

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
AND EDUCATION SERVICES FOUNDATION

Combined Financial Statements and Report of  
Independent Certified Public Accountants

December 31, 2008

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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 statement of financial position of Mississippi Higher Education Assistance Corporation and Education Services Foundation as of December 31, 2008, and the related combined statements of activities and changes in unrestricted net assets and combined cash flows for the year then ended. These 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 financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

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

*Haddox Reid Burkes & Calhoun PLLC*

May 4, 2009

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
AND EDUCATION SERVICES FOUNDATION

Combined Statement of Financial Position  
December 31, 2008

ASSETS

Cash and cash equivalents	\$ 320,369,218
Investments	116,585,225
Student loans receivable	1,231,774,733
Interest and special allowance receivable	26,655,288
Deferred costs of issuance less accumulated amortization	7,632,875
Other assets	<u>1,375,245</u>
Total assets	\$ <u>1,704,392,584</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 2,386,317
Accrued interest payable	12,696,033
Excess interest and rebate payable	19,249,000
Line of credit payable	37,500,000
Bonds and notes payable	<u>1,524,800,000</u>
Total liabilities	1,596,631,350
Unrestricted net assets	<u>107,761,234</u>
Total liabilities and unrestricted net assets	\$ <u>1,704,392,584</u>

The accompanying notes are an integral part of this statement.

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
AND EDUCATION SERVICES FOUNDATION

Combined Statement of Activities  
and Changes in Unrestricted Net Assets  
For the Year Ended December 31, 2008

Interest income:	
Interest on student loans	\$ 30,920,495
Interest subsidy	9,950,307
Special allowance	10,498,199
Late fees	307,724
Student loans	<u>51,676,725</u>
Interest on investments	14,180,269
Total interest income	<u>65,856,994</u>
Interest cost:	
Interest expense	68,513,714
Bond and note fees	1,414,221
Amortization of deferred costs of issuance	<u>501,354</u>
Total interest cost	<u>70,429,289</u>
Net interest expense	(4,572,295)
Provision for loan losses	<u>507,682</u>
Net interest expense after provision for loan losses	<u>(5,079,977)</u>
Other revenue (expenses):	
Other revenue	532,191
Program services	(7,005,516)
Support services	(2,448,570)
Total other revenue (expenses)	<u>(8,921,895)</u>
Decrease in unrestricted net assets be- fore extraordinary gains	(14,001,872)
Extraordinary gains	<u>1,000,562</u>
Decrease in unrestricted net assets	(13,001,310)
Unrestricted net assets, beginning of year	<u>120,762,544</u>
Unrestricted net assets, end of year	\$ <u>107,761,234</u>

The accompanying notes are an integral part of this statement.

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
AND EDUCATION SERVICES FOUNDATION

Combined Statement of Cash Flows  
For the Year Ended December 31, 2008

Receipts (disbursements) in cash and cash equivalents:

Cash flows from operating activities:

Interest on student loans	\$ 20,312,124
Interest subsidy	9,834,345
Special allowance	16,758,208
Late fees	307,724
Interest on investments	16,520,942
Other program services revenue	509,101
Interest expense	(71,041,989)
Program and support services	(8,989,775)
Bond and note fees	<u>(1,227,940)</u>

Net cash used in operating activities	<u>(17,017,260)</u>
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Cash flows from investing activities:

Additions to equipment	(179,462)
Collection of student loan principal	96,365,024
Purchases/origination of student loan principal	(107,998,655)
Purchases of student loan accrued interest	(716,645)
Investments matured/redeemed	81,696,000
Loan premiums and origination costs	<u>(3,511,457)</u>

Net cash provided by investing activities	<u>65,654,805</u>
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Cash flows from financing activities:

Reduction of excess and rebate interest liability	(4,172,976)
Payment of rebate interest	(868,594)
Payments to redeem bonds and notes	(102,571,815)
Proceeds from line of credit	40,850,000
Payments on line of credit	(39,975,000)
Payments for costs of issuance	<u>(4,159)</u>

Net cash used in financing activities	<u>(106,742,544)</u>
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MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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Combined Statement of Cash Flows - continued:  
For the Year Ended December 31, 2008

Net decrease in cash and cash equivalents	\$ (58,104,999)
Cash and cash equivalents:	
Beginning of year	<u>378,474,217</u>
End of year	\$ <u>320,369,218</u>
Reconciliation of decrease in unrestricted net assets to net cash used in operating activities:	
Decrease in unrestricted net assets	\$ <u>(13,001,310)</u>
Adjustments to reconcile decrease in unrestricted net assets to net cash used by operating activities:	
Amortization and depreciation	7,817,046
Capitalized interest on student loans	(17,884,481)
Provision for loan losses	507,682
Extraordinary gains	(1,000,562)
Decrease in interest and special allowance receivable	8,673,707
Decrease in other assets	185,249
Increase in accounts payable	213,684
Decrease in accrued interest payable	<u>(2,528,275)</u>
Total adjustments	<u>(4,015,950)</u>
Net cash used in operating activities	\$ <u>(17,017,260)</u>

The accompanying notes are an integral part of this statement.

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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Notes to Combined Financial Statements  
December 31, 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. 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 non-profit 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 U.S. Department of Education ("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 and did not have any school-related board members during 2008.

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



MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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Notes to Combined Financial Statements  
December 31, 2008

Note 2 - Summary of Significant Accounting Policies - continued:

Principles of Combination - continued:

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.

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

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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Notes to Combined Financial Statements  
December 31, 2008

Note 2 - Summary of Significant Accounting Policies - continued:

Deferred Costs of Issuance - continued:

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.

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.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position ("FSP") FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 ("Interpretation 48"), "Accounting for Uncertainty in Income Taxes," to its annual financial statements for fiscal years beginning after December 15, 2008. MHEAC and ESF have elected to defer the application of Interpretation 48 for the year ending December 31, 2008. MHEAC and ESF evaluate any uncertain tax positions using the provisions of FASB Statement 5, "Accounting for Contingencies."

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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Notes to Combined Financial Statements  
December 31, 2008

Note 2 - Summary of Significant Accounting Policies - continued:

Estimates - continued:

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, 2008, MHEAC and ESF had cash and cash equivalents and investments consisting of:

Cash and cash equivalents:

Cash	\$ 543,202
Money market instruments	<u>319,826,016</u>
	<u>\$ 320,369,218</u>

	<u>Maturity</u>	
Investments:		
Societe Generale	9/1/35 - 3/1/37	\$ 6,230,000
Westdeutsche Landesbank	8/1/29 - 9/1/33	20,300,000
Bayerische Landesbank	9/1/09 - 9/1/16	82,303,225
FSA Capital Management Services	9/1/14 - 12/1/21	<u>7,752,000</u>
		<u>\$ 116,585,225</u>

Investments consist of repurchase agreements. 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.

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Notes to Combined Financial Statements  
December 31, 2008

Note 4 - Student Loans Receivable - continued:

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.

Substantially all of the student loans are pledged to the repayment of bonds and notes and the line of credit outstanding. 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

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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Notes to Combined Financial Statements  
December 31, 2008

Note 4 - Student Loans Receivable - continued:

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, 2008, approximately 73% of the loans were subject to the 98% guarantee, with the remainder subject to the 97% guarantee.

At December 31, 2008, student loans consisted of:

Student loans receivable	\$ 1,195,757,425
Unamortized premiums and origination costs	<u>37,460,667</u>
	1,233,218,092
Provision for loan losses	<u>(1,443,359)</u>
	\$ <u>1,231,774,733</u>

At December 31, 2008, approximately 71% of the student loans were Consolidation loans and approximately 62% of the student loans were in repayment. The average yield on student loans was approximately 4.23% during 2008.

Note 5 - Other Assets

At December 31, 2008, other assets consisted of:

Equipment, furniture and software	\$ 1,575,607
Accumulated depreciation	<u>(1,320,384)</u>
Net book value	255,223
Cash held for clients	306,492
Prepaid bond and note fees	296,161
Prepaid premiums	307,792
Miscellaneous	<u>209,577</u>
	\$ <u>1,375,245</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

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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Notes to Combined Financial Statements  
December 31, 2008

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.

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

Note 7 - Line of Credit Payable

ESF maintains a \$50,000,000 line of credit agreement with Bank of America, N.A. Student loans originated with proceeds of each advance secure the borrowings under the agreement. The line of credit bears a floating interest rate based on LIBOR rates for periods of approximately one, two, or three months. The balance outstanding was \$37,500,000 as of December 31, 2008. The agreement expires on December 18, 2009. The average expense rate for the line of credit was approximately 3.47% during 2008.

Note 8 - Bonds and Notes Payable

MHEAC bonds and notes payable at December 31, 2008 consisted of:

<u>Series</u>	<u>Amount</u>	<u>Maturity</u>	<u>Status</u>	<u>Rate</u>	<u>Mode</u>
1994-A	\$ 35,000,000	9/1/09	Exempt	1.49%	Auction
1994-B	44,200,000	9/1/09	Exempt	1.89	Auction
1994-C	11,300,000	9/1/09	Exempt	7.50	Fixed
1996	66,800,000	10/1/26	Taxable	1.55	Auction
1996-A	29,200,000	9/1/16	Exempt	1.49	Auction
1996-C	10,800,000	9/1/12-9/1/16	Exempt	6.70-6.80	Fixed
1998-B	42,100,000	9/1/33	Exempt	1.80	Auction
1999-A-1	26,500,000	8/1/29	Exempt	1.49	Auction
1999-A-3	20,000,000	8/1/29	Taxable	1.97	Auction
1999-B-1	8,500,000	8/1/29	Exempt	1.49	Auction

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Notes to Combined Financial Statements  
December 31, 2008

Note 8 - Bonds and Notes Payable - continued:

<u>Series</u>	<u>Amount</u>	<u>Maturity</u>	<u>Status</u>	<u>Rate</u>	<u>Mode</u>
2000	\$ 57,500,000	7/1/30	Taxable	1.54	Auction
2000-A-1	72,900,000	9/1/30	Taxable	1.97	Auction
2000-B-1	8,100,000	9/1/30	Taxable	2.97	Auction
2000-A-2	28,400,000	9/1/09-9/1/30	Exempt	1.96	Auction
2000-A-3	84,000,000	9/1/30	Taxable	2.94	Auction
2000-B-2	12,000,000	9/1/30	Exempt	1.96	Auction
2000-A-4	9,100,000	9/1/30	Exempt	1.89	Auction
2000-B-3	15,200,000	3/1/10	Exempt	5.45	Fixed
2001-A-1	22,800,000	7/1/10-9/1/31	Exempt	1.89	Auction
2003-A-1	91,300,000	9/1/33	Taxable	1.95	Auction
2003-A-2	91,300,000	9/1/33	Taxable	1.95	Auction
2003-B-1	15,000,000	9/1/33	Taxable	4.14	Auction
2003-A-3	16,900,000	9/1/33	Taxable	2.94	Auction
2004-A-1	45,000,000	3/1/34	Exempt	2.19	Auction
2004-B-1	5,000,000	3/1/34	Exempt	2.19	Auction
2004-A-2	60,000,000	9/1/34	Taxable	1.96	Auction
2004-A-3	35,000,000	9/1/34	Taxable	2.46	Auction
2004-A-4	45,000,000	9/1/34	Taxable	2.46	Auction
2005-A-1	68,700,000	9/1/35	Exempt	1.49	Auction
2005-A-2	37,500,000	9/1/35	Exempt	1.49	Auction
2005-B-1	18,800,000	9/1/35	Exempt	1.49	Auction
2005-A-3	50,000,000	9/1/35	Taxable	1.95	Auction
2005-A-4	37,500,000	9/1/35	Taxable	3.14	Auction
2005-A-5	37,500,000	9/1/35	Taxable	3.14	Auction
2006-A-1	85,700,000	9/1/36	Exempt	1.49	Auction
2006-A-2	42,900,000	9/1/36	Exempt	1.80	Auction
2006-B-1	14,300,000	9/1/36	Exempt	1.49	Auction
2007-A-1	73,800,000	3/1/37	Exempt	2.19	Auction
2007-A-2	36,900,000	3/1/37	Exempt	1.89	Auction
2007-B-1	<u>12,300,000</u>	3/1/37	Exempt	2.19	Auction
	<u>\$ 1,524,800,000</u>				

At December 31, 2008, remaining maturities and sinking fund redemptions of bonds and notes are as follows:

2009	\$ 105,500,000
2010	29,300,000
2011	-
2012	3,500,000
2013	-
Thereafter	<u>1,386,500,000</u>
	<u>\$ 1,524,800,000</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

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Notes to Combined Financial Statements  
December 31, 2008

Note 8 - Bonds and Notes Payable - continued:

disruption has affected the 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, 2008, MHEAC determined that the cumulative amount of carry-over was approximately \$2,720,000. 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. The average expense rate for bonds and notes was approximately 4.41% during 2008.

Note 9 - 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 year ended December 31, 2008, capitalized interest amounted to approximately \$17,884,000.

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

Note 10 - 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 2008, the



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Notes to Combined Financial Statements  
December 31, 2008

Note 10 - Retirement Plan - continued:

first 6% of an employee's eligible compensation contributed by the employee was matched by ESF at 200%. ESF's match was \$293,202 for 2008.

Note 11 - Commitments and Contingencies

ESF has contracts with clients to provide origination and servicing of loans in the FFELP. At December 31, 2008, ESF was servicing approximately \$54,000,000 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.

Note 12 - Extraordinary Gains on Extinguishment of Debt

MHEAC used available cash to retire bonds and notes for less than their carrying value, resulting in a gain net of expenses of \$1,000,562.

Note 13 - Subsequent Events

From January 1, 2009 through May 4, 2009, MHEAC used available cash to retire bonds and notes for less than their carrying value, resulting in a gain net of expenses of approximately \$16,900,000.

Beginning in 2009, MHEAC's primary source of funds for the purpose of acquiring student loans is the DOE Loan Participation Program. MHEAC plans to sell substantially all student loans acquired during 2009 to the DOE by utilizing the DOE Loan Purchase Commitment Program.

The 2010 budget request to Congress includes provisions that could significantly reduce or eliminate the FFELP. It is not currently known how this will affect the operations of MHEAC and ESF.

SUPPLEMENTAL INFORMATION

HADDOX REID BURKES & CALHOUN PLLC  
Certified Public Accountants

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Independent Auditor's Report on Additional Information

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

Our report on our audit of the basic combined financial statements of Mississippi Higher Education Assistance Corporation and Education Services Foundation for the year ended December 31, 2008 appears on page 1. The audit was conducted for the purpose of forming an opinion on the basic 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 financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Haddox Reid Burkes & Calhoun PLLC*

May 4, 2009

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

Combining Statement of Financial Position  
December 31, 2008

	MHEAC	ESF	Eliminations	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 314,425,341	5,943,877	-	320,369,218
Investments	116,585,225	-	-	116,585,225
Student loans receivable	1,197,812,493	35,024,693	(1,062,453)	1,231,774,733
Interest and special allowance receivable	26,300,549	354,739	-	26,655,288
Deferred costs of issuance less accumulated amortization	7,632,875	-	-	7,632,875
Other assets	980,297	1,353,833	(958,885)	1,375,245
Total assets	\$ 1,663,736,780	42,677,142	(2,021,338)	1,704,392,584
 <u>LIABILITIES AND UN-RESTRICTED NET ASSETS</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 1,554,787	1,926,844	(1,095,314)	2,386,317
Accrued interest payable	12,666,584	29,449	-	12,696,033
Excess interest and rebate payable	19,249,000	-	-	19,249,000
Line of credit payable	-	37,500,000	-	37,500,000
Bonds and notes payable	1,524,800,000	-	-	1,524,800,000
Total liabilities	1,558,270,371	39,456,293	(1,095,314)	1,596,631,350
Unrestricted net assets:				
Bond and note funds	63,834,918	1,546,675	(926,024)	64,455,569
General fund	41,631,491	1,674,174	-	43,305,665
Total unrestricted net assets	105,466,409	3,220,849	(926,024)	107,761,234
Total liabilities and unrestricted net assets	\$ 1,663,736,780	42,677,142	(2,021,338)	1,704,392,584

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, 2008

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
Interest income:				
Interest on student loans	\$ 29,818,926	990,868	110,701	30,920,495
Interest subsidy	9,005,789	944,518	-	9,950,307
Special allowance	11,180,518	(682,319)	-	10,498,199
Late fees	307,724	-	-	307,724
Student loans	<u>50,312,957</u>	<u>1,253,067</u>	<u>110,701</u>	<u>51,676,725</u>
Interest on investments	14,096,289	83,980	-	14,180,269
Total interest income	<u>64,409,246</u>	<u>1,337,047</u>	<u>110,701</u>	<u>65,856,994</u>
Interest cost:				
Interest expense	67,424,596	1,089,118	-	68,513,714
Bond and note fees	1,394,518	19,703	-	1,414,221
Amortization of deferred costs of issuance	492,829	8,525	-	501,354
Total interest cost	<u>69,311,943</u>	<u>1,117,346</u>	<u>-</u>	<u>70,429,289</u>
Net interest revenue (expense)	(4,902,697)	219,701	110,701	(4,572,295)
Provision for loan losses	<u>507,682</u>	<u>-</u>	<u>-</u>	<u>507,682</u>
Net interest revenue (expense) after provision for loan losses	<u>(5,410,379)</u>	<u>219,701</u>	<u>110,701</u>	<u>(5,079,977)</u>
Other revenue (expenses):				
Gross profit from sales of student loans	-	1,036,725	(1,036,725)	-
Program services revenue	-	8,919,536	(8,387,345)	532,191
Program services expense	(5,929,545)	(8,512,892)	7,436,921	(7,005,516)
Support services expense	<u>(2,457,800)</u>	<u>(941,194)</u>	<u>950,424</u>	<u>(2,448,570)</u>
Total other revenue (expenses)	<u>(8,387,345)</u>	<u>502,175</u>	<u>(1,036,725)</u>	<u>(8,921,895)</u>
Increase (decrease) in unrestricted net assets before extraordinary gains	(13,797,724)	721,876	(926,024)	(14,001,872)
Extraordinary gains	<u>1,000,562</u>	<u>-</u>	<u>-</u>	<u>1,000,562</u>
Increase (decrease) in unrestricted net assets	(12,797,162)	721,876	(926,024)	(13,001,310)
Unrestricted net assets, beginning of year	<u>118,263,571</u>	<u>2,498,973</u>	<u>-</u>	<u>120,762,544</u>
Unrestricted net assets, end of year	<u>\$ 105,466,409</u>	<u>3,220,849</u>	<u>(926,024)</u>	<u>107,761,234</u>

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

Combining Statement of Cash Flows  
For the Year Ended December 31, 2008

	<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	\$ 19,427,856	884,268	-	20,312,124
Interest subsidy	8,895,625	938,720	-	9,834,345
Special allowance	17,251,537	(493,329)	-	16,758,208
Late fees	307,724	-	-	307,724
Interest on investments	16,435,854	85,088	-	16,520,942
Other program services revenue	-	8,938,288	(8,429,187)	509,101
Interest expense	(69,892,442)	(1,149,547)	-	(71,041,989)
Program and support services	(8,322,486)	(9,096,476)	8,429,187	(8,989,775)
Bond and note fees	<u>(1,207,879)</u>	<u>(20,061)</u>	<u>-</u>	<u>(1,227,940)</u>
Net cash provided by (used in) operating activities	<u>(17,104,211)</u>	<u>86,951</u>	<u>-</u>	<u>(17,017,260)</u>
Cash flows from investing activities:				
Additions to equipment	-	(179,462)	-	(179,462)
Collections of student loan principal	96,176,142	188,882	-	96,365,024
Proceeds from sale of student loans	-	51,410,117	(51,410,117)	-
Purchases/origination of student loan principal	(101,130,604)	(55,279,339)	48,411,288	(107,998,655)
Purchases of student loan accrued interest	(1,497,138)	-	780,493	(716,645)
Investments matured/redeemed	81,696,000	-	-	81,696,000
Loan premiums and origination costs	<u>(4,729,682)</u>	<u>(1,000,111)</u>	<u>2,218,336</u>	<u>(3,511,457)</u>
Net cash provided by (used in) investing activities	<u>70,514,718</u>	<u>(4,859,913)</u>	<u>-</u>	<u>65,654,805</u>
Cash flows from financing activities:				
Reduction of excess and rebate interest liability	(4,172,976)	-	-	(4,172,976)
Payment of rebate interest	(868,594)	-	-	(868,594)
Payments to redeem bonds and notes	(102,571,815)	-	-	(102,571,815)
Proceeds from line of credit	-	40,850,000	-	40,850,000
Payments on line of credit	-	(39,975,000)	-	(39,975,000)
Payments for costs of issuance	<u>-</u>	<u>(4,159)</u>	<u>-</u>	<u>(4,159)</u>
Net cash provided by (used in) financing activities	<u>(107,613,385)</u>	<u>870,841</u>	<u>-</u>	<u>(106,742,544)</u>

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

Combining Statement of Cash Flows - Continued:  
For the Year Ended December 31, 2008

	MHEAC	ESF	Eliminations	Total
Net decrease in cash and cash equivalents	\$ (54,202,878)	(3,902,121)	-	(58,104,999)
Cash and cash equivalents:				
Beginning of year	<u>368,628,219</u>	<u>9,845,998</u>	<u>-</u>	<u>378,474,217</u>
End of year	<u>\$ 314,425,341</u>	<u>5,943,877</u>	<u>-</u>	<u>320,369,218</u>
Reconciliation of increase (decrease) in unrestricted net assets to net cash provided by (used in) operating activities:				
Increase (decrease) in unrestricted net assets	\$ (12,797,162)	<u>721,876</u>	<u>(926,024)</u>	<u>(13,001,310)</u>
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by (used in) operating activities:				
Amortization and depreciation	7,690,652	237,095	(110,701)	7,817,046
Capitalized interest on student loans	(17,852,134)	(32,347)	-	(17,884,481)
Provision for loan losses	507,682	-	-	507,682
Extraordinary gains	(1,000,562)	-	-	(1,000,562)
Gross profit on sale of student loans	-	(1,036,725)	1,036,725	-
Decrease in interest and special allowance receivable	8,563,660	110,047	-	8,673,707
(Increase) decrease in other assets	345,949	(160,700)	-	185,249
Increase (decrease) in accounts payable	(94,450)	308,134	-	213,684
Decrease in accrued interest payable	<u>(2,467,846)</u>	<u>(60,429)</u>	<u>-</u>	<u>(2,528,275)</u>
Total adjustments	<u>(4,307,049)</u>	<u>(634,925)</u>	<u>926,024</u>	<u>(4,015,950)</u>
Net cash provided by (used in) operating activities	\$ (17,104,211)	<u>86,951</u>	<u>-</u>	<u>(17,017,260)</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

Combining Statement of Financial Position  
December 31, 2008

	Series 1993, 1994, 1996, 1998 Bonds	Series 1996, 2000 Notes	Series 1999-2001, 2003-2006 Bonds/Notes	Series 2004, 2007 Bonds	General Fund	Total
<u>ASSETS</u>						
Cash and cash equivalents	\$ 82,162,866	14,852,063	165,428,316	20,806,987	31,175,109	314,425,341
Investments	98,256,725	-	16,098,500	2,230,000	-	116,585,225
Student loans receivable	23,989,679	121,682,711	896,874,403	148,216,064	7,049,636	1,197,812,493
Interest and special allowance receivable	2,664,884	2,588,857	16,430,021	4,535,213	81,574	26,300,549
Deferred costs of issu- ance less accumulated amortization	466,817	715,662	5,319,702	970,722	159,972	7,632,875
Other assets	(108,344)	(401,979)	(1,453,116)	(910,416)	3,854,152	980,297
Total assets	\$ <u>207,432,627</u>	<u>139,437,314</u>	<u>1,098,697,826</u>	<u>175,848,570</u>	<u>42,320,443</u>	<u>1,663,736,780</u>
<u>LIABILITIES AND UN- RESTRICTED NET ASSETS</u>						
Liabilities:						
Accounts payable and accrued expenses	\$ 32,990	164,254	660,346	8,245	688,952	1,554,787
Accrued interest payable	2,969,918	73,992	7,152,501	2,470,173	-	12,666,584
Excess interest and rebate payable	12,728,000	-	6,521,000	-	-	19,249,000
Bonds and notes payable	<u>172,600,000</u>	<u>124,300,000</u>	<u>1,054,900,000</u>	<u>173,000,000</u>	-	<u>1,524,800,000</u>
Total liabilities	188,330,908	124,538,246	1,069,233,847	175,478,418	688,952	1,558,270,371
Unrestricted net assets	<u>19,101,719</u>	<u>14,899,068</u>	<u>29,463,979</u>	<u>370,152</u>	<u>41,631,491</u>	<u>105,466,409</u>
Total liabilities and unrestricted net assets	\$ <u>207,432,627</u>	<u>139,437,314</u>	<u>1,098,697,826</u>	<u>175,848,570</u>	<u>42,320,443</u>	<u>1,663,736,780</u>



MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

Combining Statement of Activities and  
Changes in Unrestricted Net Assets  
For the Year Ended December 31, 2008

	Series 1993, 1994, 1996, 1998 Bonds	Series 1996, 2000 Notes	Series 1999-2001, 2003-2006 Bonds/Notes	Series 2004, 2007 Bonds	General Fund	Total
Interest income:						
Interest on student loans	\$ 2,164,206	4,353,085	20,182,145	3,000,739	118,751	29,818,926
Interest subsidy	207,664	885,769	5,208,374	2,690,015	13,967	9,005,789
Special allowance	43,393	900,112	11,798,443	(1,583,998)	22,568	11,180,518
Late fees	32,523	57,044	208,487	4,468	5,202	307,724
Student loans	<u>2,447,786</u>	<u>6,196,010</u>	<u>37,397,449</u>	<u>4,111,224</u>	<u>160,488</u>	<u>50,312,957</u>
Interest on investments	8,366,809	555,272	3,069,871	1,726,866	377,471	14,096,289
Total interest income	<u>10,814,595</u>	<u>6,751,282</u>	<u>40,467,320</u>	<u>5,838,090</u>	<u>537,959</u>	<u>64,409,246</u>
Interest cost:						
Interest expense	8,860,652	5,773,397	45,689,743	7,100,804	-	67,424,596
Bond and note fees	201,642	303,475	745,097	143,304	1,000	1,394,518
Amortization of deferred costs of issuance	103,060	44,619	280,218	35,541	29,391	492,829
Total interest cost	<u>9,165,354</u>	<u>6,121,491</u>	<u>46,715,058</u>	<u>7,279,649</u>	<u>30,391</u>	<u>69,311,943</u>
Net interest revenue (expense)	1,649,241	629,791	(6,247,738)	(1,441,559)	507,568	(4,902,697)
Provision for loan losses	<u>23,602</u>	<u>66,994</u>	<u>285,282</u>	<u>131,049</u>	<u>755</u>	<u>507,682</u>
Net interest revenue (expense) after provision for loan losses	1,625,639	562,797	(6,533,020)	(1,572,608)	506,813	(5,410,379)
Program and support services	<u>(316,766)</u>	<u>(757,259)</u>	<u>(4,746,881)</u>	<u>(846,174)</u>	<u>(1,720,265)</u>	<u>(8,387,345)</u>
Increase (decrease) in unrestricted net assets before extraordinary gains	1,308,873	(194,462)	(11,279,901)	(2,418,782)	(1,213,452)	(13,797,724)
Extraordinary gains (loss)	<u>1,461,686</u>	<u>(461,124)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,562</u>
Increase (decrease) in unrestricted net assets	2,770,559	(655,586)	(11,279,901)	(2,418,782)	(1,213,452)	(12,797,162)
Unrestricted net assets, beginning of year	25,430,630	15,483,916	37,062,813	859,472	39,426,740	118,263,571
Transfers in (out)	<u>(9,099,470)</u>	<u>70,738</u>	<u>3,681,067</u>	<u>1,929,462</u>	<u>3,418,203</u>	<u>-</u>
Unrestricted net assets, end of year	<u>\$ 19,101,719</u>	<u>14,899,068</u>	<u>29,463,979</u>	<u>370,152</u>	<u>41,631,491</u>	<u>105,466,409</u>

EDUCATION SERVICES FOUNDATION

Combining Statement of Financial Position  
December 31, 2008

	<u>Note Fund</u>	<u>General Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 460,504	5,483,373	5,943,877
Student loans receivable	34,998,415	26,278	35,024,693
Interest and special allowance receivable	353,663	1,076	354,739
Other assets	<u>3,720,189</u>	<u>(2,366,356)</u>	<u>1,353,833</u>
Total assets	\$ <u>39,532,771</u>	<u>3,144,371</u>	<u>42,677,142</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>			
Liabilities:			
Accounts payable and ac- crued expenses	\$ 456,647	1,470,197	1,926,844
Accrued interest payable	29,449	-	29,449
Line of credit payable	<u>37,500,000</u>	<u>-</u>	<u>37,500,000</u>
Total liabilities	37,986,096	1,470,197	39,456,293
Unrestricted net assets	<u>1,546,675</u>	<u>1,674,174</u>	<u>3,220,849</u>
Total liabilities and unrestricted net assets	\$ <u>39,532,771</u>	<u>3,144,371</u>	<u>42,677,142</u>

EDUCATION SERVICES FOUNDATION

Combining Statement of Activities and  
Changes in Unrestricted Net Assets  
December 31, 2008

	Note <u>Fund</u>	General <u>Fund</u>	<u>Total</u>
Revenues:			
Sale of student loans	\$ 51,749,508	-	51,749,508
Cost of student loans sold	<u>50,712,783</u>	-	<u>50,712,783</u>
Gross profit	1,036,725	-	1,036,725
Other program services	-	8,919,536	8,919,536
Interest on student loans	989,283	1,585	990,868
Interest subsidy	944,607	(89)	944,518
Special allowance	(682,398)	79	(682,319)
Interest on investments	<u>67,102</u>	<u>16,878</u>	<u>83,980</u>
 Total unrestricted revenues	 <u>2,355,319</u>	 <u>8,937,989</u>	 <u>11,293,308</u>
Expenses:			
Interest	1,089,118	-	1,089,118
Program services	-	8,512,892	8,512,892
Support services	-	941,194	941,194
Note fees	19,703	-	19,703
Amortization	<u>8,525</u>	-	<u>8,525</u>
 Total expenses	 <u>1,117,346</u>	 <u>9,454,086</u>	 <u>10,571,432</u>
 Increase (decrease) in unrestricted net assets	 1,237,973	 (516,097)	 721,876
 Unrestricted net assets, beginning of year	 458,702	 2,040,271	 2,498,973
 Transfers in (out)	 <u>(150,000)</u>	 <u>150,000</u>	 <u>-</u>
 Unrestricted net assets, end of year	 \$ <u>1,546,675</u>	 <u>1,674,174</u>	 <u>3,220,849</u>