$ 17,128	$ 191	$ 93,782	$ 1,349	$ 5,684	$ 45,968	$ 30,075	$ 11,622	$ 94,698
Loan origination fees	-	-	-	1,419	8,086	-	9,505	-	-	19	8,952	-	8,971
Total operating revenues	1,499	4,200	39,463	32,720	25,214	191	103,287	1,349	5,684	45,987	39,027	11,622	103,669
Operating expenses													
Bond and interest expense	1,322	3,645	24,509	19,824	14,260	654	64,214	1,246	4,461	30,070	22,068	7,285	65,130
Costs of bond issuance	-	-	-	-	(26)	2,853	2,827	-	-	26	(9)	1,882	1,899
Provision for doubtful educational loan notes receivable	16	(442)	376	976	3,785	419	5,130	32	530	1,788	3,412	578	6,340
General and administrative	893	767	6,223	7,824	2,367	16	18,090	1,147	1,433	10,902	2,771	1,323	17,576
Other expense	3	1	393	286	55	50	788	3	23	157	163	78	424
Total operating expenses	2,234	3,971	31,501	28,910	20,441	3,992	91,049	2,428	6,447	42,943	28,405	11,146	91,369
Operating (loss) income	(735)	229	7,962	3,810	4,773	(3,801)	12,238	(1,079)	(763)	3,044	10,622	476	12,300
Non-operating (expenses) revenues													
Interest and dividends	45	128	825	713	1,051	232	2,994	17	36	331	433	64	881
Net non-operating (expenses) revenues	45	128	825	713	1,051	232	2,994	17	36	331	433	64	881
Income (loss) income before interfund transfers	(690)	357	8,787	4,523	5,824	(3,569)	15,232	(1,062)	(727)	3,375	11,055	540	13,181
Interfund transfers	(264)	(4,809)	(11,429)	(6,360)	93	3,569	(19,200)	-	(1,071)	(8,657)	(105)	(4,978)	(14,811)
Total (decrease) increase in net position	(954)	(4,452)	(2,642)	(1,837)	5,917	-	(3,968)	(1,062)	(1,798)	(5,282)	10,950	(4,438)	(1,630)
Net position, beginning 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
Net position, end of year	$ 2,738	$ 5,441	$ 46,068	$ 33,844	$ 31,612	$ -	$ 119,703	$ 3,692	$ 9,893	$ 48,710	$ 35,681	$ 25,695	$ 123,671

Massachusetts Educational Financing Authority

Supplemental Schedule 2

Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	2018							2017					
Cash flows from operating activities:	**FRN of 2008**	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Issue L 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	$ -	$ -	$ 41	$ (32,648)	$ (192,310)	$ -	$ (224,917)	$ -	$ -	$ (62,094)	$ (212,033)	$ -	$ (274,127)
Payments received on outstanding loan principal	13,062	12,252	116,797	81,664	42,455	783	267,013	17,284	16,658	110,688	80,785	33,063	258,478
General & administrative payments	(702)	(775)	(6,117)	(7,768)	(2,476)	340	(17,498)	(1,157)	(1,436)	(10,947)	(2,955)	(955)	(17,450)
Interest received on education loans	999	4,399	34,442	25,113	12,335	(48)	77,240	872	5,677	37,364	24,334	10,018	78,265
Net cash provided by (used in) operating activities	13,359	15,876	145,163	66,361	(139,996)	1,075	101,838	16,999	20,899	75,011	(109,869)	42,126	45,166
Cash flows from non-capital financing activities:													
Proceeds from issuance of bonds and notes	-	-	-	-	-	313,966	313,966	-	-	-	-	169,774	169,774
Costs of bond and note issuance	-	-	-	-	26	(2,853)	(2,827)	-	-	(26)	9	(1,882)	(1,899)
Bond and note interest paid	(1,270)	(5,736)	(32,154)	(22,598)	(12,370)	-	(74,128)	(1,233)	(5,036)	(37,099)	(17,530)	(9,478)	(70,376)
Principal payments on bonds and notes payable	(12,915)	(65,855)	(101,030)	(47,595)	(1,190)	-	(228,585)	(16,974)	(18,130)	(93,950)	(17,175)	(25,140)	(171,369)
Net asset transfers	(264)	41,775	(11,414)	(6,533)	253	(42,851)	(19,034)	-	(1,071)	(8,884)	92	(4,919)	(14,782)
Net cash (used in) provided by non-capital financing activities	(14,449)	(29,816)	(144,598)	(76,726)	(13,281)	268,262	(10,608)	(18,207)	(24,237)	(139,959)	(34,604)	128,355	(88,652)
Cash flows from investing activities:													
Interest and dividends received on cash and investments	39	119	708	610	992	-	2,468	17	36	331	432	64	880
Net cash provided by (used in) investing activities	39	119	708	610	992	-	2,468	17	36	331	432	64	880
Net (decrease) increase in cash and cash equivalents	(1,051)	(13,821)	1,273	(9,755)	(152,285)	269,337	93,698	(1,191)	(3,302)	(64,617)	(144,041)	170,545	(42,606)
Cash and cash equivalents, beginning 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
Cash and cash equivalents, end of year	$ 4,091	$ 124	$ 91,679	$ 79,139	$ 44,955	$ 269,337	$ 489,325	$ 5,142	$ 13,945	$ 90,406	$ 88,894	$ 197,240	$ 395,627

Massachusetts Educational Financing Authority
Supplemental Schedule 2
Statements of Cash Flows, Continued
For the years ended June 30, 2018 and 2017

Reconciliation of operating (loss) income to net cash provided by (used in) operating activities:	**2018**							**2017**					
	FRN of 2008	**Issue H of 2008**	**Issue I Total**	**Issue J Total**	**Issue K Total**	**Issue L 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	$ (735)	$ 229	$ 7,962	$ 3,810	$ 4,773	$ (3,801)	$ 12,238	$ (1,079)	$ (763)	$ 3,044	$ 10,622	$ 476	$ 12,300
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:													
Provision for doubtful educational loan notes receivable	16	(442)	376	976	3,785	419	5,130	32	530	1,788	3,412	578	6,340
Costs of bond and note issuance	-	-	-	-	(26)	2,853	2,827	-	-	26	(9)	1,882	1,899
Bond interest expense	1,323	3,645	24,509	19,824	14,260	654	64,215	1,246	4,461	30,070	22,068	7,285	65,130
Changes in assets and liabilities:													
Educational loan notes receivable	12,598	12,177	108,839	43,269	(162,178)	833	15,538	16,889	16,511	41,830	(146,552)	29,084	(42,238)
Interest receivable on educational loan notes	(34)	274	3,371	(1,573)	(502)	(238)	1,298	(81)	162	(1,703)	774	2,452	1,604
Accounts payable and accrued expenses	191	(24)	98	58	(117)	355	561	(8)	(7)	(56)	(196)	369	102
Prepaid expenses and other assets	-	17	8	(3)	9		31	-	5	12	12	-	29
Net cash provided by (used in) operating activities	$ 13,359	$ 15,876	$ 145,163	$ 66,361	$ (139,996)	$ 1,075	$ 101,838	$ 16,999	$ 20,899	$ 75,011	$ (109,869)	$ 42,126	$ 45,166