

Consolidated Financial Statements and Report of
Independent Certified Public Accountants



March 31, 2017 and 2016

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated financial statements	
Consolidated statements of financial position	5
Consolidated statements of activities	6
Consolidated statements of cash flows	7
Notes to consolidated financial statements	8



Report of Independent Certified Public Accountants

Board of Directors
AccessLex Institute

Grant Thornton LLP
Two Commerce Square
2001 Market St., Suite 700
Philadelphia, PA 19103
T 215.561.4200
F 215.561.1066
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

We have audited the accompanying consolidated financial statements of AccessLex Institute and its subsidiaries, which comprise the consolidated statements of financial position as of March 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of AccessLex Institute and its subsidiaries as of March 31, 2017 and 2016 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LP

Philadelphia, Pennsylvania

November 27, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

March 31,

(In thousands)

ASSETS	2017	2016
Cash and cash equivalents	\$ 5,898	\$ 16,156
Investments, at fair value	521,466	387,173
Restricted cash and cash equivalents	158,134	165,059
Student loans receivable, net	3,846,290	4,438,371
Accrued interest receivable	40,085	42,112
Other assets	12,305	8,092
Total assets	\$ 4,584,178	\$ 5,056,963
LIABILITIES AND NET ASSETS		
Asset-backed notes, net	\$ 3,966,743	\$ 4,529,857
Other liabilities	9,778	10,902
Total liabilities	3,976,521	4,540,759
Unrestricted net assets	607,657	516,204
Total liabilities and net assets	\$ 4,584,178	\$ 5,056,963

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended March 31,

(In thousands)

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Interest income	\$ 126,864	\$ 131,160
Interest expense	<u>72,581</u>	<u>64,570</u>
Net interest income	54,283	66,590
Provision for loan losses	<u>5,000</u>	<u>(3,000)</u>
Net interest income after provision for loan losses	59,283	63,590
Other operating income	<u>1,700</u>	<u>1,486</u>
Total operating revenues	<u>60,983</u>	<u>65,076</u>
Operating expenses:		
Program expenses	19,331	20,177
Management and general expenses	<u>7,169</u>	<u>5,601</u>
Total operating expenses	<u>26,500</u>	<u>25,778</u>
Change in net assets from operations	<u>34,483</u>	<u>39,298</u>
Nonoperating revenues (expenses):		
Other interest and dividend income	11,555	6,285
Realized gain on investments, net	811	249
Change in unrealized gain (loss) on investments, net	<u>45,352</u>	<u>(28,350)</u>
Total nonoperating revenues (expenses)	<u>57,718</u>	<u>(21,816)</u>
Nonoperating expenses:		
Investment expenses	<u>748</u>	<u>710</u>
Total nonoperating expenses	<u>748</u>	<u>710</u>
Change in net assets	91,453	16,772
Unrestricted net assets, beginning of year	<u>516,204</u>	<u>499,432</u>
Unrestricted net assets, end of year	<u>\$ 607,657</u>	<u>\$ 516,204</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31,

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 91,453	\$ 16,772
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net amortization of deferred costs and fees	1,375	1,366
Net amortization of note discount	1,187	2,021
Debt accretion	14,925	17,118
Accretion of interest income	(25,466)	(28,222)
Depreciation	491	669
Provision for loan losses	(5,000)	3,000
Net realized and unrealized (gain) loss on investments	(46,163)	28,101
Increase in operating assets:		
Accrued interest receivable	(29,376)	(36,613)
Prepaid expenses and other current assets	(4,858)	(3,943)
(Decrease) increase in operating liabilities	<u>(1,124)</u>	<u>1,118</u>
Net cash (used in) provided by operating activities	<u>(2,556)</u>	<u>1,387</u>
Cash flows from investing activities:		
Student loan principal payments	652,577	663,448
Purchases of property and equipment	(514)	(177)
Reinvested investment dividends	(11,512)	(6,265)
Proceeds from sale of investments	86,081	47,066
Purchases of investments	<u>(162,700)</u>	<u>(23,500)</u>
Net cash provided by investing activities	<u>563,932</u>	<u>680,572</u>
Cash flows from financing activities:		
Deferred financing costs	667	916
Proceeds from the issuance of debt	-	198,039
Repayment of debt principal	(579,226)	(889,253)
Decrease in restricted cash	<u>6,925</u>	<u>6,935</u>
Net cash used in financing activities	<u>(571,634)</u>	<u>(683,363)</u>
Net decrease in cash and cash equivalents	(10,258)	(1,404)
Cash and cash equivalents, beginning of year	<u>16,156</u>	<u>17,560</u>
Cash and cash equivalents, end of year	<u>\$ 5,898</u>	<u>\$ 16,156</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 55,157	\$ 42,237
Supplemental disclosures of noncash investing transactions:		
Capitalized interest income (Note 5)	\$ 31,405	\$ 42,447
Reinvested dividend income	11,512	6,265

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

(1) - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

AccessLex Institute, incorporated in 1993, and its subsidiaries (collectively, the Company), is a Delaware nonstock corporation organized to promote access and affordability to legal and other higher education through financing and related services. The Company is a membership organization, whose members are comprised of state-operated/affiliated/supported and nonprofit American Bar Association-approved law schools located in the United States and Puerto Rico and number 199 as of March 31, 2017. The Company has received an Internal Revenue Service determination that it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and that it is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section 509(a)(2) of the Code.

Effective January 27, 2017, the Company changed the name of the corporation from Access Group, Inc. to AccessLex Institute.

The Company has established a Delaware statutory trust, Access Group Loan Reserve Trust I, as a separate legal entity for the purpose of holding, in trust, funds that are pledged for the payment of loan default claims on certain private student loans.

During fiscal year 2011, the Company established a limited liability corporation, Access Funding 2010-A, LLC (2010-A), for the purpose of holding a pool of private student loan assets that are pledged for the payment of specific student loan asset-backed notes and certificates.

During fiscal year 2013, the Company established a limited liability corporation, Access Funding 2013-1, LLC (2013-1), for the purpose of refinancing the pool of federally-guaranteed student loan assets previously held in Access Funding ABCP-I, LLC. These assets are pledged for the payment of specific student loan asset-backed notes.

During fiscal year 2015, the Company formed AGI Funding Corporation as a separate legal entity for the purpose of supporting the educational and charitable activities of its sole member (AccessLex Institute) by engaging in the following activities: (1) managing and otherwise overseeing certain investment assets of the Company, (2) providing operating funds to the Company, and (3) providing funding to certain other tax-exempt public charities as may be directed by the Company. The Company received notice that AGI Funding Corporation is recognized as a tax-exempt entity under Section 501(c)(3) of the Code as of September 19, 2014. This entity has no assets or liabilities to date.

During fiscal year 2016, the Company established a limited liability corporation, Access Funding 2015-1, LLC (2015-1), for the purpose of refinancing the pool of federally-guaranteed student loan assets previously held in Access Group, Inc.'s Series 2008-1 transaction. These assets are pledged for the payment of specific student loan asset-backed notes.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(1) - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

During fiscal year 2016, the Company formed Milan Acquisition, LLC, a Delaware single-member Limited Liability Corporation (LLC). On December 18, 2015, Milan Acquisition, LLC acquired all of the assets and assumption of certain liabilities of Lawyer Metrics, LLC, an Indiana LLC. Subsequent to closing, Lawyer Metrics, LLC changed its name to LM Legacy, LLC and Milan Acquisition, LLC changed its name to Lawyer Metrics, LLC. Lawyer Metrics, LLC is engaged in the business of offering products and services to the legal industry, including strategic data analysis, applied research and human capital management for law firms. The Company believes this acquisition will enhance the breadth and depth of applied research capabilities at its Center for Research and Policy Analysis and will allow the Company to further assist its members and other stakeholders to better understand and use data to enhance decision making capabilities.

The acquisition was treated as a business combination under purchase accounting, and the associated financial impact is considered immaterial for separate disclosure.

The consolidated financial statements include AccessLex Institute, Access Group Loan Reserve Trust I, 2010-A, 2013-1, 2015-1, AGI Funding Corporation and Lawyer Metrics, LLC.

(b) Basis of Accounting and Principles of Consolidation

The consolidated financial statements of the Company are reported on the accrual basis of accounting. In accordance with Accounting Standards Codification (ASC) 958-810, the Company consolidates all entities for which it has control and an economic interest. All intercompany accounts have been eliminated. Certain amounts reported in the 2016 consolidated financial statements have been reclassified to conform to the 2017 consolidated financial statement presentation.

(c) Basis of Presentation

The Company follows the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred.

Income and expenses related to the Company's investments are classified on the consolidated statements of activities as nonoperating revenues and expenses. Income and expenses from all other business activities are classified as operating revenues and expenses.

Financial reporting standards require that net assets and revenues, expenses, gains and losses be classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors or may otherwise be limited by contractual agreements with outside parties.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(1) - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Temporarily restricted - Net assets whose use is subject to donor-imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that the net assets be maintained permanently by the Company.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations, if any, that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

The Company has no temporarily or permanently donor-imposed restricted net assets.

(d) Income Taxes

The Company is a nonprofit corporation that qualifies as a tax-exempt organization under Section 501(c)(3) of the Code. In addition, the Company has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Company accounts for uncertainties in income taxes based on a threshold of “more-likely-than-not” for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Company has no uncertain tax positions meeting the threshold. The Company remains subject to federal, state and local income tax examinations for the year ended March 31, 2014 to the present.

(e) Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts and cash management accounts. Cash pledged as collateral for notes payable (as described in Note 10) is excluded from cash and cash equivalents and is included in restricted cash and cash equivalents (as described in Note 2) on the consolidated statements of financial position.

(f) Investments

The Company carries investments at fair value. Interest and dividends from investments, as well as realized and unrealized gains and losses, are recorded as nonoperating revenue in the consolidated statements of activities. Investments may include investments in funds managed by others, which from time to time include cash or cash equivalents waiting to be reinvested. For investments in funds, the Company utilizes the investment’s net asset value (NAV) per share as a practical expedient for determining fair value. The Company records investment transactions on their trade date.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(1) - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(g) Student Loans

The Company records student loan receivables that it has the intent and ability to hold for the foreseeable future or until maturity or payoff on its consolidated statement of financial position at outstanding principal adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and any unamortized premiums or discounts. Once a decision has been made to sell loans not previously classified as held-for-sale, such loans are transferred into the held-for-sale classification and carried at the lower of cost, consisting of principal and deferred costs, or fair value. At the time of transfer into the held-for-sale classification, any amount by which cost exceeds fair value is accounted for as a valuation adjustment on the consolidated statements of activities.

Additional information on the carrying value of student loan receivables may be found in Note 4. For additional information related to the Company's accounting policies for loans securitized in the 2010-A securitization, refer to Note 5.

The allowance for loan losses is maintained at a level the Company believes is sufficient to absorb probable credit losses inherent in the student loan portfolio. The allowance is determined based on estimates of the probable future net credit losses, and a provision is charged against earnings to maintain the allowance for loan losses at that level. The Company's net credit losses include the principal amount of loans charged off, plus accrued interest, less current period recoveries. The Company's policy is to charge off delinquent private loans by the end of the month in which the account becomes 180 days contractually past due. The Company records current period recoveries on loans previously charged off in the allowance for loan losses.

(h) Deferred Costs

Deferred costs consist of origination and lender fees paid to the U.S. Department of Education (DOE) on federally guaranteed student loans originated by the Company, premiums paid in the acquisition of student loans, and certain origination expenses incurred to originate student loans. The Company utilizes the interest method to amortize deferred costs as an adjustment to interest expense, taking into account actual loan prepayments. Additionally, the Company has financing expenses incurred in issuing debt, which are deferred and amortized over the life of the applicable debt.

(i) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(1) - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Company also capitalizes costs incurred to develop major new software systems. The estimated useful lives of property and equipment currently in use are as follows:

Furniture	10 years
Office equipment	5 years
Computer hardware and electronic equipment	3 years
Major software systems	5 -7 years
Other computer software	3 years

Expenditures and betterments that enhance property values are capitalized, while maintenance and repairs are expensed when incurred.

(j) Revenue Recognition

Loan fees assessed on private loans are recorded as deferred income and recognized as an adjustment to interest income over the life of the loans. Loan origination fees received for origination activities performed in conjunction with a bank for loans subsequently purchased by the Company are also recorded as deferred income and recognized as an adjustment to interest income over the life of the loans to the extent the Company ultimately takes title to the loans. The Company utilizes the interest method to amortize deferred income, taking into account actual loan prepayments. Registration, service fee and trust administration revenue is recognized when the related services are performed.

(k) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on benefits derived.

(l) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(1) - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(m) Loans Securitized

The Company's securitizations that do not meet the accounting requirements for a sale in accordance with ASC 860-10-40-5 are accounted for as secured borrowings, and the transferred assets are consolidated in the Company's consolidated financial statements. These transactions are referred to as on-balance sheet securitizations. The Company's on-balance sheet securitization transactions are collateralized by certain of its student loans, which are recorded in student loans receivable, and by accrued interest on the student loans and restricted cash and cash equivalents.

(n) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of retained earnings at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(2) - RESTRICTED CASH AND CASH EQUIVALENTS

Pledged funds created from the issuance of notes secured by student loans (as described in Note 10), repayments of student loans by borrowers, and receipts of subsidy payments from the DOE are used for the payment of principal and interest on notes, for the payment of loan fees and administrative costs, and for the purchase and origination of additional loans. In addition, certain funds are held in a Delaware statutory trust (as described in Note 1a) and are pledged for the payment of loan default claims on certain private student loans.

Restricted cash and cash equivalents are invested in high-quality, short-term financial instruments.

Restricted cash and cash equivalents consist of the following at March 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Accounts pledged to financings	\$ 158,027	\$ 164,869
Accounts pledged to pay default claims	<u>107</u>	<u>190</u>
Total	<u>\$ 158,134</u>	<u>\$ 165,059</u>

(3) - INVESTMENTS

Investment balances by category, at fair value, consist of the following at March 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
U.S. Equity Funds	\$ 110,285	\$ 80,128
Fixed Income Funds	58,437	63,009
Global Equity Funds	25,498	15,840
Global Equity Funds, excluding U.S. Equities	115,177	78,190
Hedge Funds	89,600	62,727
Emerging Market Equity Funds	77,761	54,627
Real Asset Funds	<u>44,708</u>	<u>32,652</u>
Total	<u>\$ 521,466</u>	<u>\$ 387,173</u>

(4) - STUDENT LOANS

The Company's loan portfolio includes both Federal Family Education Loan Program (FFELP) loans originated for the Company's own account and private loans which the Company originated for a bank and subsequently purchased under various agreements. The Company suspended loan origination activities as of June 30, 2010. All of the student loans and related accrued interest have been pledged under the related notes payable.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(4) - STUDENT LOANS - Continued

Interest incurred when the borrowers are in school is recorded as interest income and accrued interest receivable. When the borrowers enter repayment, the accrued interest receivable is added to the loan principal, reducing the accrued interest receivable. The allowance for loan losses is described in Note 6.

Net student loans receivable, at carrying value, consist of the following at March 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
FFELP loans	\$ 2,743,919	\$ 3,119,347
Private loans	<u>1,139,378</u>	<u>1,360,943</u>
Student loans receivable, gross	3,883,297	4,480,290
(Less) plus deferred income and costs:		
Deferred origination income	(4,737)	(6,010)
Premiums paid for student loans	3,567	4,781
Deferred loan fees	(12,550)	(16,925)
Deferred origination costs	27,129	32,938
Less allowance for loan losses	<u>(50,416)</u>	<u>(56,703)</u>
Student loans receivable, net	<u>\$ 3,846,290</u>	<u>\$ 4,438,371</u>

(5) - 2010-A ON-BALANCE SHEET SECURITIZATION

On June 7, 2010, the Company completed a securitization collateralized by student loans, which was accounted for as a financing. Because the securitization was not treated as a sale, the related assets were recorded at their carrying amount in student loans receivable as of that date in the amount of \$546.8 million, with associated debt of \$551.2 million.

(a) Loans

The Company applied ASC 310-30, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, to these securitized loans. These loans have no associated allowance for loan losses. The Company estimates the amount and timing of expected principal and interest, and treats the loans as a single pool of assets. Individual accounts are not added to or removed from the pool once established. The Company determined the excess of the loan pool's contractually required payments over cash flows expected at the time of the transaction as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the cash flows expected to be collected over the carrying value of the transferred loans, is accreted into income over the remaining estimated life of the pool (accretable yield).

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(5) - 2010-A ON-BALANCE SHEET SECURITIZATION - Continued

Significant increases in actual or expected future cash flows are recognized prospectively, through an upward adjustment of the accretable yield, over the loan pool's remaining life. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of the loans would be written down to maintain the then-current yield and would be shown as a reduction in interest income in the consolidated statements of activities with a corresponding valuation allowance offsetting student loans receivable, net, on the consolidated statements of financial position.

The following table details information about the loans that are accounted for in accordance with ASC 310-30 at the date of transfer, June 7, 2010 (in thousands):

Contractually required principal and interest at transfer	\$ 1,092,544
Contractual cash flows not expected to be collected (nonaccretable difference)	<u>184,781</u>
Expected cash flows at transfer	907,763
Interest component of expected cash flows (accretable discount)	<u>360,942</u>
Carrying value of transferred loans accounted for under ASC 310-30	<u>\$ 546,821</u>

The following table shows the balances of loans that are accounted for in accordance with ASC 310-30, for the years ended March 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Outstanding principal balance	\$ 350,943	\$ 414,174
Carrying amount	276,285	329,513

The carrying amounts of \$276.3 million and \$329.5 million for the periods ended March 31, 2017 and 2016, respectively, are included within the balance of student loans receivable on the consolidated statements of financial position.

The following table presents changes in the accretable discount on the transferred loans, for which the Company applies ASC 310-30, for the years ended March 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Balance, beginning of the year	\$ 155,052	\$ 183,274
Accretion	<u>(25,466)</u>	<u>(28,222)</u>
Balance, end of the year	<u>\$ 129,586</u>	<u>\$ 155,052</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(5) - 2010-A ON-BALANCE SHEET SECURITIZATION - Continued

(b) Debt

The 2010-A securitization resulted in asset-backed floating rate notes (Class A notes) with a par value of \$463.5 million, which were sold for \$453.0 million, and the membership interest certificates (Class R certificates) with a par value of \$100, which were sold for \$98.2 million, for total proceeds of \$551.2 million.

The Class A notes were recorded at \$453.0 million, reflecting the face value of the notes and a \$10.5 million discount. The Company records interest expense on the Class A notes using the effective interest method.

The Class R certificates represent an interest in the residual cash flows of the securitized assets, are subordinated to the Class A notes, and were initially recorded at \$98.2 million. These Class R certificates do not bear any contractual interest. The amount by which the expected payout of the Class R certificates exceeds the carrying amount is accounted for as an adjustment to yield (interest expense). As the projected cash flows change over the life of the student loans and, therefore, the amount of the expected repayment of the debt changes, the Company will adjust the interest expense recognized in the current period and prospectively, consistent with a change in estimate.

The following table presents changes in the carrying value of the Class R certificates, for the years ended March 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Balance, beginning of the year	\$ 134,889	\$ 153,154
Debt accretion	14,925	17,118
Distributions	<u>(36,541)</u>	<u>(35,383)</u>
Balance, end of the year	<u>\$ 113,273</u>	<u>\$ 134,889</u>

The balances are included in asset-backed notes, as described in Note 10, on the consolidated statements of financial position.

(6) - ALLOWANCE FOR LOAN LOSSES

The methodology for measuring the appropriate level of the allowance consists of several elements. The Company regularly performs a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through the various delinquency stages and ultimately charge off. In determining the allowance for loan losses, past collection experience, delinquency trends, size of the portfolio, economic conditions and other factors are considered. Significant changes in these factors could impact the allowance and provision for loan losses. The evaluation of the allowance for loan losses is inherently subjective as it requires material estimates that may be subject to change. The Company evaluates its allowance for loan losses for the FFELP student loan portfolio, which is federally guaranteed at no less than 97% of principal and interest, and for its private student loan portfolio. The federal guarantee is dependent upon the Company's compliance with specified FFELP requirements.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(6) - ALLOWANCE FOR LOAN LOSSES - Continued

The student loan portfolio is disaggregated to a level of portfolio segment. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. Management has determined that the following student loan portfolios meet the definition of a portfolio segment:

- FFELP student loan portfolio
- Private student loan portfolio

The private loans included in the 2010-A on-balance sheet securitization, as described in Note 5, do not require an allowance for loan losses. Delinquency on the 2010-A balances past due 30+ days was 3.40% and 3.04% as of March 31, 2017 and 2016, respectively.

A summary of changes in the allowance for loan losses for the years ended March 31, 2017 and 2016 follows (in thousands):

	2017		
	FFELP	Private	Consolidated
Balance, beginning of year	\$ 1,190	\$ 55,513	\$ 56,703
Provision for loan losses	-	(5,000)	(5,000)
Charge-offs (includes accrued interest):			
Gross charge-offs	(1,159)	(10,856)	(12,015)
Recoveries	-	10,728	10,728
Net charge-offs	<u>(1,159)</u>	<u>(128)</u>	<u>(1,287)</u>
Balance, end of year	<u>\$ 31</u>	<u>\$ 50,385</u>	<u>\$ 50,416</u>
	2016		
	FFELP	Private	Consolidated
Balance, beginning of year	\$ 2,111	\$ 55,762	\$ 57,873
Provision for loan losses	385	2,615	3,000
Charge-offs (includes accrued interest):			
Gross charge-offs	(1,306)	(14,630)	(15,936)
Recoveries	-	11,766	11,766
Net charge-offs	<u>(1,306)</u>	<u>(2,864)</u>	<u>(4,170)</u>
Balance, end of year	<u>\$ 1,190</u>	<u>\$ 55,513</u>	<u>\$ 56,703</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(6) - ALLOWANCE FOR LOAN LOSSES - Continued

Student Loan Status and Delinquencies

The following tables show outstanding balances of FFELP and Private student loan portfolio segments, including accrued interest, by repayment and delinquency status at March 31, 2017 and 2016 (in thousands):

	FFELP March 31, 2017			FFELP March 31, 2016		
	Outstanding balance	% of repayment loans	% of total	Outstanding balance	% of repayment loans	% of total
In school/grace/ deferment* (a) (b) (c)	\$ 79,293		2.9%	\$ 111,668		3.5%
Forbearance (d)	106,402		3.8	139,149		4.4
Repayment: (e)						
Current	2,438,008	94.0%		2,727,973	93.9%	
Delinquent 30-59 days	50,177	1.9		57,086	2.0	
Delinquent 60-89 days	23,512	0.9		30,276	1.0	
Delinquent 90 days or greater	<u>83,564</u>	<u>3.2</u>		<u>91,419</u>	<u>3.1</u>	
Total in repayment	<u>2,595,261</u>	<u>100.0%</u>	<u>93.3</u>	<u>2,906,754</u>	<u>100.0%</u>	<u>92.1</u>
Total	\$ <u>2,780,956</u>		<u>100.0%</u>	\$ <u>3,157,571</u>		<u>100.0%</u>

* Includes Special Allowance Payments (SAP) and Interest Subsidy Payments (ISP)

- (a) In School - Borrower is currently enrolled in school on at least a half-time basis.
- (b) In Grace - The period between separation from school (whether by graduation or otherwise) and entry into repayment. This period has a duration of six months for FFELP loans.
- (c) Deferment - This category identifies FFELP loans which would otherwise be in repayment but are not due to events associated with the borrower that FFELP servicing guidelines identify as qualifying for a mandatory period of no payments being required.
- (d) Forbearance - These are periods during which no payments are required on loans which would otherwise be in repayment and are granted at the lender's discretion. Reasons for forbearance include medical and dental residency programs, economic hardship (generally for no more than 36 months during the lifetime of the loan), and re-enrollment in school on at least a half-time basis if the period of separation lasted longer than the grace period for the loans.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(6) - ALLOWANCE FOR LOAN LOSSES - Continued

- (e) Repayment - If a required payment is not made by a payment due date, this counter is incremented by one day for each day that has elapsed from the earliest payment due date for which any portion of the required payment remains unpaid (e.g., if a borrower failed to make the required \$100 payment on or before May 1 and then made a \$75 payment on June 6, the loan would remain 36 days delinquent because there is still a \$25 payment amount owed for May 1, along with a \$100 payment due for June 1). At approximately 270 days' delinquent, claims are filed with the applicable guarantee agency for payment of the insured amount and collection activity ceases even though the delinquency counter continues. Once payment is received from the guarantor, the remaining loan balance (which is 3% or less of the claim amount) is written off against the Company's loan loss reserve.

	Private March 31, 2017			Private March 31, 2016		
	Outstanding balance	% of repayment loans	% of total	Outstanding balance	% of repayment loans	% of total
In school and grace (a) (b)	\$ 1,202		0.1%	\$ 2,113		0.2%
Forbearance (c)	10,260		1.2	14,762		1.4
Repayment: (d)						
Current	827,226	96.8%		986,091	96.8%	
Delinquent 30-59 days	13,006	1.5		15,334	1.5	
Delinquent 60-89 days	4,514	0.5		5,225	0.5	
Delinquent 90 days or greater	<u>9,934</u>	<u>1.2</u>		<u>11,793</u>	<u>1.2</u>	
Total in repayment	<u>854,680</u>	<u>100.0%</u>	<u>98.7</u>	<u>1,018,443</u>	<u>100.0%</u>	<u>98.4</u>
Total	<u>\$ 866,142</u>		<u>100.0%</u>	<u>\$ 1,035,318</u>		<u>100.0%</u>

- (a) In School - Borrower is currently enrolled in school on at least a half-time basis.
- (b) In Grace - The period between separation from school (whether by graduation or otherwise) and entry into repayment. This period has a duration of nine months for Private loans.
- (c) Forbearance - These are periods during which no payments are required on loans which would otherwise be in repayment and are granted at the lender's discretion. Reasons for forbearance include medical and dental residency programs, economic hardship (generally for no more than 12 months during the lifetime of the loan), and re-enrollment in school on at least a half-time basis if the period of separation lasted longer than the grace period for the loans.
- (d) Repayment - If a required payment is not made by a payment due date, this counter is incremented by one day for each day that has elapsed from the earliest payment due date for which any portion of the required payment remains unpaid (e.g., if a borrower failed to make the required \$100 payment on or before May 1 and then made a \$75 payment on June 1, the loan would remain 36 days delinquent because there is still a \$25 payment amount owed for May 1, along with a \$100 payment due for June 1).

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(6) - ALLOWANCE FOR LOAN LOSSES - Continued

In fiscal year 2013, the Company adopted ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, that clarifies when a loan restructuring constitutes a Troubled Debt Restructuring (TDR). To assist student loan borrowers who are experiencing temporary financial difficulties and are willing to resume making payments, the Company may modify the terms of loans up to 12 months over the life of the loan. The use of forbearance is contemplated at the origination of an education loan and is included in the credit agreement with the borrower. When in forbearance, the education loan continues to accrue interest. When forbearance ceases, unpaid interest is capitalized and added to principal outstanding, and the borrower's required payments are recalculated at an amount sufficient to pay off the loan, plus the additional accrued and capitalized interest, at the original stated interest rate by the original maturity date. There is no forgiveness of principal or interest in forbearance, nor is there a reduction in the interest rate or extension of the maturity date. In addition, in light of the length of the term of the typical education loan, the Company does not view the temporary reprieve granted to borrowers in forbearance to be significant. For these reasons, the Company has concluded that its education loans in forbearance do not constitute a TDR.

(7) - PROPERTY AND EQUIPMENT

Property and equipment (included in other assets on the consolidated statements of financial position) consists of the following at March 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Computer software	\$ 809	\$ 4,286
Computer hardware and electronic equipment	307	702
Furniture and fixtures	342	530
Leasehold improvements	440	357
Office equipment	<u>3</u>	<u>31</u>
	1,901	5,906
Accumulated depreciation	<u>(905)</u>	<u>(4,933)</u>
Total property and equipment, net	<u>\$ 996</u>	<u>\$ 973</u>

\$4.5 million and \$0.5 million of fully-depreciated fixed assets were disposed during the years ended March 31, 2017 and 2016, respectively.

(8) - EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution pension plan (the Plan) covering all eligible employees. The Plan is funded through individually owned assets, such as annuities and mutual funds. Contributions made to the Plan by the Company are equal to 6% of each participant's regular salary up to applicable statutory limits, with an additional matching contribution of up to 2% of the participant's regular salary. Participants are eligible to receive employer contributions after having completed one year of service. The Company's contribution to the Plan totaled \$0.4 million for each of the years ended March 31, 2017 and 2016. Employees must meet certain eligibility requirements to participate in the Plan. Participants are fully and immediately vested.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(9) - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table details the carrying value and fair value of the Company's financial instruments at March 31, 2017 and 2016 (in thousands):

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	\$ 5,898	\$ 5,898	\$ 16,156	\$ 16,156
Investments	521,466	521,466	387,173	387,173
Restricted cash and cash equivalents	158,134	158,134	165,059	165,059
Student loans receivable, net	3,846,290	4,195,141	4,438,371	4,740,539
Accrued interest receivable	40,085	40,085	42,112	42,112
Financial liabilities:				
Asset-backed notes, net	3,966,743	3,622,711	4,529,857	4,080,859
Accrued interest payable	5,481	5,481	4,835	4,835

The Company uses estimates of fair value in applying various accounting standards for its consolidated financial statements. The estimated fair values have been determined by the Company using available market information and other valuation methodologies as described below.

Cash and cash equivalents, restricted cash, accrued interest receivable and accrued interest payable - Due to the short-term nature of these instruments, carrying value approximates fair value. These are Level 2 valuations.

Investments - If available, fair values of investments are determined using quoted prices in active markets for identical investments (Level 1 valuation). For those investments without a readily determined fair value, the Company utilizes the investment's NAV per share as a practical expedient for determining fair value (a Level 2 or 3 valuation). The Company determines the level of these investments based upon the ability to redeem an investment at NAV at the measurement date (or the "near-term," which the Company determined to be within 90 days of the measurement date). Investments that can be redeemed at NAV within the near-term are determined to be Level 2 valuations, while all others are considered Level 3 valuations. Transfers between levels are deemed to have occurred at the beginning of the year, and transfers out of Level 3 and into Level 2 result from a release of the redemption period to less than 90 days of the measurement date.

Student loans receivable, net - The fair value of the student loans receivable was determined based on an internal evaluation of current market price for similar assets, assumptions for prepayment speed, default rates, cost of funds, and collection rates, and the resulting present value of discounted cash flow. As such, these are Level 3 valuations.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(9) - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Asset-backed notes, net - The fair value of the notes was determined based on current market prices for similarly structured debt and discounted cash flow analyses. As such, these are Level 3 valuations.

The Company determines fair value using valuation techniques that are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose primary values are observable.

Level 3 Instruments whose primary value drivers are unobservable.

The position in the fair value hierarchy for an asset or liability is based on the lowest level input that is significant to the fair value measurement.

Items Measured at Fair Value on a Recurring Basis

The following tables present the Company's financial assets that are measured at fair value on a recurring basis for each of these hierarchy levels at March 31, 2017 and 2016 (in thousands). The Company does not have any financial liabilities that are measured at fair value on a recurring basis.

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Equity Funds	\$ 110,285	\$ -	\$ -	\$ 110,285
Fixed Income Funds	58,437	-	-	58,437
Global Equity Funds	-	25,498	-	25,498
Global Equity Funds, excl. U.S. Equities	47,067	68,108	-	115,175
Hedge Funds	-	12,698	76,903	89,601
Emerging Market Equity Funds	73,244	4,518	-	77,762
Real Asset Funds	<u>18,911</u>	<u>15,236</u>	<u>10,561</u>	<u>44,708</u>
Total investments	<u>307,944</u>	<u>126,058</u>	<u>87,464</u>	<u>521,466</u>
Total assets	<u>\$ 307,944</u>	<u>\$ 126,058</u>	<u>\$ 87,464</u>	<u>\$ 521,466</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(9) - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Equity Funds	\$ 80,128	\$ -	\$ -	\$ 80,128
Fixed Income Funds	63,009	-	-	63,009
Global Equity Funds	-	15,840	-	15,840
Global Equity Funds, excl. U.S. Equities	40,666	37,524	-	78,190
Hedge Funds	-	-	62,727	62,727
Emerging Market Equity Funds	50,352	4,275	-	54,627
Real Asset Funds	<u>19,768</u>	<u>3,000</u>	<u>9,884</u>	<u>32,652</u>
Total investments	<u>253,923</u>	<u>60,639</u>	<u>72,611</u>	<u>387,173</u>
Total assets	<u>\$ 253,923</u>	<u>\$ 60,639</u>	<u>\$ 72,611</u>	<u>\$ 387,173</u>

The following table summarizes the change in the value of the Company's Level 3 investments for the year ended March 31, 2017.

	Hedge Funds	Real Asset Funds	Total
Balance as of March 31, 2016	\$ 62,727	\$ 9,884	\$ 72,611
Net (redemptions)/purchases	8,076	(157)	7,919
Net realized (losses)/gains	(938)	-	(938)
Net unrealized (losses)/gains	<u>7,038</u>	<u>834</u>	<u>7,872</u>
Balance as of March 31, 2017	<u>\$ 76,903</u>	<u>\$ 10,561</u>	<u>\$ 87,464</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(9) - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

As of March 31, 2017, the Company had \$213.5 million of investments determined to be Level 2 or 3 valuations. The fair values of these investments are based upon the investments' NAV. As of March 31, 2017, the fair value of investments valued using NAV was:

	2017		
	Level 2	Level 3	Total
Multi-Strategy Hedge Funds (a)	\$ 12,698	\$ 37,387	\$ 50,085
Equity Long/Short Hedge Funds (b)	-	21,793	21,793
Global Emerging Market and Opportunity Hedge Funds (c)	-	17,723	17,723
Emerging Market Equity Funds (d)	4,518	-	4,518
Global Equity Funds (e)	25,498	-	25,498
Global Equity Funds, excluding U.S. Equities (f)	68,108	-	68,108
Real Asset Funds (g)	-	10,561	10,561
Commodity Funds (h)	<u>15,236</u>	<u>-</u>	<u>15,236</u>
	<u>\$ 126,058</u>	<u>\$ 87,464</u>	<u>\$ 213,522</u>

- (a) The Multi-Strategy Hedge Fund class consists of six hedge funds that utilize multiple strategies to achieve long-term capital appreciation. The redemption and lock-up periods vary by fund and are as follows:
- Fund A (Fair value of \$4.3 million as of March 31, 2017) - This fund is redeemable every 2 years on the investment anniversary, with a 90-day notice. On March 29, 2016, the Fund announced a revised redemption policy. Moving forward, only 86% of future redemptions will be satisfied in cash, while the remaining 14% will be placed into a special purpose vehicle (SPV). The SPV will hold the illiquid portion of the shareholder's redemption for future liquidation at the fund's discretion. The next available redemption date is December 31, 2017.
 - Fund B (\$9.7 million) - This fund's lock-up period has expired. The investment is redeemable annually, with a 60-day notice, and the next available redemption date is December 31, 2017.
 - Fund C (\$6.7 million) - This fund is redeemable every 2 years on the investment anniversary, with a 90-day notice, except for investments deemed not marketable by the fund's investment manager. As of March 31, 2017, approximately \$0.2 million of the investment has been designated as non-marketable. The next available redemption date is August 31, 2017.
 - Fund D (\$6.7 million) - This fund is redeemable quarterly, with a 90-day notice. The maximum quarterly redemption is 25% of the investment balance. The next available redemption date is September 29, 2017.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(9) - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

- Fund E (\$12.7 million) - This fund is redeemable monthly, with a 5-business day notice.
 - Fund F (\$10.0 million) - This fund's lock-up period is 3 years commencing on March 31, 2017, with the next available redemption date of March 31, 2020 that requires at least 90 days advance notice.
- (b) The Equity Long/Short Hedge Fund class consists of four hedge funds that invest in both long and short stocks. The redemption and lock-up periods vary by fund and are as follows:
- Fund G (\$8.4 million) - This fund's lock-up period has expired. The investment is redeemable each calendar quarter, with a 60-day notice. The next available redemption date is June 30, 2017.
 - Fund H (\$7.2 million) - This fund is redeemable every 2 years on the investment anniversary, with a 65-day notice. The next available redemption date is October 31, 2017.
 - Fund I (\$0-) - This fund is redeemable every 3 years on the investment anniversary, with a 60-day notice. This fund was redeemed entirely on March 31, 2017, with funds totaling \$6.5 million received on April 12, 2017. This amount, plus an additional \$0.3 million holdback receivable, are included within the balance of other assets on the consolidated statements of financial position as of March 31, 2017.
 - Fund J (\$6.2 million) - This fund is redeemable each calendar quarter, with a 60-day notice. The next available redemption date is June 30, 2017.
- (c) The Global Emerging Market and Opportunity Hedge Fund class consists of three hedge funds that invests in emerging market funds and corporate credit markets. The redemption periods vary by fund and are as follows:
- Fund K (\$6.5 million) - This fund is redeemable at 50% twice a year on the investment anniversary, with a 90-day notice. The next available redemption date is June 30, 2017.
 - Fund L (\$7.5 million) - This fund is redeemable twice a year, in June and December, with a 60-day notice. The next available redemption date is June 30, 2017.
 - Fund M (\$3.8 million) - This fund has an indefinite lock-up period subject to liquidation periods for the fund's holdings. The fund will provide a 30-day notice of liquidation events for distributions.
- (d) The Emerging Market Equity Fund class consists of one fund that invests in emerging market stocks. The fund is redeemable monthly, with a 30-day notice.
- (e) The Global Equity Fund class consists of one fund that invests in global equities. This investment is redeemable monthly, with a 6-business-day notice.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(9) - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

(f) The Global Equity Fund, excluding U.S. Equities class consists of three funds that invest in equities outside of the United States. The redemption periods vary by fund and are as follows:

- Fund N (\$31.9 million) - This fund is redeemable monthly, with a 10-day notice.
- Fund O (\$11.2 million) - This fund is redeemable monthly, with a 10-day notice.
- Fund P (\$25.0 million) - This fund is redeemable monthly with a 10-day notice.

(g) The Real Asset Fund class consists of one fund that invests in fixed income securities within the United States. This fund's lock-up period has expired. Up to 25% of the investment is redeemable each calendar quarter, with a 60-day notice. Withdrawals in excess of 25% will be distributed in stages over four successive calendar quarters. The next available redemption date is June 30, 2017.

(h) The Commodity Fund class consists of one fund that invests in publicly traded commodity-based companies.

(10) - ASSET-BACKED NOTES

Long-Term Debt Offerings

The Company has issued debt through numerous public and private offerings to obtain permanent financing for the student loans originated or acquired under a credit facility and to purchase student loans originated by the Company on behalf of a bank. The student loan asset-backed notes issued are limited obligations of the Company, payable solely from the trust estates created under the indentures of trust. The following table summarizes, by type of notes, the amounts outstanding and interest rates at March 31, 2017 and 2016 (in thousands):

	Outstanding at March 31, <u>2017</u>	Interest rates at March 31, <u>2017</u>	Outstanding at March 31, <u>2016</u>	Interest rates at March 31, <u>2016</u>
Auction rate notes:				
Interest bearing due 2033 - 2040 (1)	\$ 775,000	1.31% - 2.65%	\$ 789,000	1.32% - 2.05%
Floating rate notes:				
LIBOR & T-Bill based due 2015 - 2059	3,078,470	1.09% - 3.79%	3,605,968	0.67% - 3.37%
Class R certificates:				
Due 2044 (2)	<u>113,273</u>	N/A	<u>134,889</u>	N/A
Total	<u>\$ 3,966,743</u>		<u>\$ 4,529,857</u>	

(1) Auctions failed in February 2008 and continue to fail; interest is based on contractual terms related to applicable LIBOR bill rates.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(10) - ASSET-BACKED NOTES - Continued

- (2) Certificates represent an interest in the residual cash flows of the 2010-A securitized assets and do not bear any contractual interest. Refer to Note 5 for the Company's accounting policy related to these certificates.

At March 31, 2017, the Company had outstanding debt with the following maturities (in thousands):

<u>Fiscal year maturity</u>	<u>Stated maturity*</u>
2018	\$ 180,533
2019	23,872
2020	10,520
2021	8,828
2022	8,216
2023 - 2058	<u>3,730,011</u>
	<u>\$ 3,961,980</u>

- * The stated maturity does not include unamortized bond discount of \$11.3 million and accumulated debt accretion of \$16.0 million.

During fiscal year 2016, the Company deposited \$63 million into the Federal Student Loan Asset-Backed Notes Series 2004-2 collection account to redeem the Class A-2 Notes on their final maturity date.

The pledged funds created from all issues of notes are recorded as restricted cash and cash equivalents on the consolidated statements of financial position. The Company is subject to certain covenants under the indentures, and management believes it is in compliance with these covenants at March 31, 2017. These financings were recorded by the Company as secured borrowings with the pledge of collateral.

The Company issued \$398.8 million in student loan asset-backed notes in March 2013 in order to refinance the then-outstanding Straight A loans. The Issuer of the notes was the newly formed "Access Funding 2013-1 LLC." The Company acted as Sponsor and Administrator for the transaction. The net proceeds were used (1) to refinance student loans in the amount of \$390.0 million and (2) to create pledged funds held by the trustee as Reserve Account Funds of \$1.7 million. The Reserve Account Funds can be used to pay interest on the notes, note fees and administrative allowances. The Company also made a \$5.2 million equity contribution in the form of cash to the LLC in order to increase the overcollateralization of the asset-backed notes.

The Company issued \$203.1 million in student loan asset-backed notes in July 2015 in order to refinance the then-outstanding Access Group, Inc.'s Series 2008-1. The Issuer of the notes was the newly formed "Access Funding 2015-1 LLC." The Company acted as Sponsor and Administrator for the transaction. The net proceeds were used (1) to refinance Access Group, Inc.'s Series 2008-1 and (2) to create pledged funds held by the trustee as Reserve Account Funds of \$3.3 million. The Reserve Account Funds can be used to pay interest on the notes, note fees and administrative allowances. The Company received \$1.4 million net proceeds from the Access Group, Inc.'s Series 2008-1 refinance into 2015-1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(11) - COMMITMENTS AND CONTINGENCIES

Operating Leases

In May 2005, the Company commenced a 10-year noncancelable operating lease for its headquarters in Wilmington, Delaware. During the year ended March 31, 2013, the Company closed the Wilmington location and relocated its headquarters to a leased facility in West Chester, Pennsylvania. The West Chester lease commenced in November 2012 and has a 10½ year term, with one 5-year renewal option.

The Wilmington location was vacated in February 2013, at which time the Company recorded a \$1.9 million reserve in accordance with ASC 420-10, *Exit or Disposal Cost Obligations*, to account for the fair value of the remaining contractual lease payments through May 2015.

In March 2014, the Company re-evaluated the fair value of the vacated lease liability and recorded an additional \$1.1 million reserve.

In September 2014, the Company commenced an 11-year noncancelable operating lease for its Washington, D.C. office.

Future minimum operating lease payments for the West Chester and Washington, D.C. offices as of March 31, 2017 are as follows (in thousands):

Year ended March 31:

2018	\$	772
2019		785
2020		799
2021		813
2022		827
2023 - 2025		<u>2,042</u>
Total	\$	<u>6,038</u>

Total operating lease expense was \$0.8 million and \$0.7 million for the years ended March 31, 2017 and 2016, respectively.

(12) - LITIGATION

From time to time, the Company may be a defendant in legal proceedings arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, activities or liquidity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2017 and 2016

(13) - RELATED PARTIES

The Company has several board members who serve in various capacities at educational institutions where the Company conducted its student lending business and provides other mission-related products and services.

The Company serves as trust administrator for four unconsolidated subsidiary trusts. Effective January 2017, one unconsolidated subsidiary trust was sold and the Company's services as trust administrator for that unconsolidated subsidiary trust ceased. During 2017 and 2016, the Company received \$0.2 million and \$0.3 million, respectively, in administrative fees from these trusts in accordance with the respective trust agreements. These fees are included in other operating income within the consolidated statements of activities.

(14) - SUBSEQUENT EVENTS

The Company evaluated subsequent events through November 27, 2017, the date which the consolidated financial statements were available to be issued. There were no subsequent events that required recognition or disclosure.