

**MISSISSIPPI HIGHER EDUCATION
ASSISTANCE CORPORATION
AND
SUBSIDIARY WOODWARD HINES
EDUCATION FOUNDATION,
FORMERLY EDUCATION SERVICES FOUNDATION**

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

DECEMBER 31, 2016 AND 2015

CONTENTS

<u>DESCRIPTION</u>	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Unrestricted Net Assets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	7
SUPPLEMENTARY INFORMATION:	
Mississippi Higher Education Assistance Corporation and Woodward Hines Education Foundation:	
Consolidating Statement of Financial Position	18
Consolidating Statement of Activities and Changes in Unrestricted Net Assets	19
Consolidating Statement of Cash Flows	20
Mississippi Higher Education Assistance Corporation:	
Statement of Financial Position	22
Statement of Activities and Changes in Unrestricted Net Assets	23

INDEPENDENT AUDITOR'S REPORT

To the Directors of Mississippi Higher
Education Assistance Corporation and
Subsidiary Woodward Hines Education
Foundation, formerly Education Services
Foundation

We have audited the accompanying consolidated financial statements of Mississippi Higher Education Assistance Corporation (a nonprofit organization) and subsidiary Woodward Hines Education Foundation, formerly Education Services Foundation, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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

Auditor's Responsibility - continued:

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 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 Woodward Hines Education Foundation, as of December 31, 2016 and 2015, 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.

Handwritten signature: Harold Reid Eubank Bank PLLC

Jackson, Mississippi
June 20, 2017

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

<u>ASSETS</u>		
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 8,032,979	16,600,652
Investments	147,679,412	142,110,598
Student loans receivable	280,125,146	319,072,470
Interest and special allowance receivable	2,974,375	3,771,251
Other assets	<u>80,101</u>	<u>116,799</u>
 Total assets	 \$ <u>438,892,013</u>	 <u>481,671,770</u>
 <u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 513,168	520,483
Accrued interest payable	52,461	38,139
Notes payable	<u>261,409,896</u>	<u>309,607,755</u>
 Total liabilities	 261,975,525	 310,166,377
 UNRESTRICTED NET ASSETS	 <u>176,916,488</u>	 <u>171,505,393</u>
 Total liabilities and unrestricted net assets	 \$ <u>438,892,013</u>	 <u>481,671,770</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Interest on student loans	\$ 7,647,305	8,350,644
Interest subsidy	1,196,111	1,469,049
Special allowance	(2,222,968)	(3,057,956)
Late fees	175,948	290,399
Program services revenue	130,183	115,651
Total operating revenues	<u>6,926,579</u>	<u>7,167,787</u>
OPERATING EXPENSES:		
Interest expense	3,746,140	3,413,249
Note fees	67,326	69,962
Provision for loan losses	70,229	169,574
Program services expense	3,329,064	3,402,716
Support services expense	1,339,575	1,839,709
Total operating expenses	<u>8,552,334</u>	<u>8,895,210</u>
Net operating expense	<u>(1,625,755)</u>	<u>(1,727,423)</u>
OTHER REVENUE (EXPENSE):		
Gain (loss) on investments:		
Interest and dividends	2,028,410	3,531,949
Realized loss on investments	(4,044,900)	(2,790,682)
Unrealized gain (loss) on investments	9,491,547	(6,564,447)
Investment management fees	(438,207)	(387,199)
Total gain (loss) on investments	<u>7,036,850</u>	<u>(6,210,379)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	5,411,095	(7,937,802)
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>171,505,393</u>	<u>179,443,195</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>176,916,488</u>	<u>171,505,393</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Interest on student loans	\$ 4,524,007	5,800,698
Interest subsidy	1,194,150	1,511,533
Special allowance	(2,443,288)	(3,231,691)
Late fees	175,948	290,399
Program services revenue	121,531	112,357
Interest expense	(3,350,677)	(2,993,287)
Note fees	(67,525)	(70,192)
Program and support services	(4,594,122)	(5,503,652)
Interest and dividends	281,918	155,230
Investment management fees	<u>(438,207)</u>	<u>(437,448)</u>
Net cash used in operating activities	<u>(4,596,265)</u>	<u>(4,366,053)</u>
Cash flows from investing activities:		
Additions to equipment	(12,242)	(67,329)
Collection of student loan principal	47,592,033	56,838,317
Purchases of student loan principal	(4,596,416)	(3,837,306)
Proceeds from sale of investments	61,050,987	126,296,739
Purchases of investments	<u>(59,426,770)</u>	<u>(126,023,548)</u>
Net cash provided by investing activities	<u>44,607,592</u>	<u>53,206,873</u>
Cash flows from financing activities:		
Payments to redeem notes	<u>(48,579,000)</u>	<u>(53,959,000)</u>
Net cash used in financing activities	<u>(48,579,000)</u>	<u>(53,959,000)</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED:
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (8,567,673)	(5,118,180)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>16,600,652</u>	<u>21,718,832</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ <u>8,032,979</u>	<u>16,600,652</u>
RECONCILIATION OF INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Increase (decrease) in unrestricted net assets	\$ <u>5,411,095</u>	<u>(7,937,802)</u>
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:		
Amortization and depreciation	1,657,922	2,010,210
Net realized and unrealized (gain) loss on investments	(5,446,647)	9,355,129
Capitalized interest on student loans	(5,391,180)	(5,595,336)
Dividends reinvested	(1,746,384)	(3,434,417)
Provision for loan losses	108,395	212,222
Decrease in interest and special allowance receivable	796,876	1,446,005
Decrease in other assets	31,772	12,090
Decrease in accounts payable	(32,436)	(420,537)
Increase (decrease) in accrued interest payable	<u>14,322</u>	<u>(13,617)</u>
Total adjustments	<u>(10,007,360)</u>	<u>3,571,749</u>
Net cash used in operating activities	\$ <u>(4,596,265)</u>	<u>(4,366,053)</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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 exclusively for charitable and educational purposes.

Woodward Hines Education Foundation (“WHEF”), formerly Education Services Foundation, is a nonprofit corporation organized in 1995 under the laws of the State of Mississippi. WHEF is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof. WHEF is a subsidiary supporting organization of MHEAC and operates exclusively for the benefit of, to perform the functions of, and to carry out the purposes of MHEAC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Because WHEF is a subsidiary supporting organization of MHEAC, generally accepted accounting principles require that the financial statements of MHEAC and WHEF be consolidated. Accordingly, the accompanying financial statements present the consolidation of the financial statements of MHEAC and WHEF. Material intercompany transactions and balances have been eliminated in the consolidated 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 WHEF 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.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

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.

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.

Notes Payable

Notes payable are reported at their principal amount outstanding net of unamortized debt issuance costs. The costs of issuing 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.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Advertising

Advertising costs are charged to operations when incurred.

Income Taxes

MHEAC and WHEF 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 WHEF file separate tax returns. MHEAC and WHEF 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.

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).

Reclassifications

Certain amounts in the 2015 consolidated financial statements have been restated to conform to the classification adopted in 2016.

NOTE 3 - CASH AND INVESTMENTS

Financial instruments which potentially subject MHEAC and WHEF to concentrations of credit risk consist principally of cash and investments. Generally, deposits with banks are in

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 - CASH AND INVESTMENTS - CONTINUED:

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, 2016 and 2015, cash and cash equivalents and investments consisted of:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Cash	\$ 497,036	368,131
Money market instruments	<u>7,535,943</u>	<u>16,232,521</u>
	<u>\$ 8,032,979</u>	<u>16,600,652</u>
Investments	<u>\$ 147,679,412</u>	<u>142,110,598</u>

Included in cash and cash equivalents are restricted cash and cash equivalents of \$4,987,847 and \$12,637,757 as of December 31, 2016 and 2015, 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;

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED:

- 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.

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2016 and 2015.

Public equity funds: Value based on quoted market prices.

Hedge funds: These funds invest with 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. Certain investments that are measured at fair value using net asset value per share or its equivalent as a practical expedient to estimated fair value have not been classified in the fair value hierarchy.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED:

The following table sets forth by level, within the fair value hierarchy, MHEAC's assets at fair value as of December 31, 2016 and 2015:

		December 31, 2016			
		(Level 1)	(Level 2)	(Level 3)	Total
Public equity funds	\$	<u>68,452,344</u>	<u>-</u>	<u>-</u>	68,452,344
Alternative investments vehicles at net asset value					<u>79,227,068</u>
				\$	<u>147,679,412</u>
		December 31, 2015			
		(Level 1)	(Level 2)	(Level 3)	Total
Public equity funds	\$	<u>78,821,036</u>	<u>-</u>	<u>-</u>	78,821,036
Alternative investments vehicles at net asset value					<u>63,289,562</u>
				\$	<u>142,110,598</u>

In 2016, MHEAC retrospectively adopted the requirements of ASU No. 2015-07, *Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2015-07 removes the requirement to include investments in the fair value hierarchy for which the fair value is measured at net asset value (NAV) using the practical expedient under "Fair Value Measurements and Disclosures (Topic 820)." ASU No. 2015-07 is required to be applied retrospectively to all periods presented beginning in the year of adoption. Since ASU No. 2015-07 only impacts MHEAC's disclosures, adoption did not affect MHEAC's financial condition, results of operations, or cash flows.

MHEAC uses the net asset value (NAV) to determine the fair value of all investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments which use net asset value to determine fair value by major category:

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED:

Fund	Category of Investment	Investment Strategy	Fair Value determined using NAV at December 31, 2016	Unfunded commitments (approximate)	Remaining life	Redemption frequency	Redemption notice
FEG Absolute Access Fund I LLC	Hedge Funds	Fund of Funds-Portfolio Funds	37,785,207	N/A	N/A	Semi-Annually	90 Days
FEG Directional Access Fund LLC	Hedge Funds	Fund of Funds-Portfolio Funds	14,724,844	N/A	N/A	Semi-Annually	90 Days
FEG Private Opportunities Fund II, L.P.	Private Equity Funds	Private Capital	18,763,757	22,000,000	10	N/A	N/A
Harvest MLP Income Fund II LLC	Hedge Funds	Long-Only Public Equity	7,953,260	N/A	N/A	Monthly	30 Days

Fund	Category of Investment	Investment Strategy	Fair Value determined using NAV at December 31, 2015	Unfunded commitments (approximate)	Remaining life	Redemption frequency	Redemption notice
FEG Absolute Access Fund I LLC	Hedge Funds	Fund of Funds-Portfolio Funds	36,516,630	N/A	N/A	Semi-Annually	90 Days
FEG Equity Access Fund Ltd.	Hedge Funds	Fund of Funds-Portfolio Funds	14,770,092	N/A	N/A	Semi-Annually	90 Days
FEG Private Opportunities Fund II, L.P.	Private Equity Funds	Private Capital	9,013,737	30,800,000	11	N/A	N/A
Harvest MLP Income Fund II LLC	Hedge Funds	Long-Only Public Equity	2,989,103	N/A	N/A	Monthly	30 Days

NOTE 5 - STUDENT LOANS RECEIVABLE

Student loans under the Federal Family Education Loans Program (“FFELP”) include 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 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.

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.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 - STUDENT LOANS RECEIVABLE - CONTINUED:

All of the student loans are pledged to the repayment of 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, 2016 and 2015, approximately 77% and 77%, respectively, of the loans were subject to the 98% guarantee, with the remainder subject to the 97% guarantee.

At December 31, 2016 and 2015, student loans consisted of:

	<u>2016</u>	<u>2015</u>
Student loans receivable	\$ 277,469,265	315,224,700
Unamortized premiums and origination costs	<u>2,964,408</u>	<u>4,198,900</u>
	280,433,673	319,423,600
Provision for loan losses	<u>(308,527)</u>	<u>(351,130)</u>
	<u>\$ 280,125,146</u>	<u>319,072,470</u>

At December 31, 2016 and 2015, approximately 79% and 78%, respectively, of the student loans were Consolidation loans and approximately 82% and 79%, respectively, of the student loans were in repayment. During the years ended December 31, 2016 and 2015, the average annual yield on student loans was approximately 2.27% and 2.06%, respectively.

NOTE 6 - OTHER ASSETS

At December 31, 2016 and 2015, other assets consisted of:

	<u>2016</u>	<u>2015</u>
Equipment, furniture and software	\$ 980,322	991,080
Accumulated depreciation	<u>(922,506)</u>	<u>(903,188)</u>
Net book value	57,816	87,892
Prepaid note fees	4,375	19,648
Miscellaneous	<u>17,910</u>	<u>9,259</u>
	<u>\$ 80,101</u>	<u>116,799</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 7 - NOTES PAYABLE

In 2016, MHEAC retrospectively adopted the requirements of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Notes payable as of December 31, 2015 was previously reported on the consolidated statements of financial position as \$311,593,000 with the associated \$1,985,245 unamortized debt issuance costs included in other assets. Amortization of the debt issuance costs is reported as interest expense in the consolidated statements of activities and changes in unrestricted net assets.

At December 31, 2016 and 2015, MHEAC notes payable consisted of \$261,409,896 and \$309,607,755, respectively, of 2014 Indenture taxable LIBOR floating rate notes with a stated maturity of October 25, 2035. The notes payable are reported net of unamortized debt issuance costs as follows:

	<u>2016</u>	<u>2015</u>
Notes payable principal amount	\$ 263,014,000	311,593,000
Less unamortized debt issuance costs	<u>1,604,104</u>	<u>1,985,245</u>
Notes payable, net of unamortized debt issuance costs	<u>\$ 261,409,896</u>	<u>309,607,755</u>

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, 2016 and 2015 was 1.44% and 1.10%, respectively. During the years ended December 31, 2016 and 2015, the average annual expense rate for notes was approximately 1.34% and 1.03%, 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, 2016 and 2015, capitalized interest was approximately \$5,391,000 and \$5,595,000, respectively.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 - RETIREMENT PLAN

WHEF 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. WHEF's board of directors annually determines the amount of an employee's contributions that WHEF will match. For 2016 and 2015, the match for the first 6% of an employee's eligible compensation contributed by the employee is 100%. For 2016 and 2015, WHEF's match was \$103,130 and \$93,175, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

WHEF leases office space from third parties under certain operating lease agreements with expiration dates through 2018. Rent expense under these agreements was \$263,849 and \$259,577 for the years ended December 31, 2016 and 2015, respectively. The minimum future payments for the office space leases required for the succeeding years are \$229,104 for 2017 and \$171,518 for 2018.

Periodically, MHEAC commits to making additional investments. At December 31, 2016 and 2015, MHEAC's unfunded commitments were approximately \$47,000,000 and \$31,000,000, respectively.

In December 2014, Conduent Education Services, LLC, formerly known as ACS Education Loan Services, LLC, ("Conduent") 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. Conduent has retained an independent outside auditor to assist in the account adjustments and the updates of any required credit or tax reporting in accordance with a remediation plan approved by the Consumer Financial Protection Bureau ("CFPB") and the DOE. Management does not believe the resolution of this matter will have a material adverse effect on MHEAC.

During 2015 MHEAC began the process of moving the servicing of its student loan portfolio from Conduent to Navient Solutions, LLC. This process was substantially complete as of March 31, 2017.

On January 18, 2017, the CFPB and Attorneys General for the State of Illinois and the State of Washington initiated civil actions naming Navient Corporation and several of its subsidiaries as defendants alleging violations of Federal and State consumer protection statutes, including the Consumer Financial Protection Act of 2010, the Fair Credit Reporting Act, the Fair Debt

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 10 - COMMITMENTS AND CONTINGENCIES - CONTINUED:

Collection Practices Act and various State consumer protection laws. Navient in its 2016 financial statements indicated it is unable to anticipate the timing of a resolution or the ultimate impact that these legal proceedings may have on Navient's consolidated financial statements. 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 WHEF 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 WHEF.

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

MHEAC and WHEF'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 12 - SUBSEQUENT EVENTS

MHEAC and WHEF have evaluated subsequent events through June 20, 2017, the date the consolidated financial statements were approved by MHEAC's and WHEF'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 WOODWARD HINES EDUCATION FOUNDATION (WHEF)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016**

	<u>MHEAC</u>	<u>WHEF</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 6,285,955	1,747,024	-	8,032,979
Investments	147,679,412	-	-	147,679,412
Student loans receivable	280,132,605	-	(7,459)	280,125,146
Interest and special allowance receivable	2,974,375	-	-	2,974,375
Other assets	<u>4,375</u>	<u>353,263</u>	<u>(277,537)</u>	<u>80,101</u>
Total assets	\$ <u>437,076,722</u>	<u>2,100,287</u>	<u>(284,996)</u>	<u>438,892,013</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 546,225	244,480	(277,537)	513,168
Accrued interest payable	52,461	-	-	52,461
Notes payable	<u>261,409,896</u>	<u>-</u>	<u>-</u>	<u>261,409,896</u>
Total liabilities	<u>262,008,582</u>	<u>244,480</u>	<u>(277,537)</u>	<u>261,975,525</u>
UNRESTRICTED NET ASSETS:				
Note fund	16,332,506	-	(7,459)	16,325,047
General fund	<u>158,735,634</u>	<u>1,855,807</u>	<u>-</u>	<u>160,591,441</u>
Total unrestricted net assets	<u>175,068,140</u>	<u>1,855,807</u>	<u>(7,459)</u>	<u>176,916,488</u>
Total liabilities and unrestricted net assets	\$ <u>437,076,722</u>	<u>2,100,287</u>	<u>(284,996)</u>	<u>438,892,013</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION (WHEF)**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>MHEAC</u>	<u>WHEF</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES:				
Interest on student loans	\$ 7,615,185	-	32,120	7,647,305
Interest subsidy	1,196,111	-	-	1,196,111
Special allowance	(2,222,968)	-	-	(2,222,968)
Late fees	175,948	-	-	175,948
Program services revenue	-	3,557,640	(3,427,457)	130,183
Total operating revenues	<u>6,764,276</u>	<u>3,557,640</u>	<u>(3,395,337)</u>	<u>6,926,579</u>
OPERATING EXPENSES:				
Interest expense	3,746,140	-	-	3,746,140
Note fees	67,326	-	-	67,326
Provision for loan losses	70,229	-	-	70,229
Program services expense	1,090,405	3,175,409	(936,750)	3,329,064
Support services expense	3,034,834	795,448	(2,490,707)	1,339,575
Total operating expenses	<u>8,008,934</u>	<u>3,970,857</u>	<u>(3,427,457)</u>	<u>8,552,334</u>
Net operating expense	<u>(1,244,658)</u>	<u>(413,217)</u>	<u>32,120</u>	<u>(1,625,755)</u>
OTHER REVENUE (EXPENSE):				
Gain (loss) on investments:				
Interest and dividends	2,025,755	2,655	-	2,028,410
Realized loss on investments	(4,044,900)	-	-	(4,044,900)
Unrealized gain on investments	9,491,547	-	-	9,491,547
Investment management fees	(438,207)	-	-	(438,207)
Total gain on investments	<u>7,034,195</u>	<u>2,655</u>	<u>-</u>	<u>7,036,850</u>
Donations	475,000	(475,000)	-	-
Total other revenue (expense)	<u>7,509,195</u>	<u>(472,345)</u>	<u>-</u>	<u>7,036,850</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	6,264,537	(885,562)	32,120	5,411,095
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>168,803,603</u>	<u>2,741,369</u>	<u>(39,579)</u>	<u>171,505,393</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>175,068,140</u>	<u>1,855,807</u>	<u>(7,459)</u>	<u>176,916,488</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION (WHEF)**

**CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>MHEAC</u>	<u>WHEF</u>	<u>Eliminations</u>	<u>Total</u>
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:				
Cash flows from operating activities:				
Interest on student loans	\$ 4,524,007	-	-	4,524,007
Interest subsidy	1,194,150	-	-	1,194,150
Special allowance	(2,443,288)	-	-	(2,443,288)
Late fees	175,948	-	-	175,948
Program services revenue	-	3,574,111	(3,452,580)	121,531
Interest expense	(3,350,677)	-	-	(3,350,677)
Note fees	(67,525)	-	-	(67,525)
Program and support services	(4,162,163)	(3,884,539)	3,452,580	(4,594,122)
Interest and dividends	279,263	2,655	-	281,918
Investment management fees	(438,207)	-	-	(438,207)
Donations	<u>475,000</u>	<u>(475,000)</u>	<u>-</u>	<u>-</u>
Net cash used in operating activities	<u>(3,813,492)</u>	<u>(782,773)</u>	<u>-</u>	<u>(4,596,265)</u>
Cash flows from investing activities:				
Additions to equipment	-	(12,242)	-	(12,242)
Collection of student loan principal	47,592,033	-	-	47,592,033
Purchases of student loan principal	(4,596,416)	-	-	(4,596,416)
Proceeds from sale of investments	61,050,987	-	-	61,050,987
Purchases of investments	<u>(59,426,770)</u>	<u>-</u>	<u>-</u>	<u>(59,426,770)</u>
Net cash provided by (used in) investing activities	<u>44,619,834</u>	<u>(12,242)</u>	<u>-</u>	<u>44,607,592</u>
Cash flows from financing activities:				
Payments to redeem notes	<u>(48,579,000)</u>	<u>-</u>	<u>-</u>	<u>(48,579,000)</u>
Net cash used in financing activities	<u>(48,579,000)</u>	<u>-</u>	<u>-</u>	<u>(48,579,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,772,658)	(795,015)	-	(8,567,673)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>14,058,613</u>	<u>2,542,039</u>	<u>-</u>	<u>16,600,652</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ <u>6,285,955</u>	<u>1,747,024</u>	<u>-</u>	<u>8,032,979</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION (WHEF)**

**CONSOLIDATING STATEMENT OF CASH FLOWS - CONTINUED:
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>MHEAC</u>	<u>WHEF</u>	<u>Eliminations</u>	<u>Total</u>
RECONCILIATION OF INCREASE (DECREASE)				
IN UNRESTRICTED NET ASSETS TO NET				
CASH USED IN OPERATING				
ACTIVITIES:				
Increase (decrease) in unrestricted net assets	\$ <u>6,264,537</u>	<u>(885,562)</u>	<u>32,120</u>	<u>5,411,095</u>
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:				
Amortization and depreciation	1,647,752	42,290	(32,120)	1,657,922
Net realized and unrealized gain on investments	(5,446,647)	-	-	(5,446,647)
Capitalized interest on student loans	(5,391,180)	-	-	(5,391,180)
Dividends reinvested	(1,746,384)	-	-	(1,746,384)
Provision for loan losses	108,395	-	-	108,395
Decrease in interest and special allowance receivable	796,876	-	-	796,876
Decrease in other assets	15,273	16,499	-	31,772
Increase (decrease) in accounts payable	(76,436)	44,000	-	(32,436)
Increase in accrued interest payable	<u>14,322</u>	<u>-</u>	<u>-</u>	<u>14,322</u>
Total adjustments	<u>(10,078,029)</u>	<u>102,789</u>	<u>(32,120)</u>	<u>(10,007,360)</u>
Net cash used in operating activities	\$ <u>(3,813,492)</u>	<u>(782,773)</u>	<u>-</u>	<u>(4,596,265)</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016**

	<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	\$ 4,987,847	1,298,108	-	6,285,955
Investments	-	157,679,412	(10,000,000)	147,679,412
Student loans receivable	280,132,605	-	-	280,132,605
Interest and special allowance receivable	2,928,711	48,103	(2,439)	2,974,375
Other assets	4,375	-	-	4,375
Total assets	\$ <u>288,053,538</u>	<u>159,025,623</u>	<u>(10,002,439)</u>	<u>437,076,722</u>
 <u>LIABILITIES AND</u>				
<u>UNRESTRICTED NET ASSETS</u>				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 256,236	289,989	-	546,225
Accrued interest payable	54,900	-	(2,439)	52,461
Notes payable	<u>271,409,896</u>	<u>-</u>	<u>(10,000,000)</u>	<u>261,409,896</u>
Total liabilities	271,721,032	289,989	(10,002,439)	262,008,582
UNRESTRICTED NET ASSETS	<u>16,332,506</u>	<u>158,735,634</u>	<u>-</u>	<u>175,068,140</u>
Total liabilities and unrestricted net assets	\$ <u>288,053,538</u>	<u>159,025,623</u>	<u>(10,002,439)</u>	<u>437,076,722</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

**STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2014</u>	<u>General</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Indenture</u>	<u>Fund</u>		
OPERATING REVENUES:				
Interest on student loans	\$ 7,613,257	1,928	-	7,615,185
Interest subsidy	1,196,111	-	-	1,196,111
Special allowance	(2,222,968)	-	-	(2,222,968)
Late fees	<u>175,948</u>	-	-	<u>175,948</u>
Total operating revenues	<u>6,762,348</u>	<u>1,928</u>	-	<u>6,764,276</u>
OPERATING EXPENSES:				
Interest expense	3,896,736	-	(150,596)	3,746,140
Note fees	67,326	-	-	67,326
Provision for loan losses	70,229	-	-	70,229
Program and support services	<u>1,885,676</u>	<u>2,239,563</u>	-	<u>4,125,239</u>
Total operating expenses	<u>5,919,967</u>	<u>2,239,563</u>	<u>(150,596)</u>	<u>8,008,934</u>
Net operating revenue (expense)	<u>842,381</u>	<u>(2,237,635)</u>	<u>150,596</u>	<u>(1,244,658)</u>
OTHER REVENUE (EXPENSE):				
Gain (loss) on investments:				
Interest and dividends	7,836	2,168,515	(150,596)	2,025,755
Realized loss on investments	-	(4,044,900)	-	(4,044,900)
Unrealized gain on investments	-	9,491,547	-	9,491,547
Investment management fees	-	<u>(438,207)</u>	-	<u>(438,207)</u>
Total gain on investments	7,836	7,176,955	(150,596)	7,034,195
Donations	-	<u>475,000</u>	-	<u>475,000</u>
Total other revenue (expense)	<u>7,836</u>	<u>7,651,955</u>	<u>(150,596)</u>	<u>7,509,195</u>
INCREASE IN UNRESTRICTED NET ASSETS	850,217	5,414,320	-	6,264,537
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>15,554,789</u>	<u>153,248,814</u>	-	<u>168,803,603</u>
TRANSFERS IN (OUT)	<u>(72,500)</u>	<u>72,500</u>	-	-
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>16,332,506</u>	<u>158,735,634</u>	-	<u>175,068,140</u>