

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

**COMBINED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

DECEMBER 31, 2009 AND 2008

CONTENTS

<u>DESCRIPTION</u>	<u>PAGE</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS:	
Combined Statements of Financial Position	2
Combined Statements of Activities and Changes in Unrestricted Net Assets	3
Combined Statements of Cash Flows	4
Notes to Combined Financial Statements	6
SUPPLEMENTAL INFORMATION:	
Independent Auditor's Report on Additional Information	16
Mississippi Higher Education Assistance Corporation and Education Services Foundation:	
Combining Statement of Financial Position	17
Combining Statement of Activities and Changes in Unrestricted Net Assets	18
Combining Statement of Cash Flows	19
Mississippi Higher Education Assistance Corporation:	
Combining Statement of Financial Position	21
Combining Statement of Activities and Changes in Unrestricted Net Assets	22
Education Services Foundation:	
Combining Statement of Financial Position	23
Combining Statement of Activities and Changes in Unrestricted Net Assets	24

HADDOX REID BURKES & CALHOUN PLLC
Certified Public Accountants

1100 REGIONS PLAZA
P.O. DRAWER 22507
JACKSON, MISSISSIPPI 39225-2507

TELEPHONE 601/948-2924
FACSIMILE 601/960-9154
WWW.HRBCCPA.COM

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying combined statements of financial position of Mississippi Higher Education Assistance Corporation and Education Services Foundation as of December 31, 2009 and 2008, and the related combined statements of activities and changes in unrestricted net assets and combined cash flows for the years then ended. These combined financial statements are the responsibility of the management of Mississippi Higher Education Assistance Corporation and the management of Education Services Foundation. Our responsibility is to express an opinion on these combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Higher Education Assistance Corporation and Education Services Foundation as of December 31, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Haddox Reid Burkes & Calhoun PLLC

May 28, 2010

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008**

ASSETS

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 195,075,017	320,369,218
Investments	69,524,659	116,585,225
Student loans receivable	1,161,953,824	1,231,774,733
Interest and special allowance receivable	17,799,998	26,655,288
Deferred costs of issuance less accumulated amortization	6,346,583	7,632,875
Other assets	<u>1,167,138</u>	<u>1,375,245</u>
 Total assets	 \$ <u>1,451,867,219</u>	 <u>1,704,392,584</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$ 2,802,587	2,386,317
Accrued interest payable	1,884,654	12,696,033
Excess interest and rebate payable	12,558,000	19,249,000
Line of credit payable	14,500,000	37,500,000
DOE loan participation payable	56,729,767	-
Bonds and notes payable	<u>1,235,800,000</u>	<u>1,524,800,000</u>
 Total liabilities	 1,324,275,008	 1,596,631,350
 UNRESTRICTED NET ASSETS	 <u>127,592,211</u>	 <u>107,761,234</u>
 Total liabilities and unrestricted net assets	 \$ <u>1,451,867,219</u>	 <u>1,704,392,584</u>

The accompanying notes are an integral part of these statements.

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

**COMBINED STATEMENTS OF ACTIVITIES
AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
INTEREST INCOME:		
Interest on student loans	\$ 27,516,862	30,920,495
Interest subsidy	11,252,045	9,950,307
Special allowance	(13,682,962)	10,498,199
Late fees	<u>264,461</u>	<u>307,724</u>
Student loans	25,350,406	51,676,725
Interest on investments	<u>2,726,324</u>	<u>14,180,269</u>
Total interest income	<u>28,076,730</u>	<u>65,856,994</u>
INTEREST COST:		
Interest expense	21,344,065	68,513,714
Bond and note fees	847,231	1,414,221
Amortization of deferred costs of issuance	<u>443,322</u>	<u>501,354</u>
Total interest cost	<u>22,634,618</u>	<u>70,429,289</u>
Net interest revenue (expense)	5,442,112	(4,572,295)
PROVISION FOR LOAN LOSSES	<u>325,616</u>	<u>507,682</u>
Net interest revenue (expense) after provision for loan losses	<u>5,116,496</u>	<u>(5,079,977)</u>
OTHER REVENUE (EXPENSE):		
Gross profit from sale of student loans	1,539,101	-
Other revenue	695,255	532,191
Program services	(6,553,815)	(7,005,516)
Support services	<u>(2,306,552)</u>	<u>(2,448,570)</u>
Total other revenue (expense)	<u>(6,626,011)</u>	<u>(8,921,895)</u>
DECREASE IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT	(1,509,515)	(14,001,872)
GAINS ON EXTINGUISHMENT OF DEBT	<u>21,340,492</u>	<u>1,000,562</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	19,830,977	(13,001,310)
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>107,761,234</u>	<u>120,762,544</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	<u>\$ 127,592,211</u>	<u>107,761,234</u>

The accompanying notes are an integral part of these statements.

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

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Interest on student loans	\$ 14,295,466	20,312,124
Interest subsidy	10,808,584	9,834,345
Special allowance	(7,357,286)	16,758,208
Late fees	264,461	307,724
Interest on investments	4,571,690	16,520,942
Other program services revenue	695,544	509,101
Interest expense	(32,155,443)	(71,041,989)
Program and support services	(8,014,609)	(8,989,775)
Bond and note fees	<u>(794,345)</u>	<u>(1,227,940)</u>
Net cash used by operating activities	<u>(17,685,938)</u>	<u>(17,017,260)</u>
Cash flows from investing activities:		
Additions to equipment	(66,911)	(179,462)
Collection of student loan principal	106,109,266	96,365,024
Proceeds from sale of student loans	248,290,640	-
Purchases/origination of student loan principal	(268,207,749)	(107,998,655)
Purchases of student loan accrued interest	(2,622,513)	(716,645)
Investments matured/redeemed	47,060,566	81,696,000
Loan premiums and origination costs	<u>(5,601,724)</u>	<u>(3,511,457)</u>
Net cash provided by investing activities	<u>124,961,575</u>	<u>65,654,805</u>
Cash flows from financing activities:		
Reduction of excess and rebate interest liability	641,953	(4,172,976)
Payment of rebate interest	(125,019)	(868,594)
Proceeds from line of credit	64,200,000	40,850,000
Payments on line of credit	(87,200,000)	(39,975,000)
Proceeds from DOE loan participation	302,661,888	-
Payments on DOE loan participation	(245,932,121)	-
Payments to redeem bonds and notes	(266,743,890)	(102,571,815)
Payments for costs of issuance	<u>(72,649)</u>	<u>(4,159)</u>
Net cash used by financing activities	<u>(232,569,838)</u>	<u>(106,742,544)</u>

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

**COMBINED STATEMENTS OF CASH FLOWS - CONTINUED:
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (125,294,201)	(58,104,999)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>320,369,218</u>	<u>378,474,217</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ <u>195,075,017</u>	<u>320,369,218</u>
 RECONCILIATION OF INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Increase (decrease) in unrestricted net assets	\$ <u>19,830,977</u>	<u>(13,001,310)</u>
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used by operating activities:		
Amortization and depreciation	7,559,946	7,817,046
Capitalized interest on student loans	(18,391,562)	(17,884,481)
Provision for loan losses	325,616	507,682
Gains on extinguishment of debt	(21,340,492)	(1,000,562)
Gross profit from sale of student loans	(1,539,101)	-
Decrease in interest and special allowance receivable	5,931,252	8,673,707
Decrease in other assets	460,055	185,249
Increase in accounts payable	288,750	213,684
Decrease in accrued interest payable	<u>(10,811,379)</u>	<u>(2,528,275)</u>
Total adjustments	<u>(37,516,915)</u>	<u>(4,015,950)</u>
Net cash used by operating activities	\$ <u>(17,685,938)</u>	<u>(17,017,260)</u>

The accompanying notes are an integral part of these statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 - ORGANIZATION

Mississippi Higher Education Assistance Corporation ("MHEAC") is a nonprofit corporation organized on January 23, 1980, under the laws of the State of Mississippi, and operates in accordance with the Higher Education Act for the exclusive purpose of acquiring student loans incurred under the Federal Family Education Loan Program ("FFELP"). MHEAC's primary source of funds for this purpose has been the issuance of both tax-exempt and taxable revenue bonds. Beginning in 2009, MHEAC's primary source of funds for the purpose of acquiring student loans is the U.S. Department of Education ("DOE") Loan Participation Program. MHEAC is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof.

Education Services Foundation ("ESF") is a nonprofit corporation organized on March 24, 1995, under the laws of the State of Mississippi 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, awarding of scholarships, and origination of FFELP student loans. ESF's primary sources of funds are from the provision of management and student loan services to MHEAC, sales of the loans that it originates and the provision of loan origination services to financial institutions. ESF is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof.

Prior to 2008, MHEAC utilized a membership-based structure. MHEAC's membership-based structure brought together on a nonprofit basis representatives of those organizations most interested in providing financial assistance for students to obtain post-secondary education. One of the functions of MHEAC's members was to elect the MHEAC board of directors. During 2008, new regulations issued by the DOE precluded school and school-related employees from serving on the board of directors or as members of MHEAC. Accordingly, during 2008 MHEAC's membership-based structure was replaced with a non-member structure, and MHEAC's one school-related board member resigned, resulting in the boards of directors of MHEAC and ESF being identical. ESF has always utilized a non-member structure.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

Because the boards of MHEAC and ESF became identical during 2008, and because MHEAC has a management contract with ESF whereby ESF manages MHEAC's daily operations, generally accepted accounting principles ("GAAP") require that the financial statements of MHEAC and ESF be combined. Accordingly, the accompanying financial statements present the combination

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONTINUED:

Principles of Combination - continued:

of the financial statements of MHEAC and ESF. Material intercompany transactions and balances have been eliminated in the financial statements.

MHEAC and ESF continue to be operated as separate and distinct organizations. There has been no merger or other type of business combination. Any combination of MHEAC and ESF in these financial statements and the accompanying notes is strictly for GAAP reporting purposes only. The financial statements of MHEAC and ESF are presented separately in the accompanying supplemental financial statements.

Cash and Cash Equivalents

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

Investments

Investments are reported at their cost or amortized cost, which management believes approximates the fair value based upon the monthly resetting of interest rates.

Student Loans Receivable

Student loans are reported at their unpaid principal balances, net of expected loan losses, plus unamortized costs related to loan originations and premiums related to loan purchases. Origination costs and premiums are amortized over sixteen years for consolidation loans and eight years for all other loans using the effective interest method. There are no quoted prices in active markets for student loans and as a result, a reasonable estimate of fair value was not deemed practical and could not be made without incurring excessive costs.

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.

Line of Credit Payable

The line of credit payable is reported at the principal amount outstanding, which management believes approximates the fair value based upon the monthly resetting of the interest rate.

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND EDUCATION SERVICES FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

DOE Loan Participation Payable

The DOE loan participation payable is reported at the principal amount outstanding, which management believes approximates the fair value based upon the quarterly resetting of the interest rate.

Bonds and Notes Payable

Bonds and notes payable are reported at their principal amount outstanding. Substantially all bonds and notes are auction rate securities. Since mid-February 2008, the normal functioning of the auction market has been disrupted. As a result, a reasonable estimate of fair value was not deemed practical and could not be made without incurring excessive costs.

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.

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes (ASC 740-10). MHEAC and ESF adopted this new guidance for the year ended December 31, 2009. Management evaluated MHEAC's and ESF's tax positions and concluded that MHEAC and ESF had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. MHEAC and ESF are no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2006.

Prior to the adoption of ASC 740-10, MHEAC and ESF evaluated its uncertain tax positions under the provisions of FASB Statement 5, *Accounting for Contingencies* (ASC 450), whereby loss contingencies were recognized in the financial statements when it was probable that a liability had been incurred as of the date of the financial statements and the amount of the loss could be reasonably estimated.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the 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, loan effective interest rate method (student loan premiums), excess interest and rebate.

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 investment credit risk exposure is limited.

At December 31, 2009 and 2008, cash and cash equivalents and investments consisted of:

	<u>2009</u>	<u>2008</u>	
Cash and cash equivalents:			
Cash	\$ 9,884,629	543,202	
Money market instruments	<u>185,190,388</u>	<u>319,826,016</u>	
	<u>\$ 195,075,017</u>	<u>320,369,218</u>	
	<u>Maturity</u>		
Investments:			
Societe Generale	9/1/35 - 3/1/37	\$ 5,362,000	6,230,000
Westdeutsche Landesbank	8/1/29 - 9/1/33	18,915,500	20,300,000
Bayerische Landesbank	9/1/09 - 9/1/16	29,605,492	82,303,225
FSA Capital Management Services	9/1/14 - 12/1/21	6,396,000	7,752,000
Certificates of Deposit	4/28/10-8/31/10	<u>9,245,667</u>	<u>-</u>
		<u>\$ 69,524,659</u>	<u>116,585,225</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 3 - CASH AND INVESTMENTS - CONTINUED:

Investments consist of repurchase agreements and FDIC-insured certificates of deposit. Substantially all cash and investments are restricted for the acquisition of student loans, repayment of bond and note obligations and to satisfy certain reserve requirements specified by the various bond indentures.

NOTE 4 - 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, DOE pays the loan interest while the loan is in the in-school, grace, or deferment period. This interest is paid quarterly to MHEAC and ESF 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 and ESF earn 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 and ESF earn 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. The SAP rate is related to the average of 91-day Treasury bill rates or 3-month commercial paper rates during each quarter. 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 4 - STUDENT LOANS RECEIVABLE - CONTINUED:

Substantially all of the student loans are pledged to the repayment of bonds and notes, the line of credit, or borrowings from DOE. 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, 2009 and 2008, approximately 70% and 73%, respectively, of the loans were subject to the 98% guarantee, with the remainder subject to the 97% guarantee.

At December 31, 2009 and 2008, student loans consisted of:

	<u>2009</u>	<u>2008</u>
Student loans receivable	\$ 1,132,875,902	1,195,757,425
Unamortized premiums and origination costs	<u>30,422,478</u>	<u>37,460,667</u>
	1,163,298,380	1,233,218,092
Provision for loan losses	<u>(1,344,556)</u>	<u>(1,443,359)</u>
	<u>\$ 1,161,953,824</u>	<u>1,231,774,733</u>

At December 31, 2009 and 2008, approximately 69% and 71%, respectively, of the student loans were Consolidation loans and approximately 62% and 62%, respectively, of the student loans were in repayment. During the years ended December 31, 2009 and 2008, the average yield on student loans was approximately 2.02% and 4.23%, respectively.

NOTE 5 - OTHER ASSETS

At December 31, 2009 and 2008, other assets consisted of:

	<u>2009</u>	<u>2008</u>
Equipment, furniture and software	\$ 1,633,407	1,575,607
Accumulated depreciation	<u>(1,461,691)</u>	<u>(1,320,384)</u>
Net book value	171,716	255,223
Cash held for clients	401,501	306,492
Prepaid bond and note fees	233,452	296,161
Prepaid premiums	-	307,792
Miscellaneous	<u>360,469</u>	<u>209,577</u>
	<u>\$ 1,167,138</u>	<u>1,375,245</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 6 - EXCESS INTEREST AND REBATE PAYABLE

MHEAC records a liability for its estimate of excess interest earnings on student loans financed with proceeds of certain tax-exempt bond issues. The liability must be settled through cash payments to the Federal government beginning ten years after the applicable bond issue date or through reducing the yield on student loans by forgiving student loans. In addition, a rebate payable is recorded for MHEAC's estimate of excess earnings on certain investments made with proceeds of tax-exempt bond issues. The rebate payable must be settled through cash payments to the Federal government beginning five years after the applicable bond issue date. The liability for excess interest and rebate payable is computed in accordance with current Treasury Regulations and is funded with cash deposits. This liability is subject to review and possible adjustment by the Treasury.

During the years ended December 31, 2009 and 2008, MHEAC settled approximately \$7,208,000 and \$304,000, respectively, of its excess interest liability through the forgiveness of student loan principal and accrued interest. During the years ended December 31, 2009 and 2008, MHEAC settled approximately \$125,000 and \$869,000, respectively, of its rebate liability through a cash payment to the Federal government.

NOTE 7 - LINE OF CREDIT PAYABLE

ESF maintained a \$50,000,000 line of credit agreement with Bank of America, N.A. Student loans originated with proceeds of each advance secured the borrowings under the agreement. The line of credit used a floating interest rate based on LIBOR rates for periods of approximately 7 or 28 days. At December 31, 2009 and 2008, the balance outstanding was \$14,500,000 and \$37,500,000, respectively. The agreement expired on March 18, 2010. During the years ended December 31, 2009 and 2008, the average expense rate for the line of credit was approximately 1.10% and 3.47%, respectively.

NOTE 8 - DOE LOAN PARTICIPATION PAYABLE

Beginning in January of 2009, MHEAC started using the DOE Loan Participation Program to acquire student loans. Beginning in September of 2009, ESF started using the DOE Loan Participation Program to finance loans originated under the line of credit. The DOE loan participation payable bears a floating interest rate based on quarterly average 3-month commercial paper rates. The DOE Loan Participation Program terminates on September 30, 2010. At December 31, 2009, the balance outstanding was \$56,729,767. MHEAC and ESF plan to sell substantially all student loans acquired during 2009 to the DOE by utilizing the DOE Loan Purchase Commitment Program. During the year ended December 31, 2009, the average expense rate for the DOE loan participation payable was approximately 1.51%.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 9 - BONDS AND NOTES PAYABLE

At December 31, 2009, MHEAC bonds and notes payable consisted of:

<u>Series</u>	<u>Indenture</u>	<u>Amount</u>	<u>Maturity</u>	<u>Status</u>	<u>Rate</u>	<u>Mode</u>
1996	1996	\$ 64,500,000	10/1/26	Taxable	1.56%	Auction
1996-A	1993	29,200,000	9/1/16	Exempt	.56	Auction
1996-C	1993	10,800,000	9/1/12-9/1/16	Exempt	6.70-6.80	Fixed
1998-B	1993	42,100,000	9/1/33	Exempt	.47	Auction
1999-A-1	1999	26,500,000	8/1/29	Exempt	.56	Auction
1999-A-3	1999	20,000,000	8/1/29	Taxable	1.73	Auction
1999-B-1	1999	8,500,000	8/1/29	Exempt	.56	Auction
2000	1996	42,200,000	7/1/30	Taxable	1.57	Auction
2000-A-1	1999	58,600,000	9/1/30	Taxable	1.73	Auction
2000-B-1	1999	8,100,000	9/1/30	Taxable	1.93	Auction
2000-A-2	1999	13,400,000	9/1/30	Exempt	.47	Auction
2000-A-3	1999	63,400,000	9/1/30	Taxable	1.73	Auction
2000-B-2	1999	12,000,000	9/1/30	Exempt	.47	Auction
2000-A-4	1999	9,100,000	9/1/30	Exempt	.39	Auction
2000-B-3	1999	15,200,000	3/1/10	Exempt	5.45	Fixed
2001-A-1	1999	22,800,000	7/1/10-9/1/31	Exempt	.42%	Auction
2003-A-1	1999	89,000,000	9/1/33	Taxable	1.73	Auction
2003-A-2	1999	80,300,000	9/1/33	Taxable	1.73	Auction
2003-B-1	1999	15,000,000	9/1/33	Taxable	1.93	Auction
2003-A-3	1999	13,400,000	9/1/33	Taxable	1.73	Auction
2004-A-1	2004	45,000,000	3/1/34	Exempt	.42	Auction
2004-B-1	2004	5,000,000	3/1/34	Exempt	.64	Auction
2004-A-2	1999	57,500,000	9/1/34	Taxable	1.73	Auction
2004-A-3	1999	2,000,000	9/1/34	Taxable	1.73	Auction
2004-A-4	1999	26,000,000	9/1/34	Taxable	1.73	Auction
2005-A-1	1999	68,700,000	9/1/35	Exempt	.49	Auction
2005-A-2	1999	26,300,000	9/1/35	Exempt	.49	Auction
2005-B-1	1999	18,800,000	9/1/35	Exempt	.49	Auction
2005-A-3	1999	49,800,000	9/1/35	Taxable	1.73	Auction
2005-A-4	1999	37,500,000	9/1/35	Taxable	1.74	Auction
2005-A-5	1999	5,500,000	9/1/35	Taxable	1.74	Auction
2006-A-1	1999	85,700,000	9/1/36	Exempt	.56	Auction
2006-A-2	1999	26,600,000	9/1/36	Exempt	.47	Auction
2006-B-1	1999	14,300,000	9/1/36	Exempt	.56	Auction
2007-A-1	2004	73,800,000	3/1/37	Exempt	.56	Auction
2007-A-2	2004	36,900,000	3/1/37	Exempt	.56	Auction
2007-B-1	2004	<u>12,300,000</u>	3/1/37	Exempt	.85	Auction
		<u>\$ 1,235,800,000</u>				

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 9 - BONDS AND NOTES PAYABLE - CONTINUED:

At December 31, 2009, remaining maturities and sinking fund redemptions of bonds and notes are as follows:

2010	\$ 29,300,000
2011	-
2012	3,500,000
2013	-
2014	5,500,000
Thereafter	<u>1,197,500,000</u>
	\$ <u>1,235,800,000</u>

Substantially all of MHEAC's bonds and notes outstanding are auction rate securities that are subject to auction primarily at 28-day and 35-day intervals. Since mid-February 2008, the normal functioning of the auction market for certain types of auction rate securities in the U.S. has been severely disrupted. This disruption has affected issuers of auction rate securities across broad sectors of the credit markets. Substantially all of MHEAC's auctions occurring since February 11, 2008 have failed to clear, resulting in the interest rates for those auction rate securities being calculated at the maximum rate.

For taxable notes, MHEAC accrues and pays interest at the lower of the maximum rate and the net loan rate for each interest period. The net loan rate is computed periodically in accordance with the terms of the related indentures. If the maximum rate exceeds the net loan rate for an interest period, then carry-over is calculated. Carry-over is calculated by determining the amount of interest that would have been accrued for the interest period if the maximum rate had been used, less the amount of interest that was accrued for the period using the net loan rate. The payment, if any, of cumulative carry-over amounts is governed by the related indentures. As of December 31, 2009 and 2008, MHEAC determined that the cumulative amount of carry-over was approximately \$3,666,000 and \$2,720,000, respectively. MHEAC does not expect any indenture carry-over payment events to occur, and accordingly, cumulative carry-over amounts are not reflected in the statement of financial position. During the years ended December 31, 2009 and 2008, the average expense rate for bonds and notes was approximately 1.54% and 4.41%, respectively.

NOTE 10 - SUPPLEMENTAL INFORMATION ON NONCASH OPERATING, INVESTING, AND FINANCING ACTIVITIES

MHEAC and ESF have capitalized certain amounts of accrued interest income on student loans and included the amounts in student loans receivable. For the years ended December 31, 2009 and 2008, capitalized interest was approximately \$18,392,000 and \$17,884,000, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 10 - SUPPLEMENTAL INFORMATION ON NONCASH OPERATING, INVESTING, AND FINANCING ACTIVITIES - CONTINUED:

During the years ended December 31, 2009 and 2008, MHEAC settled approximately \$7,208,000 and \$304,000, respectively, of its excess interest liability through the forgiveness of student loan principal and accrued interest.

NOTE 11 - 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 2009 and 2008, the first 6% of an employee's eligible compensation contributed by the employee was matched by ESF at 200%. For 2009 and 2008, ESF's match was \$257,592 and \$293,202, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

ESF has contracts with clients to provide origination and servicing of loans in the FFELP. At December 31, 2009 and 2008, ESF was servicing approximately \$35,800,000 and \$54,000,000, respectively, for clients. The loans serviced by ESF are for borrowers that have not begun repayment. Under the servicing agreements, ESF generally agrees to reimburse clients for any claims or losses that arise out of or relate to ESF's acts or omissions with respect to services provided under such agreements.

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 13 - GAINS ON EXTINGUISHMENT OF DEBT

During the years ended December 31, 2009 and 2008, MHEAC used available cash to retire bonds and notes for less than their carrying value, resulting in gains net of expenses of \$21,340,492 and \$1,000,562, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 14 - SUBSEQUENT EVENTS

From January 1, 2010 through May 28, 2010, MHEAC used available cash to retire bonds and notes for less than their carrying value, resulting in a gain net of expenses of approximately \$3,066,000.

During February 2010, as a result of a sale of MHEAC's primary servicer to one of the largest student loan servicers, the process of converting loans from the existing servicing platform to the new servicing platform was begun, and is expected to be substantially complete by July 1, 2010.

On March 30, 2010, federal legislation was signed into law that eliminated funding for new FFELP originations made on or after July 1, 2010, and requiring that all new federally funded student loans made on or after July 1, 2010 be originated directly by the federal government. Accordingly, ESF will no longer originate new FFELP loans effective July 1, 2010. It is anticipated that MHEAC's acquisition of FFELP loans will decline substantially in the near future. ESF is currently working to become a qualified nonprofit loan servicer for federal government-originated loans, as provided for in the new law.

Except as disclosed above, MHEAC and ESF had no subsequent events of a material nature requiring disclosure in the financial statements through May 28, 2010, the date the financial statements were approved by MHEAC's and ESF's management and thereby available to be issued.

SUPPLEMENTAL INFORMATION

HADDOX REID BURKES & CALHOUN PLLC
Certified Public Accountants

1100 REGIONS PLAZA
P.O. DRAWER 22507
JACKSON, MISSISSIPPI 39225-2507

TELEPHONE 601/948-2924
FACSIMILE 601/960-9154
WWW.HRBCCPA.COM

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

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

Our report on our audits of the basic combined financial statements of Mississippi Higher Education Assistance Corporation and Education Services Foundation for the years ended December 31, 2009 and 2008 appears on page 1. The audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic combined financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Haddox Reid Burkes & Calhoun PLLC

May 28, 2010

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

**COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 183,988,605	11,086,412	-	195,075,017
Investments	69,524,659	-	-	69,524,659
Student loans receivable	1,107,268,054	56,281,842	(1,596,072)	1,161,953,824
Interest and special allowance receivable	17,563,951	236,047	-	17,799,998
Deferred costs of issuance less accumulated amortization	6,310,259	36,324	-	6,346,583
Other assets	<u>264,996</u>	<u>1,525,862</u>	<u>(623,720)</u>	<u>1,167,138</u>
Total assets	\$ <u>1,384,920,524</u>	<u>69,166,487</u>	<u>(2,219,792)</u>	<u>1,451,867,219</u>
 <u>LIABILITIES AND UN- RESTRICTED NET ASSETS</u>				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 1,341,108	2,221,628	(760,149)	2,802,587
Accrued interest payable	1,851,074	33,580	-	1,884,654
Excess interest and rebate payable	12,558,000	-	-	12,558,000
Line of credit payable	-	14,500,000	-	14,500,000
DOE loan participation payable	7,992,215	48,737,552	-	56,729,767
Bonds and notes payable	<u>1,235,800,000</u>	<u>-</u>	<u>-</u>	<u>1,235,800,000</u>
Total liabilities	<u>1,259,542,397</u>	<u>65,492,760</u>	<u>(760,149)</u>	<u>1,324,275,008</u>
 UNRESTRICTED NET ASSETS:				
Bond and note funds	93,246,888	1,902,637	(1,459,643)	93,689,882
General fund	<u>32,131,239</u>	<u>1,771,090</u>	<u>-</u>	<u>33,902,329</u>
Total unrestricted net assets	<u>125,378,127</u>	<u>3,673,727</u>	<u>(1,459,643)</u>	<u>127,592,211</u>
Total liabilities and unrestricted net assets	\$ <u>1,384,920,524</u>	<u>69,166,487</u>	<u>(2,219,792)</u>	<u>1,451,867,219</u>

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

**COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
INTEREST INCOME:				
Interest on student loans	\$ 26,192,417	972,890	351,555	27,516,862
Interest subsidy	10,549,368	702,677	-	11,252,045
Special allowance	(12,449,378)	(1,233,584)	-	(13,682,962)
Late fees	<u>264,461</u>	<u>-</u>	<u>-</u>	<u>264,461</u>
Student loans	24,556,868	441,983	351,555	25,350,406
Interest on investments	<u>2,718,180</u>	<u>8,144</u>	<u>-</u>	<u>2,726,324</u>
Total interest income	<u>27,275,048</u>	<u>450,127</u>	<u>351,555</u>	<u>28,076,730</u>
INTEREST COST:				
Interest expense	21,101,742	242,323	-	21,344,065
Bond and note fees	792,340	54,891	-	847,231
Amortization of deferred costs of issuance	<u>406,998</u>	<u>36,324</u>	<u>-</u>	<u>443,322</u>
Total interest cost	<u>22,301,080</u>	<u>333,538</u>	<u>-</u>	<u>22,634,618</u>
Net interest revenue	4,973,968	116,589	351,555	5,442,112
PROVISION FOR LOAN LOSSES	<u>325,616</u>	<u>-</u>	<u>-</u>	<u>325,616</u>
Net interest revenue after provision for loan losses	<u>4,648,352</u>	<u>116,589</u>	<u>351,555</u>	<u>5,116,496</u>
OTHER REVENUE (EXPENSE):				
Gross profit from sales of student loans	1,539,101	885,174	(885,174)	1,539,101
Program services revenue	-	8,311,482	(7,616,227)	695,255
Program services expense	(5,635,523)	(7,883,700)	6,965,408	(6,553,815)
Support services expense	<u>(1,980,704)</u>	<u>(976,667)</u>	<u>650,819</u>	<u>(2,306,552)</u>
Total other revenue (expense)	<u>(6,077,126)</u>	<u>336,289</u>	<u>(885,174)</u>	<u>(6,626,011)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT				
	(1,428,774)	452,878	(533,619)	(1,509,515)
Gains on extinguishment of debt	<u>21,340,492</u>	<u>-</u>	<u>-</u>	<u>21,340,492</u>
INCREASE IN UNRESTRICTED NET NET ASSETS	19,911,718	452,878	(533,619)	19,830,977
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>105,466,409</u>	<u>3,220,849</u>	<u>(926,024)</u>	<u>107,761,234</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>125,378,127</u>	<u>3,673,727</u>	<u>(1,459,643)</u>	<u>127,592,211</u>

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

**COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<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	\$ 13,625,923	669,543	-	14,295,466
Interest subsidy	10,296,937	511,647	-	10,808,584
Special allowance	(6,706,520)	(650,766)	-	(7,357,286)
Late fees	264,461	-	-	264,461
Interest on investments	4,563,319	8,371	-	4,571,690
Other program services revenue	-	8,439,289	(7,743,745)	695,544
Interest expense	(31,917,251)	(238,192)	-	(32,155,443)
Program and support services	(7,167,428)	(8,590,926)	7,743,745	(8,014,609)
Bond and note fees	<u>(739,518)</u>	<u>(54,827)</u>	<u>-</u>	<u>(794,345)</u>
Net cash provided (used) by operating activities	<u>(17,780,077)</u>	<u>94,139</u>	<u>-</u>	<u>(17,685,938)</u>
Cash flows from investing activities:				
Additions to equipment	-	(66,911)	-	(66,911)
Collection of student loan principal	106,055,165	54,101	-	106,109,266
Proceeds from sale of student loans	248,290,640	59,811,781	(59,811,781)	248,290,640
Purchases/origination of student loan principal	(246,542,205)	(79,476,303)	57,810,759	(268,207,749)
Purchases of student loan accrued interest	(3,259,984)	-	637,471	(2,622,513)
Investments matured/redeemed	47,060,566	-	-	47,060,566
Loan premiums and origination costs	<u>(6,026,100)</u>	<u>(939,175)</u>	<u>1,363,551</u>	<u>(5,601,724)</u>
Net cash provided (used) by investing activities	<u>145,578,082</u>	<u>(20,616,507)</u>	<u>-</u>	<u>124,961,575</u>
Cash flows from financing activities:				
Reduction of excess and rebate interest liability	641,953	-	-	641,953
Payment of rebate interest	(125,019)	-	-	(125,019)
Proceeds from line of credit	-	64,200,000	-	64,200,000
Payments on line of credit	-	(87,200,000)	-	(87,200,000)
Proceeds from DOE loan participation	252,680,942	49,980,946	-	302,661,888

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

**COMBINING STATEMENT OF CASH FLOWS - CONTINUED:
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from financing activities - continued:				
Payments on DOE loan participation	\$ (244,688,727)	(1,243,394)	-	(245,932,121)
Payments to redeem bonds and notes	(266,743,890)	-	-	(266,743,890)
Payments for costs of issuance	<u> -</u>	<u> (72,649)</u>	<u> -</u>	<u> (72,649)</u>
Net cash provided (used) by financing activities	<u>(258,234,741)</u>	<u>25,664,903</u>	<u> -</u>	<u>(232,569,838)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(130,436,736)	5,142,535	-	(125,294,201)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>314,425,341</u>	<u>5,943,877</u>	<u> -</u>	<u>320,369,218</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 183,988,605</u>	<u>11,086,412</u>	<u> -</u>	<u>195,075,017</u>
RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Increase in unrestricted net assets	\$ <u>19,911,718</u>	<u>452,878</u>	<u>(533,619)</u>	<u>19,830,977</u>
Adjustments to reconcile increase in unrestricted net assets to net cash provided (used) by operating activities:				
Amortization and depreciation	7,725,048	186,453	(351,555)	7,559,946
Capitalized interest on student loans	(18,361,537)	(30,025)	-	(18,391,562)
Provision for loan losses	325,616	-	-	325,616
Gains on extinguishment of debt	(21,340,492)	-	-	(21,340,492)
Gross profit from sale of student loans	(1,539,101)	(885,174)	885,174	(1,539,101)
Decrease in interest and special allowance receivable	5,812,560	118,692	-	5,931,252
(Increase) decrease in other assets	715,301	(255,246)	-	460,055

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

**COMBINING STATEMENT OF CASH FLOWS - CONTINUED:
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES - CONTINUED:				
Increase (decrease) in accounts payable	\$ (213,680)	502,430	-	288,750
Increase (decrease) in accrued interest payable	(10,815,510)	<u>4,131</u>	-	(10,811,379)
Total adjustments	(37,691,795)	(358,739)	<u>533,619</u>	(37,516,915)
Net cash provided (used) by operating activities	\$ (17,780,077)	<u>94,139</u>	-	(17,685,938)

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

	1993	1996	1999	2004	General	Total
	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Fund/Other</u>	
ASSETS						
Cash and cash equivalents	\$ 46,161,790	10,501,444	79,516,388	24,073,510	23,735,473	183,988,605
Investments	45,558,992	4,711,830	17,023,837	2,230,000	-	69,524,659
Student loans receivable	14,588,006	107,841,948	828,149,711	142,770,489	13,917,900	1,107,268,054
Interest and special allowance receivable	603,668	1,854,991	11,384,949	3,978,896	(258,553)	17,563,951
Deferred costs of issuance less accumulated amortization	392,951	590,469	4,252,093	935,182	139,564	6,310,259
Other assets	<u>(134,501)</u>	<u>(418,157)</u>	<u>(1,455,959)</u>	<u>(948,198)</u>	<u>3,221,811</u>	<u>264,996</u>
Total assets	\$ <u>107,170,906</u>	<u>125,082,525</u>	<u>938,871,019</u>	<u>173,039,879</u>	<u>40,756,195</u>	<u>1,384,920,524</u>
LIABILITIES AND UNRESTRICTED NET ASSETS						
LIABILITIES:						
Accounts payable and accrued expenses	\$ 12,840	75,039	615,899	9,790	627,540	1,341,108
Accrued interest payable	360,609	75,444	1,094,713	315,107	5,201	1,851,074
Excess interest and rebate payable	5,737,000	-	6,821,000	-	-	12,558,000
DOE loan participation payable	-	-	-	-	7,992,215	7,992,215
Bonds and notes payable	<u>82,100,000</u>	<u>106,700,000</u>	<u>874,000,000</u>	<u>173,000,000</u>	<u>-</u>	<u>1,235,800,000</u>
Total liabilities	88,210,449	106,850,483	882,531,612	173,324,897	8,624,956	1,259,542,397
UNRESTRICTED NET ASSETS	<u>18,960,457</u>	<u>18,232,042</u>	<u>56,339,407</u>	<u>(285,018)</u>	<u>32,131,239</u>	<u>125,378,127</u>
Total liabilities and unrestricted net assets	\$ <u>107,170,906</u>	<u>125,082,525</u>	<u>938,871,019</u>	<u>173,039,879</u>	<u>40,756,195</u>	<u>1,384,920,524</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

**COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>1993</u>	<u>1996</u>	<u>1999</u>	<u>2004</u>	<u>General</u> <u>Fund/</u> <u>Other</u>	<u>Total</u>
	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>		
INTEREST INCOME:						
Interest on student loans	\$ (113,609)	3,265,086	15,772,683	4,398,715	2,869,542	26,192,417
Interest subsidy	113,110	618,022	4,436,645	2,797,807	2,583,784	10,549,368
Special allowance	49,696	(12,630)	(3,176,821)	(5,135,378)	(4,174,245)	(12,449,378)
Late fees	<u>19,131</u>	<u>46,555</u>	<u>186,500</u>	<u>8,549</u>	<u>3,726</u>	<u>264,461</u>
Student loans	68,328	3,917,033	17,219,007	2,069,693	1,282,807	24,556,868
Interest on investments	<u>2,533,015</u>	<u>40,769</u>	<u>125,679</u>	<u>4,908</u>	<u>13,809</u>	<u>2,718,180</u>
Total interest income	<u>2,601,343</u>	<u>3,957,802</u>	<u>17,344,686</u>	<u>2,074,601</u>	<u>1,296,616</u>	<u>27,275,048</u>
INTEREST COST:						
Interest expense	2,340,405	1,921,110	14,300,457	1,414,252	1,125,518	21,101,742
Bond and note fees	112,791	168,121	347,579	76,504	87,345	792,340
Amortization of deferred costs of issuance	<u>73,864</u>	<u>34,679</u>	<u>242,506</u>	<u>35,541</u>	<u>20,408</u>	<u>406,998</u>
Total interest cost	<u>2,527,060</u>	<u>2,123,910</u>	<u>14,890,542</u>	<u>1,526,297</u>	<u>1,233,271</u>	<u>22,301,080</u>
Net interest revenue	74,283	1,833,892	2,454,144	548,304	63,345	4,973,968
PROVISION FOR LOAN LOSSES	<u>3,117</u>	<u>56,305</u>	<u>193,667</u>	<u>72,764</u>	<u>(237)</u>	<u>325,616</u>
Net interest revenue after provision for loan losses	<u>71,166</u>	<u>1,777,587</u>	<u>2,260,477</u>	<u>475,540</u>	<u>63,582</u>	<u>4,648,352</u>
OTHER REVENUE (EXPENSE):						
Gross profit from sale of student loans	-	-	-	-	1,539,101	1,539,101
Program and support services	<u>(212,424)</u>	<u>(682,037)</u>	<u>(4,504,879)</u>	<u>(1,153,369)</u>	<u>(1,063,518)</u>	<u>(7,616,227)</u>
Total other revenue (expense)	<u>(212,424)</u>	<u>(682,037)</u>	<u>(4,504,879)</u>	<u>(1,153,369)</u>	<u>475,583</u>	<u>(6,077,126)</u>
INCREASE (DECREASE) IN UN- RESTRICTED NET ASSETS BEFORE GAINS ON EXTING- UISHMENT OF DEBT	(141,258)	1,095,550	(2,244,402)	(677,829)	539,165	(1,428,774)
GAINS ON EXTINGUISHMENT OF DEBT	<u>-</u>	<u>2,166,747</u>	<u>19,173,745</u>	<u>-</u>	<u>-</u>	<u>21,340,492</u>
INCREASE (DECREASE) IN UN- RESTRICTED NET ASSETS	(141,258)	3,262,297	16,929,343	(677,829)	539,165	19,911,718
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	19,101,715	14,899,070	29,463,980	370,153	41,631,491	105,466,409
TRANSFERS IN (OUT)	<u>-</u>	<u>70,675</u>	<u>9,946,084</u>	<u>22,658</u>	<u>(10,039,417)</u>	<u>-</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>18,960,457</u>	<u>18,232,042</u>	<u>56,339,407</u>	<u>(285,018)</u>	<u>32,131,239</u>	<u>125,378,127</u>

EDUCATION SERVICES FOUNDATION
COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

	<u>Line of Credit</u>	<u>General Fund/Other</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 500,550	10,585,862	11,086,412
Student loans receivable	7,743,373	48,538,469	56,281,842
Interest and special allowance receivable	(105,370)	341,417	236,047
Deferred charges, net of accumulated amortization	36,324	-	36,324
Other assets	<u>9,006,890</u>	<u>(7,481,028)</u>	<u>1,525,862</u>
Total assets	\$ <u>17,181,767</u>	<u>51,984,720</u>	<u>69,166,487</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>			
LIABILITIES:			
Accounts payable and accrued expenses	\$ 778,239	1,443,389	2,221,628
Accrued interest payable	891	32,689	33,580
DOE loan participation payable	-	48,737,552	48,737,552
Line of credit payable	<u>14,500,000</u>	<u>-</u>	<u>14,500,000</u>
Total liabilities	15,279,130	50,213,630	65,492,760
UNRESTRICTED NET ASSETS	<u>1,902,637</u>	<u>1,771,090</u>	<u>3,673,727</u>
Total liabilities and unrestricted net assets	\$ <u>17,181,767</u>	<u>51,984,720</u>	<u>69,166,487</u>

EDUCATION SERVICES FOUNDATION

**COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Line of Credit</u>	<u>General Fund/Other</u>	<u>Total</u>
REVENUES:			
Sale of student loans	\$ 60,019,428	-	60,019,428
Cost of student loans sold	<u>59,134,254</u>	-	<u>59,134,254</u>
Gross profit	885,174	-	885,174
Other program services	-	8,311,482	8,311,482
Interest on student loans	522,756	450,134	972,890
Interest subsidy	399,054	303,623	702,677
Special allowance	(664,882)	(568,702)	(1,233,584)
Interest on investments	<u>6,481</u>	<u>1,663</u>	<u>8,144</u>
 Total unrestricted revenues	 <u>1,148,583</u>	 <u>8,498,200</u>	 <u>9,646,783</u>
 EXPENSES:			
Interest	147,421	94,902	242,323
Program services	-	7,883,700	7,883,700
Support services	-	976,667	976,667
Note fees	33,875	21,016	54,891
Amortization	<u>36,324</u>	<u>-</u>	<u>36,324</u>
 Total expenses	 <u>217,620</u>	 <u>8,976,285</u>	 <u>9,193,905</u>
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 930,963	 (478,085)	 452,878
 UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	 1,546,674	 1,674,175	 3,220,849
 TRANSFERS IN (OUT)	 <u>(575,000)</u>	 <u>575,000</u>	 <u>-</u>
 UNRESTRICTED NET ASSETS, END OF PERIOD	 \$ <u>1,902,637</u>	 <u>1,771,090</u>	 <u>3,673,727</u>