

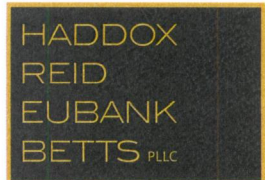
**MISSISSIPPI HIGHER EDUCATION
ASSISTANCE CORPORATION
AND
SUBSIDIARY EDUCATION SERVICES FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2015 AND 2014

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CPAs & Advisors

INDEPENDENT AUDITOR'S REPORT

To the Directors of Mississippi Higher
Education Assistance Corporation and
Subsidiary Education Services Foundation

We have audited the accompanying consolidated financial statements of Mississippi Higher Education Assistance Corporation (a nonprofit organization) and subsidiary Education Services Foundation, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and changes in unrestricted net assets 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on 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 auditor's 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 auditor considers 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

Auditor's Responsibility - continued:

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.

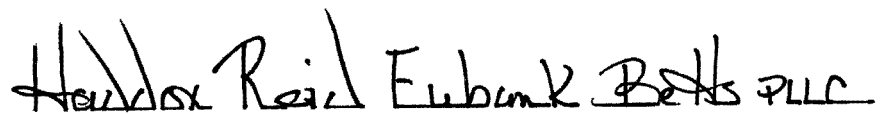
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Higher Education Assistance Corporation and subsidiary Education Services Foundation, as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Jackson, Mississippi
May 27, 2016

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014**

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 16,600,652	21,718,832
Investments	142,110,598	148,304,501
Student loans receivable	319,072,470	368,202,351
Interest and special allowance receivable	3,771,251	5,217,255
Deferred costs of issuance less accumulated amortization	1,985,245	2,418,825
Other assets	<u>116,799</u>	<u>108,881</u>
 Total assets	 \$ <u>483,657,015</u>	 <u>545,970,645</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$ 520,483	923,694
Accrued interest payable	38,139	51,756
Notes payable	<u>311,593,000</u>	<u>365,552,000</u>
 Total liabilities	 312,151,622	 366,527,450
 UNRESTRICTED NET ASSETS	 <u>171,505,393</u>	 <u>179,443,195</u>
 Total liabilities and unrestricted net assets	 \$ <u>483,657,015</u>	 <u>545,970,645</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Interest on student loans	\$ 8,350,644	9,433,142
Interest subsidy	1,469,049	1,774,055
Special allowance	(3,057,956)	(3,545,102)
Late fees	290,399	313,859
Program services revenue	<u>115,651</u>	<u>142,431</u>
Total operating revenues	<u>7,167,787</u>	<u>8,118,385</u>
OPERATING EXPENSES:		
Interest expense	2,979,670	2,851,024
Bond and note fees	69,962	288,425
Amortization of deferred costs of issuance	433,579	231,862
Provision for loan losses	169,574	214,607
Program services expense	3,402,716	3,693,033
Support services expense	<u>1,839,709</u>	<u>2,275,964</u>
Total operating expenses	<u>8,895,210</u>	<u>9,554,915</u>
Net operating expense	<u>(1,727,423)</u>	<u>(1,436,530)</u>
OTHER REVENUE (EXPENSE):		
Loss on investments:		
Interest and dividends	3,531,949	1,187,992
Realized gain (loss) on investments	(2,790,682)	353,190
Unrealized loss on investments	(6,564,447)	(2,280,838)
Investment management fees	<u>(387,199)</u>	<u>(147,787)</u>
Total loss on investments	<u>(6,210,379)</u>	<u>(887,443)</u>
Loss on extinguishment of debt	<u>-</u>	<u>(1,563,618)</u>
Total other expense	<u>(6,210,379)</u>	<u>(2,451,061)</u>
DECREASE IN UNRESTRICTED NET ASSETS	(7,937,802)	(3,887,591)
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>179,443,195</u>	<u>183,330,786</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>171,505,393</u>	<u>179,443,195</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
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**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Interest on student loans	\$ 5,800,698	6,363,945
Interest subsidy	1,511,533	1,857,505
Special allowance	(3,231,691)	(3,590,619)
Late fees	290,399	313,859
Program services revenue	112,357	269,057
Interest expense	(2,993,287)	(3,006,932)
Bond and note fees	(70,192)	(253,827)
Program and support services	(5,503,652)	(6,046,237)
Interest and dividends	155,230	57,476
Investment management fees	<u>(437,448)</u>	<u>(97,537)</u>
Net cash used in operating activities	<u>(4,366,053)</u>	<u>(4,133,310)</u>
Cash flows from investing activities:		
Additions to equipment	(67,329)	(23,109)
Collection of student loan principal	56,838,317	63,601,737
Purchases of student loan principal	(3,837,306)	(4,681,152)
Proceeds from sale of investments	126,296,739	111,343,860
Purchases of investments	<u>(126,023,548)</u>	<u>(258,453,988)</u>
Net cash provided by (used in) investing activities	<u>53,206,873</u>	<u>(88,212,652)</u>
Cash flows from financing activities:		
Proceeds from note issue	-	387,000,000
Payments to redeem bonds and notes	(53,959,000)	(337,037,514)
Payments for cost of issuance	<u>-</u>	<u>(2,610,452)</u>
Net cash provided by (used in) investing activities	<u>(53,959,000)</u>	<u>47,352,034</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
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**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED:
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (5,118,180)	(44,993,928)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>21,718,832</u>	<u>66,712,760</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ <u>16,600,652</u>	<u>21,718,832</u>
RECONCILIATION OF DECREASE IN UNRESTRICTED NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Decrease in unrestricted net assets	\$ <u>(7,937,802)</u>	<u>(3,887,591)</u>
Adjustments to reconcile decrease in unrestricted net assets to net cash used by operating activities:		
Amortization and depreciation	2,010,210	2,152,525
Net realized and unrealized loss on investments	9,355,129	1,927,648
Capitalized interest on student loans	(5,595,336)	(6,481,385)
Dividends reinvested	(3,434,417)	(1,033,022)
Provision for loan losses	212,222	313,974
Loss on extinguishment of debt	-	1,563,618
Decrease in interest and special allowance receivable	1,446,005	1,427,724
Decrease in other assets	12,090	249,626
Decrease in accounts payable	(420,537)	(210,519)
Decrease in accrued interest payable	<u>(13,617)</u>	<u>(155,908)</u>
Total adjustments	<u>3,571,749</u>	<u>(245,719)</u>
Net cash used in operating activities	\$ <u>(4,366,053)</u>	<u>(4,133,310)</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 - ORGANIZATIONS

Mississippi Higher Education Assistance Corporation (“MHEAC”) is a nonprofit corporation organized in 1980 under the laws of the State of Mississippi. MHEAC is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof. MHEAC operates in accordance with the Higher Education Act and was organized for the exclusive purpose of acquiring student loans incurred under the Federal Family Education Loans Program (“FFELP”). As a qualified student loan funding corporation under Section 150(d) of the Internal Revenue Code, MHEAC was eligible to issue tax-exempt bonds to fund its exempt activities. Since its inception, the primary source for funds for MHEAC’s exempt activities was the issuance of tax-exempt bonds and taxable notes.

MHEAC no longer has any outstanding tax-exempt bonds, has ceased operating as a qualified student loan funding corporation, and is no longer eligible to issue tax-exempt bonds under Section 150(d) of the Internal Revenue Code. MHEAC’s student loan portfolio is now financed only by taxable notes. With MHEAC having ceased operating as a qualified student loan funding corporation, MHEAC filed an amendment to its Articles of Incorporation on July 30, 2014. The amendment provides that MHEAC will be operated exclusively for charitable and educational purposes.

Education Services Foundation (“ESF”) is a nonprofit corporation organized in 1995 under the laws of the State of Mississippi. ESF is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof. ESF operates for the purpose of engaging in a variety of activities intended to increase the level of appropriate quality education in the State of Mississippi and elsewhere. These activities include free college planning services and awarding of scholarships. ESF’s primary source of funds is from the provision of management services to MHEAC.

On July 30, 2014, after MHEAC ceased operating as a qualified student loan funding corporation, ESF amended its Articles of Incorporation and its bylaws. The amendment provides that ESF will be operated exclusively for the benefit of, to perform the functions of, and to carry out the purposes of MHEAC. There is now a parent-subsidiary relationship between MHEAC and ESF, with MHEAC serving as the parent, and ESF serving as a subsidiary supporting organization of MHEAC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Because ESF is now a subsidiary supporting organization of MHEAC, generally accepted accounting principles require that the financial statements of MHEAC and ESF be consolidated.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Principles of Consolidation - continued:

Accordingly, the accompanying financial statements present the consolidation of the financial statements of MHEAC and ESF. Material intercompany transactions and balances have been eliminated in the consolidated financial statements.

MHEAC and ESF continue to be operated as separate and distinct organizations. The consolidating financial statements of MHEAC and ESF, and the combining financial statements of MHEAC are presented separately in the accompanying supplemental financial statements.

Basis of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

MHEAC and ESF consider all checking accounts, money market accounts, commercial paper and investment agreements with an original maturity of three months or less to be cash and cash equivalents.

Investments

The overall, long-term investment goal of the MHEAC portfolio is to achieve an annualized return (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending, thus protecting the purchasing power of the assets.

MHEAC carries investments at fair value. Interest and dividends from investments, as well as realized and unrealized gains and losses, are recorded as nonoperating revenues in the consolidated statements of activities and changes in unrestricted net assets. 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, MHEAC utilizes the investment's net asset value per share as a practical expedient for determining fair value.

MHEAC records investment transactions on their trade dates.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Student Loans Receivable

MHEAC 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 statements of financial position at outstanding principal adjusted for charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and any unamortized premiums or discounts. Origination costs and premiums are amortized over sixteen years for consolidated loans and eight years for all other loans, using the effective interest method.

The allowance for loan losses is maintained at a level MHEAC 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. MHEAC's net credit losses include the principal amount of loans charged off less current year recoveries.

Deferred Costs of Issuance

The costs of issuing bonds and notes, which are composed of underwriter's discount, legal costs and other related financing costs, are capitalized and amortized over the expected life of the related debt issue on a weighted average basis.

Notes Payable

Notes payable are reported at their principal amount outstanding.

Advertising

Advertising costs are charged to operations when incurred.

Income Taxes

MHEAC and ESF are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, and are not private foundations within the meaning of Section 509(a) of the Internal Revenue Code. MHEAC and ESF file separate tax returns. MHEAC and ESF believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

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 and changes in unrestricted net assets. Accordingly, certain costs have been allocated among the programs and supporting services based on benefits derived.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Key accounting policies that include significant judgments and estimates include valuation and income recognition related to allowance for loan losses and loan effective interest rate method (student loan premiums).

NOTE 3 - CASH AND INVESTMENTS

Financial instruments which potentially subject MHEAC and ESF to concentrations of credit risk consist principally of cash and investments. Generally, deposits with banks are in excess of the FDIC insurance limit. Management routinely assesses the financial strength of the institutions and, as a consequence, believes that cash and cash equivalents credit risk exposure is limited.

At December 31, 2015 and 2014, cash and cash equivalents and investments consisted of:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents:		
Cash	\$ 368,131	392,144
Money market instruments	16,232,521	14,803,175
60-Day U.S. Bank commercial paper	-	6,523,513
	<u>\$ 16,600,652</u>	<u>21,718,832</u>
Investments	<u>\$ 142,110,598</u>	<u>148,304,501</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 3 - CASH AND INVESTMENTS - CONTINUED:

Included in cash and cash equivalents are restricted cash and cash equivalents of \$12,637,757 and \$14,830,131 as of December 31, 2015 and 2014, respectively. Investments primarily consist of public equity funds, hedge funds, and private equity funds.

NOTE 4 - FAIR VALUE MEASUREMENTS

Authoritative guidance establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that MHEAC has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED:

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2015 and 2014.

Public equity funds: Value based on quoted market prices.

Hedge funds: These funds invest in institutional quality hedge fund managers. Net asset value is calculated based upon valuations received from the underlying hedge funds.

Private equity funds: Net asset value is calculated on a quarterly basis using the value of the underlying investment funds and other fund assets and liabilities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although MHEAC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, MHEAC's assets at fair value as of December 31, 2015 and 2014:

		December 31, 2015			
		(Level 1)	(Level 2)	(Level 3)	Total
Public equity funds	\$	78,821,036	-	-	78,821,036
Hedge funds		-	-	51,286,722	51,286,722
Private equity funds		-	2,989,103	9,013,737	12,002,840
	\$	<u>78,821,036</u>	<u>2,989,103</u>	<u>60,300,459</u>	<u>142,110,598</u>
		December 31, 2014			
		(Level 1)	(Level 2)	(Level 3)	Total
Public equity funds	\$	124,070,844	-	-	124,070,844
Hedge funds		-	-	22,102,834	22,102,834
Private equity funds		-	-	2,130,823	2,130,823
	\$	<u>124,070,844</u>	<u>-</u>	<u>24,233,657</u>	<u>148,304,501</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED:

The following is a reconciliation of MHEAC's investments with significant unobservable inputs (Level 3):

	Hedge Funds	Private Equity Funds	Total
Balance as of December 31, 2013:	\$ -	-	-
Unrealized gains (losses)	227,834	(269,177)	(41,343)
Purchases	<u>21,875,000</u>	<u>2,400,000</u>	<u>24,275,000</u>
Balance as of December 31, 2014:	22,102,834	2,130,823	24,233,657
Unrealized gains (losses)	(1,441,112)	82,914	(1,358,198)
Purchases	<u>30,625,000</u>	<u>6,800,000</u>	<u>37,425,000</u>
Balance as of December 31, 2015:	<u>\$ 51,286,722</u>	<u>9,013,737</u>	<u>60,300,459</u>

NOTE 5 - STUDENT LOANS RECEIVABLE

Student loans include FFELP Stafford loans, Parent Loans for Undergraduate Students ("PLUS") loans, and Consolidation loans. The terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over a period of up to ten years for Stafford and PLUS loans and up to thirty years for Consolidation loans. Stafford loans generally do not require repayment while the borrower is in school and during the grace period immediately upon leaving school. Repayment for PLUS and Consolidation loans generally begins after the final disbursement of the loan. Repayment of FFELP loans may be delayed during periods of deferment or forbearance that are granted based on need. Interest continues to accrue on loans in the in-school, grace, deferment, and forbearance periods. For certain Stafford loans and certain Consolidation loans, the U.S. Department of Education ("DOE") pays the loan interest while the loan is in the in-school, grace, or deferment period. This interest is paid quarterly to MHEAC by DOE and is referred to as interest subsidy. Interest rates on FFELP loans are either a stated fixed rate or a variable rate, depending on when the loan was originated and the loan type. Variable rates are subject to a cap and are reset annually on July 1 of each year.

For loans disbursed prior to April 1, 2006, MHEAC earns interest at the greater of the loan rate or a floating rate based on the special allowance payment ("SAP") formula, with any interest earned at the SAP rate that exceeds the interest earned at the loan rate being paid directly by DOE on a quarterly basis. For loans disbursed on or after April 1, 2006, MHEAC earns interest at the SAP rate, as any interest earned at the loan rate that exceeds the interest earned at the SAP rate is

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5 - STUDENT LOANS RECEIVABLE - CONTINUED:

required to be refunded to DOE on a quarterly basis. For loans first disbursed prior to January 1, 2000, the SAP rate is related to the average of 91-day Treasury bill rates during each quarter. For loans first disbursed on or after January 1, 2000, the SAP rate is related to the average of 1-month LIBOR rates during each quarter. Prior to July 29, 2014, the SAP rate for certain loans that are related to tax-exempt obligations issued before October 1, 1993 is fixed at 9.5%.

MHEAC is required to pay DOE a monthly fee at an annualized rate of 1.05% of the principal amount of, and accrued interest on, its Consolidation loans.

Substantially all of the student loans are pledged to the repayment of bonds and notes. Concentrations of credit risk with respect to student loans are limited due to a large number of borrowers and the guarantee. Student loans are guaranteed by various guarantors, which are reinsured by the Federal government. The guarantors guarantee 98% of principal and accrued interest for loans disbursed prior to July 1, 2006, and 97% for loans disbursed on or after July 1, 2006. As of December 31, 2015 and 2014, approximately 77% and 76%, respectively, of the loans were subject to the 98% guarantee, with the remainder subject to the 97% guarantee.

At December 31, 2015 and 2014, student loans consisted of:

	<u>2015</u>	<u>2014</u>
Student loans receivable	\$ 315,224,700	362,896,846
Unamortized premiums and origination costs	<u>4,198,900</u>	<u>5,710,884</u>
	319,423,600	368,607,730
Provision for loan losses	<u>(351,130)</u>	<u>(405,379)</u>
	<u>\$ 319,072,470</u>	<u>368,202,351</u>

At December 31, 2015 and 2014, approximately 78% and 77%, respectively, of the student loans were Consolidation loans and approximately 79% and 80%, respectively, of the student loans were in repayment. During the years ended December 31, 2015 and 2014, the average annual yield on student loans was approximately 2.06% and 2.00%, respectively.

NOTE 6 - OTHER ASSETS

At December 31, 2015 and 2014, other assets consisted of:

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 6 - OTHER ASSETS - CONTINUED:

	<u>2015</u>	<u>2014</u>
Equipment, furniture and software	\$ 991,080	1,186,486
Accumulated depreciation	<u>(903,188)</u>	<u>(1,098,777)</u>
Net book value	87,892	87,709
Prepaid bond and note fees	19,648	15,208
Miscellaneous	<u>9,259</u>	<u>5,964</u>
	<u>\$ 116,799</u>	<u>108,881</u>

NOTE 7 - NOTES PAYABLE

At December 31, 2015 and 2014, MHEAC notes payable consisted of \$311,593,000 and \$365,552,000, respectively, of 2014 Indenture taxable LIBOR floating rate notes with a stated maturity of October 25, 2035. Interest is paid monthly, and Indenture cash remaining after payment of interest and expenses is used to pay down principal monthly. Interest is reset monthly at 1-month LIBOR plus .68%. The interest rate at December 31, 2015 and 2014 was 1.10% and .85%, respectively.

The 2014 Indenture taxable LIBOR floating rate notes were issued on July 19, 2014 to refinance MHEAC's student loan portfolio and to retire all of MHEAC's outstanding auction rate security bonds and notes. During the years ended December 31, 2015 and 2014, the average annual expense rate for bonds and notes was approximately 1.03% and 1.01%, respectively.

NOTE 8 - SUPPLEMENTAL INFORMATION ON NONCASH OPERATING, INVESTING, AND FINANCING ACTIVITIES

MHEAC has capitalized certain amounts of accrued interest income on student loans and included the amounts in student loans receivable. For the years ended December 31, 2015 and 2014, capitalized interest was approximately \$5,595,000 and \$6,481,000, respectively.

During the year ended December 31, 2014, MHEAC forgave approximately \$4,619,000 of student loan principal and accrued interest to settle a liability for excess interest earnings on student loans financed with proceeds of certain tax-exempt bond issues.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 9 - RETIREMENT PLAN

ESF has a 403(b) deferred compensation plan that covers substantially all employees. Participating employees may contribute up to the maximum dollar amount permitted by law. ESF's board of directors annually determines the amount of an employee's contributions that ESF will match. For 2015 and 2014, the match for the first 6% of an employee's eligible compensation contributed by the employee is 100% and 200%, respectively. For 2015 and 2014, ESF's match was \$93,175 and \$239,564, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

ESF leases office space from third parties under certain operating lease agreements with expiration dates through 2018. Rent expense under these agreements was \$259,577 and \$249,432 for the years ended December 31, 2015 and 2014, respectively. The minimum future payments for the office space leases required for the succeeding years are \$251,928 for 2016, \$229,104 for 2017, and \$171,518 for 2018.

Periodically, MHEAC commits to making additional investments from its general fund. At December 31, 2015, MHEAC's unfunded commitments from the general fund were approximately \$31,000,000.

In December 2014, MHEAC's third party servicer notified MHEAC that certain student loan accounts serviced for MHEAC and other parties had not been properly updated for all loan activity, and as a result certain account balances may have been stated inaccurately. The servicer has retained an independent outside auditor to assist in the account adjustments and the updates of any required credit or tax reporting. On June 4, 2015, the servicer submitted a remediation plan to the Consumer Financial Protection Bureau and the U.S. Department of Education for their approval. Management does not believe the resolution of this matter will have a material adverse effect on MHEAC.

In the normal course of business, MHEAC and ESF are subject to consumer credit disputes and potential litigation. Management is not aware of any consumer credit disputes or potential litigation which it believes is likely to have a material adverse effect on MHEAC and ESF.

NOTE 11 - LOSS ON EXTINGUISHMENT OF DEBT

During the year ended December 31, 2014, MHEAC used available cash to retire bonds and notes, resulting in a loss net of expenses of \$1,563,618.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

MHEAC and ESF's financial instruments principally consist of cash and cash equivalents, investments, student loans receivable and notes payable. Cash and cash equivalents reflected in the financial statements approximates fair value because of the short-term maturity of these instruments. Long-term debt approximates fair value based on interest rates that are believed to be available to MHEAC for instruments with similar provisions provided for in the existing agreements. It is not practical to estimate the fair value of the student loans receivable because there is no quoted market price for these instruments and they are reported at unamortized cost. The methods for valuing investments are described in Note 4.

NOTE 13 - SUBSEQUENT EVENTS

MHEAC and ESF have evaluated subsequent events through May 27, 2016, the date the consolidated financial statements were approved by MHEAC's and ESF's management and thereby available to be issued, and determined that there are no subsequent events of a material nature requiring adjustment to or disclosure in the accompanying consolidated financial statements.

SUPPLEMENTARY INFORMATION

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION (ESF)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 14,058,613	2,542,039	-	16,600,652
Investments	142,110,598	-	-	142,110,598
Student loans receivable	319,112,049	-	(39,579)	319,072,470
Interest and special allowance receivable	3,771,251	-	-	3,771,251
Deferred costs of issuance less accumulated amortization	1,985,245	-	-	1,985,245
Other assets	<u>19,648</u>	<u>399,811</u>	<u>(302,660)</u>	<u>116,799</u>
Total assets	\$ <u>481,057,404</u>	<u>2,941,850</u>	<u>(342,239)</u>	<u>483,657,015</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 622,662	200,481	(302,660)	520,483
Accrued interest payable	38,139	-	-	38,139
Notes payable	<u>311,593,000</u>	<u>-</u>	<u>-</u>	<u>311,593,000</u>
Total liabilities	<u>312,253,801</u>	<u>200,481</u>	<u>(302,660)</u>	<u>312,151,622</u>
UNRESTRICTED NET ASSETS:				
Note fund	15,554,789	-	(39,579)	15,515,210
General fund	<u>153,248,814</u>	<u>2,741,369</u>	<u>-</u>	<u>155,990,183</u>
Total unrestricted net assets	<u>168,803,603</u>	<u>2,741,369</u>	<u>(39,579)</u>	<u>171,505,393</u>
Total liabilities and unrestricted net assets	\$ <u>481,057,404</u>	<u>2,941,850</u>	<u>(342,239)</u>	<u>483,657,015</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION (ESF)**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES:				
Interest on student loans	\$ 8,255,543	-	95,101	8,350,644
Interest subsidy	1,469,049	-	-	1,469,049
Special allowance	(3,057,956)	-	-	(3,057,956)
Late fees	290,399	-	-	290,399
Program services revenue	-	3,747,485	(3,631,834)	115,651
Total operating revenues	<u>6,957,035</u>	<u>3,747,485</u>	<u>(3,536,733)</u>	<u>7,167,787</u>
OPERATING EXPENSES:				
Interest expense	2,979,670	-	-	2,979,670
Note fees	69,962	-	-	69,962
Amortization of deferred costs of issuance	433,579	-	-	433,579
Provision for loan losses	169,574	-	-	169,574
Program services expense	1,415,660	3,267,948	(1,280,892)	3,402,716
Support services expense	3,212,566	978,085	(2,350,942)	1,839,709
Total operating expenses	<u>8,281,011</u>	<u>4,246,033</u>	<u>(3,631,834)</u>	<u>8,895,210</u>
Net operating expense	<u>(1,323,976)</u>	<u>(498,548)</u>	<u>95,101</u>	<u>(1,727,423)</u>
OTHER REVENUE (EXPENSE):				
Income (loss) on investments:				
Interest and dividends	3,528,240	3,709	-	3,531,949
Realized loss on investments	(2,790,682)	-	-	(2,790,682)
Unrealized loss on investments	(6,564,447)	-	-	(6,564,447)
Investment management fees	(387,199)	-	-	(387,199)
Total income (loss) on investments	<u>(6,214,088)</u>	<u>3,709</u>	<u>-</u>	<u>(6,210,379)</u>
Total other revenue (expense)	<u>(6,214,088)</u>	<u>3,709</u>	<u>-</u>	<u>(6,210,379)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(7,538,064)	(494,839)	95,101	(7,937,802)
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>176,341,667</u>	<u>3,236,208</u>	<u>(134,680)</u>	<u>179,443,195</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>168,803,603</u>	<u>2,741,369</u>	<u>(39,579)</u>	<u>171,505,393</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION (ESF)**

**CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:				
Cash flows from operating activities:				
Interest on student loans	\$ 5,800,698	-	-	5,800,698
Interest subsidy	1,511,533	-	-	1,511,533
Special allowance	(3,231,691)	-	-	(3,231,691)
Late fees	290,399	-	-	290,399
Program services revenue	-	3,761,518	(3,649,161)	112,357
Interest expense	(2,993,287)	-	-	(2,993,287)
Note fees	(70,192)	-	-	(70,192)
Program and support services	(4,646,836)	(4,505,977)	3,649,161	(5,503,652)
Interest and dividends	151,521	3,709	-	155,230
Investment management fees	(437,448)	-	-	(437,448)
	<u>(3,625,303)</u>	<u>(740,750)</u>	<u>-</u>	<u>(4,366,053)</u>
Net cash used in operating activities				
Cash flows from investing activities:				
Additions to equipment	-	(67,329)	-	(67,329)
Collection of student loan principal	56,838,317	-	-	56,838,317
Purchases of student loan principal	(3,837,306)	-	-	(3,837,306)
Proceeds from sale of investments	126,296,739	-	-	126,296,739
Purchases of investments	(126,023,548)	-	-	(126,023,548)
	<u>53,274,202</u>	<u>(67,329)</u>	<u>-</u>	<u>53,206,873</u>
Net cash provided by (used in) investing activities				
Cash flows from financing activities:				
Payments to redeem notes	(53,959,000)	-	-	(53,959,000)
	<u>(53,959,000)</u>	<u>-</u>	<u>-</u>	<u>(53,959,000)</u>
Net cash used in financing activities				
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,310,101)	(808,079)	-	(5,118,180)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>18,368,714</u>	<u>3,350,118</u>	<u>-</u>	<u>21,718,832</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 14,058,613</u>	<u>2,542,039</u>	<u>-</u>	<u>16,600,652</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION (ESF)
CONSOLIDATING STATEMENT OF CASH FLOWS - CONTINUED:
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
RECONCILIATION OF DECREASE IN UNRESTRICTED NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:				
Decrease in unrestricted net assets	\$ (7,538,064)	(494,839)	95,101	(7,937,802)
Adjustments to reconcile decrease in unrestricted net assets to net cash used in operating activities:				
Amortization and depreciation	2,040,664	64,647	(95,101)	2,010,210
Net realized and unrealized loss on investments	9,355,129	-	-	9,355,129
Capitalized interest on student loans	(5,595,336)	-	-	(5,595,336)
Dividends reinvested	(3,434,417)	-	-	(3,434,417)
Provision for loan losses	212,222	-	-	212,222
Decrease in interest and special allowance receivable	1,446,005	-	-	1,446,005
(Increase) decrease in other assets	(4,440)	16,530	-	12,090
Decrease in accounts payable	(93,449)	(327,088)	-	(420,537)
Decrease in accrued interest payable	(13,617)	-	-	(13,617)
Total adjustments	<u>3,912,761</u>	<u>(245,911)</u>	<u>(95,101)</u>	<u>3,571,749</u>
Net cash used in operating activities	\$ <u>(3,625,303)</u>	<u>(740,750)</u>	<u>-</u>	<u>(4,366,053)</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

**COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

	<u>2014</u>	<u>General</u>		
	<u>Indenture</u>	<u>Fund</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 12,637,757	1,420,856	-	14,058,613
Investments	-	152,110,598	(10,000,000)	142,110,598
Student loans receivable	319,112,049	-	-	319,112,049
Interest and special allowance receivable	3,725,388	47,443	(1,580)	3,771,251
Deferred costs of issuance less accumulated amortization	1,985,245	-	-	1,985,245
Other assets	<u>15,208</u>	<u>4,440</u>	-	<u>19,648</u>
Total assets	\$ <u>337,475,647</u>	<u>153,583,337</u>	<u>(10,001,580)</u>	<u>481,057,404</u>
 <u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 288,139	334,523	-	622,662
Accrued interest payable	39,719	-	(1,580)	38,139
Notes payable	<u>321,593,000</u>	<u>-</u>	<u>(10,000,000)</u>	<u>311,593,000</u>
Total liabilities	321,920,858	334,523	(10,001,580)	312,253,801
UNRESTRICTED NET ASSETS	<u>15,554,789</u>	<u>153,248,814</u>	<u>-</u>	<u>168,803,603</u>
Total liabilities and unrestricted net assets	\$ <u>337,475,647</u>	<u>153,583,337</u>	<u>(10,001,580)</u>	<u>481,057,404</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

**COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>2014</u>	<u>General</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Indenture</u>	<u>Fund</u>		
OPERATING REVENUES:				
Interest on student loans	\$ 8,255,031	512	-	8,255,543
Interest subsidy	1,469,049	-	-	1,469,049
Special allowance	(3,057,956)	-	-	(3,057,956)
Late fees	290,399	-	-	290,399
Total operating revenues	<u>6,956,523</u>	<u>512</u>	<u>-</u>	<u>6,957,035</u>
OPERATING EXPENSES:				
Interest expense	3,100,280	-	(120,610)	2,979,670
Note fees	69,962	-	-	69,962
Amortization of deferred costs of issuance	433,579	-	-	433,579
Provision for loan losses	169,574	-	-	169,574
Program and support services	2,352,651	2,275,575	-	4,628,226
Total operating expenses	<u>6,126,046</u>	<u>2,275,575</u>	<u>(120,610)</u>	<u>8,281,011</u>
Net operating revenue (expense)	<u>830,477</u>	<u>(2,275,063)</u>	<u>120,610</u>	<u>(1,323,976)</u>
OTHER REVENUE (EXPENSE):				
Income (loss) on investments:				
Interest and dividends	\$ 6,949	3,641,901	(120,610)	3,528,240
Realized loss on investments	-	(2,790,682)	-	(2,790,682)
Unrealized loss on investments	-	(6,564,447)	-	(6,564,447)
Investment management fees	-	(387,199)	-	(387,199)
Total income (loss) on investments	<u>6,949</u>	<u>(6,100,427)</u>	<u>(120,610)</u>	<u>(6,214,088)</u>
Total other revenue (expense)	<u>6,949</u>	<u>(6,100,427)</u>	<u>(120,610)</u>	<u>(6,214,088)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	837,426	(8,375,490)	-	(7,538,064)
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>14,763,613</u>	<u>161,578,054</u>	<u>-</u>	<u>176,341,667</u>
TRANSFERS IN (OUT)	<u>(46,250)</u>	<u>46,250</u>	<u>-</u>	<u>-</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>15,554,789</u>	<u>153,248,814</u>	<u>-</u>	<u>168,803,603</u>