

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

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

DECEMBER 31, 2010 AND 2009

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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, 2010 and 2009, and the related combined statements of activities and changes in unrestricted net assets and 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, 2010 and 2009, 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.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the 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 combined financial statements. The information has been subjected to the auditing

procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Haddock Reed Burks & Callahan P.C.

March 18, 2011

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 191,323,751	195,075,017
Investments	66,235,822	69,524,659
Student loans receivable	1,002,190,067	1,161,953,824
Interest and special allowance receivable	17,447,240	17,799,998
Deferred costs of issuance less accumulated amortization	5,671,337	6,346,583
Other assets	<u>487,690</u>	<u>1,167,138</u>
Total assets	<u>\$ 1,283,355,907</u>	<u>1,451,867,219</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$ 1,899,302	2,802,587
Accrued interest payable	1,259,005	1,884,654
Excess interest and rebate payable	12,803,000	12,558,000
Line of credit payable	-	14,500,000
DOE loan participation payable	-	56,729,767
Bonds and notes payable	<u>1,133,300,000</u>	<u>1,235,800,000</u>
Total liabilities	1,149,261,307	1,324,275,008
UNRESTRICTED NET ASSETS	<u>134,094,600</u>	<u>127,592,211</u>
Total liabilities and unrestricted net assets	<u>\$ 1,283,355,907</u>	<u>1,451,867,219</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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
INTEREST INCOME:		
Interest on student loans	\$ 25,101,754	\$ 27,516,862
Interest subsidy	8,398,337	11,252,045
Special allowance	(12,487,237)	(13,682,962)
Late fees	<u>235,683</u>	<u>264,461</u>
Student loans	21,248,537	25,350,406
Interest on investments	<u>1,275,123</u>	<u>2,726,324</u>
Total interest income	<u>22,523,660</u>	<u>28,076,730</u>
INTEREST COST:		
Interest expense	14,883,528	21,344,065
Bond and note fees	768,133	847,231
Amortization of deferred costs of issuance	<u>392,802</u>	<u>443,322</u>
Total interest cost	<u>16,044,463</u>	<u>22,634,618</u>
Net interest revenue	6,479,197	5,442,112
PROVISION FOR LOAN LOSSES	<u>291,351</u>	<u>325,616</u>
Net interest revenue after provision for loan losses	<u>6,187,846</u>	<u>5,116,496</u>
OTHER REVENUE (EXPENSE):		
Gross profit from sale of student loans	2,176,047	1,539,101
Other revenue	363,345	695,255
Program services	(5,986,225)	(6,553,815)
Support services	<u>(2,354,542)</u>	<u>(2,306,552)</u>
Total other revenue (expense)	<u>(5,801,375)</u>	<u>(6,626,011)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT	386,471	(1,509,515)
GAINS ON EXTINGUISHMENT OF DEBT	<u>6,115,918</u>	<u>21,340,492</u>
INCREASE IN UNRESTRICTED NET ASSETS	6,502,389	19,830,977
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>127,592,211</u>	<u>107,761,234</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>134,094,600</u>	\$ <u>127,592,211</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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Interest on student loans	\$ 14,448,719	14,295,466
Interest subsidy	9,858,805	10,808,584
Special allowance	(14,863,810)	(7,357,286)
Late fees	235,683	264,461
Interest on investments	1,251,063	4,571,690
Other program services revenue	363,471	695,544
Interest expense	(15,509,176)	(32,155,443)
Program and support services	(8,566,863)	(8,014,609)
Bond and note fees	<u>(725,899)</u>	<u>(794,345)</u>
Net cash used by operating activities	<u>(13,508,007)</u>	<u>(17,685,938)</u>
Cash flows from investing activities:		
Additions to equipment	(7,653)	(66,911)
Collection of student loan principal	109,259,128	106,109,266
Proceeds from sale of student loans	6,252,334	248,290,640
Purchases/origination of student loan principal	(102,183,568)	(268,207,749)
Purchases of student loan accrued interest	(629,633)	(2,622,513)
Investments matured/redeemed	3,288,837	47,060,566
Loan premiums and origination costs	<u>(1,992,452)</u>	<u>(5,601,724)</u>
Net cash provided by investing activities	<u>13,986,993</u>	<u>124,961,575</u>
Cash flows from financing activities:		
Collection of excess and rebate interest liability	1,099,010	641,953
Payment of rebate interest	(340,971)	(125,019)
Proceeds from line of credit	14,300,000	64,200,000
Payments on line of credit	(28,800,000)	(87,200,000)
Proceeds from DOE loan participation	113,686,161	302,661,888
Payments on DOE loan participation	(8,072,814)	(245,932,121)
Payments to redeem bonds and notes	(96,041,098)	(266,743,890)
Payments for costs of issuance	<u>(60,540)</u>	<u>(72,649)</u>
Net cash used by financing activities	<u>(4,230,252)</u>	<u>(232,569,838)</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
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**COMBINED STATEMENTS OF CASH FLOWS - CONTINUED:
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (3,751,266)	(125,294,201)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>195,075,017</u>	<u>320,369,218</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ <u>191,323,751</u>	<u>195,075,017</u>
 RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ <u>6,502,389</u>	<u>19,830,977</u>
Adjustments to reconcile increase in unrestricted net assets to net cash used by operating activities:		
Amortization and depreciation	6,403,120	7,559,946
Capitalized interest on student loans	(16,607,978)	(18,391,562)
Provision for loan losses	291,351	325,616
Gains on extinguishment of debt	(6,115,918)	(21,340,492)
Gross profit from sale of student loans	(2,176,047)	(1,539,101)
(Increase) decrease in interest and special allowance receivable	(892,616)	5,931,252
Decrease in other assets	614,313	460,055
Increase (decrease) in accounts payable	(900,972)	288,750
Decrease in accrued interest payable	<u>(625,649)</u>	<u>(10,811,379)</u>
Total adjustments	<u>(20,010,396)</u>	<u>(37,516,915)</u>
Net cash used by operating activities	\$ <u>(13,508,007)</u>	<u>(17,685,938)</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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.

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 no longer originates new FFELP loans effective July 1, 2010, and MHEAC's acquisition of FFELP loans has declined substantially. ESF is currently working to become a qualified nonprofit loan servicer for federal government-originated loans, as provided for in the new law.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

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

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
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NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONTINUED:

Principles of Combination - continued:

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
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NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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. MHEAC and ESF believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the combined financial statements. MHEAC and ESF are no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

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.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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, 2010 and 2009, cash and cash equivalents and investments consisted of:

	<u>2010</u>	<u>2009</u>	
Cash and cash equivalents:			
Cash	\$ 1,154,338	9,884,629	
Money market instruments	<u>190,169,413</u>	<u>185,190,388</u>	
	<u>\$ 191,323,751</u>	<u>195,075,017</u>	
	<u>Maturity</u>		
Investments:			
Societe Generale	9/1/35 - 3/1/37	\$ 5,140,000	5,362,000
Westdeutsche Landesbank	8/1/29 - 9/1/33	18,377,500	18,915,500
Bayerische Landesbank	9/1/09 - 9/1/16	29,010,492	29,605,492
FSA Capital Management Services	9/1/14 - 12/1/21	-	6,396,000
Certificates of Deposit	4/28/10 - 2/28/12	<u>13,707,830</u>	<u>9,245,667</u>
		<u>\$ 66,235,822</u>	<u>69,524,659</u>

Investments consist of repurchase agreements and FDIC-insured certificates of deposit. The majority of 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

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 4 - STUDENT LOANS RECEIVABLE - CONTINUED:

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.

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, 2010 and 2009, approximately 73% and 70%, respectively, of the loans were subject to the 98% guarantee, with the remainder subject to the 97% guarantee.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 4 - STUDENT LOANS RECEIVABLE - CONTINUED:

At December 31, 2010 and 2009, student loans consisted of:

	<u>2010</u>	<u>2009</u>
Student loans receivable	\$ 979,556,485	1,132,875,902
Unamortized premiums and origination costs	<u>23,742,093</u>	<u>30,422,478</u>
	1,003,298,578	1,163,298,380
Provision for loan losses	<u>(1,108,511)</u>	<u>(1,344,556)</u>
	<u>\$ 1,002,190,067</u>	<u>1,161,953,824</u>

At December 31, 2010 and 2009, approximately 74% and 69%, respectively, of the student loans were Consolidation loans and approximately 68% and 62%, respectively, of the student loans were in repayment. During the years ended December 31, 2010 and 2009, the average yield on student loans was approximately 1.88% and 2.02%, respectively.

NOTE 5 - OTHER ASSETS

At December 31, 2010 and 2009, other assets consisted of:

	<u>2010</u>	<u>2009</u>
Equipment, furniture and software	\$ 1,573,752	1,633,407
Accumulated depreciation	<u>(1,497,435)</u>	<u>(1,461,691)</u>
Net book value	76,317	171,716
Cash held for clients	-	401,501
Prepaid bond and note fees	215,680	233,452
Miscellaneous	<u>195,693</u>	<u>360,469</u>
	<u>\$ 487,690</u>	<u>1,167,138</u>

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

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**NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE 6 - EXCESS INTEREST AND REBATE PAYABLE - CONTINUED:

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, 2010 and 2009, MHEAC settled approximately \$513,000 and \$7,208,000, respectively, of its excess interest liability through the forgiveness of student loan principal and accrued interest. During the years ended December 31, 2010 and 2009, MHEAC settled approximately \$341,000 and \$125,000, 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, 2010 and 2009, the balance outstanding was \$0 and \$14,500,000, respectively. The agreement expired on March 18, 2010. During the years ended December 31, 2010 and 2009, the average annual expense rate for the line of credit was approximately 3.15% and 1.10%, 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 terminated on September 30, 2010. At December 31, 2010 and 2009, the balance outstanding was \$0 and \$56,729,767, respectively. MHEAC and ESF sold substantially all student loans acquired during 2009 and 2010 to the DOE by utilizing the DOE Loan Purchase Commitment Program. During the years ended December 31, 2010 and 2009, the average annual expense rate for the DOE loan participation payable was approximately .93% and 1.51%, respectively.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 9 - BONDS AND NOTES PAYABLE

At December 31, 2010, 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	\$ 61,000,000	10/1/26	Taxable	1.68%	Auction
1996-A	1993	28,100,000	9/1/16	Exempt	.47	Auction
1998-B	1993	42,100,000	9/1/33	Exempt	.47	Auction
1999-A-1	1999	26,500,000	8/1/29	Exempt	.47	Auction
1999-A-3	1999	14,000,000	8/1/29	Taxable	1.76	Auction
1999-B-1	1999	8,500,000	8/1/29	Exempt	.47	Auction
2000	1996	41,300,000	7/1/30	Taxable	1.63	Auction
2000-A-1	1999	58,600,000	9/1/30	Taxable	1.76	Auction
2000-B-1	1999	8,100,000	9/1/30	Taxable	1.90	Auction
2000-A-2	1999	13,400,000	9/1/30	Exempt	.47	Auction
2000-A-3	1999	53,700,000	9/1/30	Taxable	1.76	Auction
2000-B-2	1999	12,000,000	9/1/30	Exempt	.47	Auction
2000-A-4	1999	7,100,000	9/1/30	Exempt	.60	Auction
2001-A-1	1999	7,600,000	9/1/31	Exempt	.60	Auction
2003-A-1	1999	85,000,000	9/1/33	Taxable	1.76	Auction
2003-A-2	1999	73,700,000	9/1/33	Taxable	1.76	Auction
2003-B-1	1999	15,000,000	9/1/33	Taxable	1.90	Auction
2003-A-3	1999	12,900,000	9/1/33	Taxable	1.76	Auction
2004-A-1	2004	45,000,000	3/1/34	Exempt	.53	Auction
2004-B-1	2004	5,000,000	3/1/34	Exempt	.80	Auction
2004-A-2	1999	41,900,000	9/1/34	Taxable	1.76	Auction
2004-A-3	1999	2,000,000	9/1/34	Taxable	1.76	Auction
2004-A-4	1999	25,700,000	9/1/34	Taxable	1.76	Auction
2005-A-1	1999	68,700,000	9/1/35	Exempt	.53	Auction
2005-A-2	1999	26,300,000	9/1/35	Exempt	.53	Auction
2005-B-1	1999	18,800,000	9/1/35	Exempt	.53	Auction
2005-A-3	1999	41,700,000	9/1/35	Taxable	1.76	Auction
2005-A-4	1999	34,500,000	9/1/35	Taxable	1.76	Auction
2005-A-5	1999	5,500,000	9/1/35	Taxable	1.76	Auction
2006-A-1	1999	85,700,000	9/1/36	Exempt	.47	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	.47	Auction
2007-A-1	2004	73,800,000	3/1/37	Exempt	.60	Auction
2007-A-2	2004	36,900,000	3/1/37	Exempt	.60	Auction
2007-B-1	2004	<u>12,300,000</u>	3/1/37	Exempt	.90	Auction

\$ 1,133,300,000

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 9 - BONDS AND NOTES PAYABLE - CONTINUED:

At December 31, 2010, remaining maturities and sinking fund redemptions of bonds and notes are as follows:

2011 - 2015	\$	-
2016		28,100,000
2026 - 2037		<u>1,105,200,000</u>
	\$	<u>1,133,300,000</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, 2010 and 2009, MHEAC determined that the cumulative amount of carry-over was approximately \$4,849,000 and \$3,666,000, 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, 2010 and 2009, the average annual expense rate for bonds and notes was approximately 1.28% and 1.54%, respectively.

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

MHEAC and ESF capitalize certain amounts of accrued interest income on student loans and include the amounts in student loans receivable. For the years ended December 31, 2010 and 2009, capitalized interest was approximately \$16,608,000 and \$18,392,000, respectively.

During the years ended December 31, 2010 and 2009, MHEAC settled approximately \$513,000 and \$7,208,000, respectively, of its excess interest liability through the forgiveness of student loan principal and accrued interest.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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

During the years ended December 31, 2010 and 2009, MHEAC and ESF settled approximately \$162,343,000 and \$0, respectively, of the DOE loan participation payable through the netting of receivables related to the DOE Loan Purchase Commitment Program.

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 the years ended December 31, 2010 and 2009, the first 6% of an employee's eligible compensation contributed by the employee was matched by ESF at 100% and 200%, respectively. For 2010 and 2009, ESF's match was \$125,113 and \$257,592, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

ESF had contracts with clients to provide origination and servicing of loans in the FFELP prior to July 1, 2010. At December 31, 2010 and 2009, ESF was servicing approximately \$0 and \$35,800,000, respectively, for clients. The loans serviced by ESF were for borrowers that had not begun repayment. Under the servicing agreements, ESF generally agreed to reimburse clients for any claims or losses that arose out of or related 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, 2010 and 2009, MHEAC used available cash to retire bonds and notes for less than their carrying value, resulting in gains net of expenses of \$6,115,918 and \$21,340,492, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 14 - SUBSEQUENT EVENTS

From January 1, 2011 through March 18, 2011, MHEAC used available cash to retire bonds and notes for less than their carrying value, resulting in a gain net of expenses of approximately \$4,144,000.

In January 2011, MHEAC began the process of converting to its primary servicer all its loans being serviced by its secondary servicer. The conversion is expected to be substantially complete by June 1, 2011.

Except as disclosed above, MHEAC and ESF had no subsequent events of a material nature requiring disclosure in the financial statements through March 18, 2011, the date the financial statements were approved by MHEAC's and ESF's management and thereby available to be issued.

SUPPLEMENTAL INFORMATION

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

**COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 185,573,098	5,750,653	-	191,323,751
Investments	66,235,822	-	-	66,235,822
Student loans receivable	1,003,285,711	-	(1,095,644)	1,002,190,067
Interest and special allowance receivable	17,446,646	594	-	17,447,240
Deferred costs of issuance less accumulated amortization	5,671,337	-	-	5,671,337
Other assets	<u>240,946</u>	<u>840,329</u>	<u>(593,585)</u>	<u>487,690</u>
Total assets	\$ <u>1,278,453,560</u>	<u>6,591,576</u>	<u>(1,689,229)</u>	<u>1,283,355,907</u>
 <u>LIABILITIES AND UN- RESTRICTED NET ASSETS</u>				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 1,298,763	1,194,124	(593,585)	1,899,302
Accrued interest payable	1,259,005	-	-	1,259,005
Excess interest and rebate payable	12,803,000	-	-	12,803,000
Bonds and notes payable	<u>1,133,300,000</u>	<u>-</u>	<u>-</u>	<u>1,133,300,000</u>
Total liabilities	<u>1,148,660,768</u>	<u>1,194,124</u>	<u>(593,585)</u>	<u>1,149,261,307</u>
UNRESTRICTED NET ASSETS:				
Bond and note funds	88,338,776	-	(1,095,644)	87,243,132
General fund	<u>41,454,016</u>	<u>5,397,452</u>	<u>-</u>	<u>46,851,468</u>
Total unrestricted net assets	<u>129,792,792</u>	<u>5,397,452</u>	<u>(1,095,644)</u>	<u>134,094,600</u>
Total liabilities and unrestricted net assets	\$ <u>1,278,453,560</u>	<u>6,591,576</u>	<u>(1,689,229)</u>	<u>1,283,355,907</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, 2010**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
INTEREST INCOME:				
Interest on student loans	\$ 22,666,433	2,071,322	363,999	25,101,754
Interest subsidy	6,932,904	1,465,433	-	8,398,337
Special allowance	(9,853,738)	(2,633,499)	-	(12,487,237)
Late fees	<u>235,683</u>	<u>-</u>	<u>-</u>	<u>235,683</u>
Student loans	19,981,282	903,256	363,999	21,248,537
Interest on investments	<u>1,295,173</u>	<u>5,756</u>	<u>(25,806)</u>	<u>1,275,123</u>
Total interest income	<u>21,276,455</u>	<u>909,012</u>	<u>338,193</u>	<u>22,523,660</u>
INTEREST COST:				
Interest expense	14,395,391	513,943	(25,806)	14,883,528
Bond and note fees	759,786	8,347	-	768,133
Amortization of deferred costs of issuance	<u>295,938</u>	<u>96,864</u>	<u>-</u>	<u>392,802</u>
Total interest cost	<u>15,451,115</u>	<u>619,154</u>	<u>(25,806)</u>	<u>16,044,463</u>
Net interest revenue	5,825,340	289,858	363,999	6,479,197
PROVISION FOR LOAN LOSSES	<u>291,351</u>	<u>-</u>	<u>-</u>	<u>291,351</u>
Net interest revenue after provision for loan losses	<u>5,533,989</u>	<u>289,858</u>	<u>363,999</u>	<u>6,187,846</u>
OTHER REVENUE (EXPENSE):				
Gross profit from sales of student loans	534,044	1,642,003	-	2,176,047
Program services revenue	-	8,132,631	(7,769,286)	363,345
Program services expense	(5,729,619)	(7,223,929)	6,967,323	(5,986,225)
Support services expense	<u>(2,039,667)</u>	<u>(1,116,838)</u>	<u>801,963</u>	<u>(2,354,542)</u>
Total other revenue (expense)	<u>(7,235,242)</u>	<u>1,433,867</u>	<u>-</u>	<u>(5,801,375)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT				
	(1,701,253)	1,723,725	363,999	386,471
Gains on extinguishment of debt	<u>6,115,918</u>	<u>-</u>	<u>-</u>	<u>6,115,918</u>
INCREASE IN UNRESTRICTED NET NET ASSETS	4,414,665	1,723,725	363,999	6,502,389
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>125,378,127</u>	<u>3,673,727</u>	<u>(1,459,643)</u>	<u>127,592,211</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>129,792,792</u>	<u>5,397,452</u>	<u>(1,095,644)</u>	<u>134,094,600</u>

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

**COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$ 11,933,710	2,515,009	-	14,448,719
Interest subsidy	7,987,908	1,870,897	-	9,858,805
Special allowance	(11,450,503)	(3,413,307)	-	(14,863,810)
Late fees	235,683	-	-	235,683
Interest on investments	1,271,188	5,681	(25,806)	1,251,063
Other program services revenue	-	8,162,892	(7,799,421)	363,471
Interest expense	(14,987,460)	(547,522)	25,806	(15,509,176)
Program and support services	(7,829,414)	(8,536,870)	7,799,421	(8,566,863)
Bond and note fees	<u>(717,953)</u>	<u>(7,946)</u>	<u>-</u>	<u>(725,899)</u>
Net cash provided (used) by operating activities	<u>(13,556,841)</u>	<u>48,834</u>	<u>-</u>	<u>(13,508,007)</u>
Cash flows from investing activities:				
Additions to equipment	-	(7,653)	-	(7,653)
Collection of student loan principal	108,736,173	522,955	-	109,259,128
Proceeds from sale of student loans	3,730,273	2,557,450	(35,389)	6,252,334
Purchases/origination of student loan principal	(65,440,213)	(36,778,603)	35,248	(102,183,568)
Purchases of student loan accrued interest	(629,774)	-	141	(629,633)
Investments matured/redeemed	3,288,837	-	-	3,288,837
Loan premiums and origination costs	(1,544,466)	(447,986)	-	(1,992,452)
Payment from related party	<u>168,878</u>	<u>-</u>	<u>(168,878)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>48,309,708</u>	<u>(34,153,837)</u>	<u>(168,878)</u>	<u>13,986,993</u>
Cash flows from financing activities:				
Collection of excess and rebate interest liability	1,099,010	-	-	1,099,010
Payment of rebate interest	(340,971)	-	-	(340,971)
Proceeds from line of credit	-	14,300,000	-	14,300,000
Payments on line of credit	-	(28,800,000)	-	(28,800,000)
Proceeds from DOE loan participation	66,254,593	47,431,568	-	113,686,161
Payments on DOE loan participation	(4,139,908)	(3,932,906)	-	(8,072,814)
Payments to redeem bonds and notes	(96,041,098)	-	-	(96,041,098)
Payments for costs of issuance	-	(60,540)	-	(60,540)
Payment to related party	<u>-</u>	<u>(168,878)</u>	<u>168,878</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(33,168,374)</u>	<u>28,769,244</u>	<u>168,878</u>	<u>(4,230,252)</u>

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

**COMBINING STATEMENT OF CASH FLOWS - CONTINUED:
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 1,584,493	(5,335,759)	-	(3,751,266)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>183,988,605</u>	<u>11,086,412</u>	-	<u>195,075,017</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ <u>185,573,098</u>	<u>5,750,653</u>	-	<u>191,323,751</u>
 RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Increase in unrestricted net assets	\$ <u>4,414,665</u>	<u>1,723,725</u>	<u>363,999</u>	<u>6,502,389</u>
Adjustments to reconcile increase in unrestricted net assets to net cash provided (used) by operating activities:				
Amortization and depreciation	6,567,329	199,790	(363,999)	6,403,120
Capitalized interest on student loans	(16,441,792)	(166,186)	-	(16,607,978)
Provision for loan losses	291,351	-	-	291,351
Gains on extinguishment of debt	(6,115,918)	-	-	(6,115,918)
Gross profit from sale of student loans	(534,044)	(1,642,003)	-	(2,176,047)
(Increase) decrease in interest and special allowance receivable	(1,128,069)	235,453	-	(892,616)
Decrease in other assets	24,051	590,262	-	614,313
Decrease in accounts payable	(42,345)	(858,627)	-	(900,972)
Decrease in accrued interest payable	<u>(592,069)</u>	<u>(33,580)</u>	-	<u>(625,649)</u>
Total adjustments	<u>(17,971,506)</u>	<u>(1,674,891)</u>	<u>(363,999)</u>	<u>(20,010,396)</u>
Net cash provided (used) by operating activities	\$ <u>(13,556,841)</u>	<u>48,834</u>	-	<u>(13,508,007)</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

**COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010**

	<u>1993</u>	<u>1996</u>	<u>1999</u>	<u>2004</u>	<u>General</u>	<u>Total</u>
	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Fund/Other</u>	<u>Total</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 26,016,795	19,870,957	71,076,816	34,626,807	33,981,723	185,573,098
Investments	44,963,992	4,231,830	15,810,000	1,230,000	-	66,235,822
Student loans receivable	12,342,531	96,154,291	757,368,620	132,692,417	4,727,852	1,003,285,711
Interest and special allowance receivable	576,376	1,606,912	10,861,411	4,351,455	50,492	17,446,646
Deferred costs of issuance less accumulated amortization	323,421	532,833	3,781,653	899,641	133,789	5,671,337
Other assets	<u>(79,749)</u>	<u>(416,859)</u>	<u>(1,441,876)</u>	<u>(974,555)</u>	<u>3,153,985</u>	<u>240,946</u>
Total assets	\$ <u>84,143,366</u>	<u>121,979,964</u>	<u>857,456,624</u>	<u>172,825,765</u>	<u>42,047,841</u>	<u>1,278,453,560</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>						
LIABILITIES:						
Accounts payable and accrued expenses	\$ 27,645	68,065	592,127	17,101	593,825	1,298,763
Accrued interest payable	117,924	81,413	754,354	305,314	-	1,259,005
Excess interest and rebate payable	6,239,000	-	6,564,000	-	-	12,803,000
Bonds and notes payable	<u>70,200,000</u>	<u>102,300,000</u>	<u>787,800,000</u>	<u>173,000,000</u>	<u>-</u>	<u>1,133,300,000</u>
Total liabilities	76,584,569	102,449,478	795,710,481	173,322,415	593,825	1,148,660,768
UNRESTRICTED NET ASSETS	<u>7,558,797</u>	<u>19,530,486</u>	<u>61,746,143</u>	<u>(496,650)</u>	<u>41,454,016</u>	<u>129,792,792</u>
Total liabilities and unrestricted net assets	\$ <u>84,143,366</u>	<u>121,979,964</u>	<u>857,456,624</u>	<u>172,825,765</u>	<u>42,047,841</u>	<u>1,278,453,560</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

	1993	1996	1999	2004	General Fund/ Other	Total
	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>		
INTEREST INCOME:						
Interest on student loans	\$ (314,772)	2,797,844	14,561,770	4,662,046	959,545	22,666,433
Interest subsidy	78,294	468,132	3,483,693	2,084,063	818,722	6,932,904
Special allowance	48,543	8,142	(3,705,812)	(4,860,068)	(1,344,543)	(9,853,738)
Late fees	<u>14,046</u>	<u>42,101</u>	<u>164,550</u>	<u>12,726</u>	<u>2,260</u>	<u>235,683</u>
Student loans	(173,889)	3,316,219	14,504,201	1,898,767	435,984	19,981,282
Interest on investments	<u>832,968</u>	<u>67,013</u>	<u>292,829</u>	<u>4,260</u>	<u>98,103</u>	<u>1,295,173</u>
Total interest income	<u>659,079</u>	<u>3,383,232</u>	<u>14,797,030</u>	<u>1,903,027</u>	<u>534,087</u>	<u>21,276,455</u>
INTEREST COST:						
Interest expense	870,987	1,735,585	10,716,198	848,772	223,849	14,395,391
Bond and note fees	113,353	152,437	398,828	89,168	6,000	759,786
Amortization of deferred costs of issuance	<u>31,313</u>	<u>32,231</u>	<u>191,078</u>	<u>35,541</u>	<u>5,775</u>	<u>295,938</u>
Total interest cost	<u>1,015,653</u>	<u>1,920,253</u>	<u>11,306,104</u>	<u>973,481</u>	<u>235,624</u>	<u>15,451,115</u>
Net interest revenue (expense)	(356,574)	1,462,979	3,490,926	929,546	298,463	5,825,340
PROVISION FOR LOAN LOSSES	<u>5,346</u>	<u>40,136</u>	<u>147,213</u>	<u>98,577</u>	<u>79</u>	<u>291,351</u>
Net interest revenue (expense) after provision for loan losses	<u>(361,920)</u>	<u>1,422,843</u>	<u>3,343,713</u>	<u>830,969</u>	<u>298,384</u>	<u>5,533,989</u>
OTHER REVENUE (EXPENSE):						
Gross profit from sale of student loans	-	-	-	-	534,044	534,044
Program and support services	<u>(133,206)</u>	<u>(598,499)</u>	<u>(4,216,323)</u>	<u>(1,108,078)</u>	<u>(1,713,180)</u>	<u>(7,769,286)</u>
Total other revenue (expense)	<u>(133,206)</u>	<u>(598,499)</u>	<u>(4,216,323)</u>	<u>(1,108,078)</u>	<u>(1,179,136)</u>	<u>(7,235,242)</u>
INCREASE (DECREASE) IN UN- RESTRICTED NET ASSETS BEFORE GAINS ON EXTING- UISHMENT OF DEBT	(495,126)	824,344	(872,610)	(277,109)	(880,752)	(1,701,253)
GAINS (LOSS) ON EX- TINGUISHMENT OF DEBT	<u>(4,728)</u>	<u>412,673</u>	<u>5,707,973</u>	<u>-</u>	<u>-</u>	<u>6,115,918</u>
INCREASE (DECREASE) IN UN- RESTRICTED NET ASSETS	(499,854)	1,237,017	4,835,363	(277,109)	(880,752)	4,414,665
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	18,960,457	18,232,042	56,339,407	(285,017)	32,131,238	125,378,127
TRANSFERS IN (OUT)	<u>(10,901,806)</u>	<u>61,427</u>	<u>571,373</u>	<u>65,476</u>	<u>10,203,530</u>	<u>-</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ <u>7,558,797</u>	<u>19,530,486</u>	<u>61,746,143</u>	<u>(496,650)</u>	<u>41,454,016</u>	<u>129,792,792</u>

EDUCATION SERVICES FOUNDATION

**COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010**

	<u>Line of</u>	<u>General</u>	<u>Total</u>
	<u>Credit</u>	<u>Fund/Other</u>	
<u>ASSETS</u>			
Cash and cash equivalents	\$ -	5,750,653	5,750,653
Interest and special allowance receivable	-	594	594
Other assets	-	<u>840,329</u>	<u>840,329</u>
Total assets	\$ <u>-</u>	<u>6,591,576</u>	<u>6,591,576</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>			
LIABILITIES:			
Accounts payable and accrued expenses	\$ <u>-</u>	<u>1,194,124</u>	<u>1,194,124</u>
Total liabilities	-	1,194,124	1,194,124
UNRESTRICTED NET ASSETS	<u>-</u>	<u>5,397,452</u>	<u>5,397,452</u>
Total liabilities and unrestricted net assets	\$ <u>-</u>	<u>6,591,576</u>	<u>6,591,576</u>

EDUCATION SERVICES FOUNDATION

**COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Line of Credit</u>	<u>General Fund/Other</u>	<u>Total</u>
REVENUES:			
Sale of student loans	\$ 94,793,664	-	94,793,664
Cost of student loans sold	<u>93,151,661</u>	<u>-</u>	<u>93,151,661</u>
Gross profit	1,642,003	-	1,642,003
Other program services	(1,643,326)	9,775,957	8,132,631
Interest on student loans	3,304	2,068,018	2,071,322
Interest subsidy	3,184	1,462,249	1,465,433
Special allowance	(7,648)	(2,625,851)	(2,633,499)
Interest on investments	<u>99</u>	<u>5,657</u>	<u>5,756</u>
 Total unrestricted revenues	 <u>(2,384)</u>	 <u>10,686,030</u>	 <u>10,683,646</u>
 EXPENSES:			
Interest	66,705	447,238	513,943
Program services	-	7,223,929	7,223,929
Support services	-	1,116,838	1,116,838
Note fees	8,347	-	8,347
Amortization	<u>36,324</u>	<u>60,540</u>	<u>96,864</u>
 Total expenses	 <u>111,376</u>	 <u>8,848,545</u>	 <u>8,959,921</u>
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 (113,760)	 1,837,485	 1,723,725
 UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	 1,902,638	 1,771,089	 3,673,727
 TRANSFERS IN (OUT)	 <u>(1,788,878)</u>	 <u>1,788,878</u>	 <u>-</u>
 UNRESTRICTED NET ASSETS, END OF PERIOD	 \$ <u>-</u>	 <u>5,397,452</u>	 <u>5,397,452</u>