

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

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

DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of Mississippi Higher Education Assistance Corporation and Education Services Foundation, which comprise the combined statements of financial position as of December 31, 2013 and 2012, and the related combined statements of activities and changes in unrestricted net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the

Auditor's Responsibility - continued:

purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the 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, 2013 and 2012, 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.

Other Matter

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 combined 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.

Heather Reiz Eubank Bell PLLC

Jackson, Mississippi
April 21, 2014

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

**COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 66,712,760	68,412,738
Investments	2,089,000	45,558,992
Student loans receivable	427,247,505	533,690,946
Interest and special allowance receivable	6,644,979	8,899,781
Deferred costs of issuance less accumulated amortization	1,464,339	2,199,358
Other assets	<u>336,692</u>	<u>324,796</u>
Total assets	<u>\$ 504,495,275</u>	<u>659,086,611</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$ 1,074,825	1,380,132
Accrued interest payable	207,664	418,166
Excess interest and rebate payable	4,432,000	6,931,100
Bonds and notes payable	<u>315,450,000</u>	<u>470,175,000</u>
Total liabilities	321,164,489	478,904,398
UNRESTRICTED NET ASSETS	<u>183,330,786</u>	<u>180,182,213</u>
Total liabilities and unrestricted net assets	<u>\$ 504,495,275</u>	<u>659,086,611</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
INTEREST INCOME:		
Interest on student loans	\$ 11,251,910	16,152,521
Interest subsidy	2,284,752	3,676,726
Special allowance	(4,230,175)	(6,084,010)
Late fees	<u>325,277</u>	<u>378,217</u>
Student loans	9,631,764	14,123,454
Interest on investments	<u>51,929</u>	<u>249,611</u>
Total interest income	<u>9,683,693</u>	<u>14,373,065</u>
INTEREST COST:		
Interest expense	3,945,869	7,460,534
Bond and note fees	313,647	567,271
Amortization of deferred costs of issuance	<u>86,832</u>	<u>169,314</u>
Total interest cost	<u>4,346,348</u>	<u>8,197,119</u>
Net interest revenue	5,337,345	6,175,946
PROVISION FOR LOAN LOSSES	<u>248,569</u>	<u>258,103</u>
Net interest revenue after provision for loan losses	<u>5,088,776</u>	<u>5,917,843</u>
OTHER REVENUE (EXPENSE):		
Loss from sale of student loans	(390,813)	-
Other revenue	1,241,378	76,389
Program services	(3,646,075)	(3,596,253)
Support services	<u>(2,093,007)</u>	<u>(2,375,833)</u>
Total other revenue (expense)	<u>(4,888,517)</u>	<u>(5,895,697)</u>
INCREASE IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT	200,259	22,146
GAINS ON EXTINGUISHMENT OF DEBT	<u>2,948,314</u>	<u>34,710,833</u>
INCREASE IN UNRESTRICTED NET ASSETS	3,148,573	34,732,979
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	<u>180,182,213</u>	<u>145,449,234</u>
UNRESTRICTED NET ASSETS, END OF PERIOD	<u>\$ 183,330,786</u>	<u>180,182,213</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Interest on student loans	\$ 7,163,948	9,758,071
Interest subsidy	2,481,802	4,244,440
Special allowance	(4,477,931)	(6,916,513)
Late fees	325,277	378,217
Interest on investments	302,709	268,149
Other program services revenue	1,242,221	76,400
Interest expense	(4,156,372)	(7,808,421)
Program and support services	(5,972,624)	(5,947,302)
Bond and note fees	<u>(292,620)</u>	<u>(656,761)</u>
Net cash used by operating activities	<u>(3,383,590)</u>	<u>(6,603,720)</u>
Cash flows from investing activities:		
Additions to equipment	(82,389)	(53,557)
Collection of student loan principal	67,136,780	108,454,067
Proceeds from sale of student loans	47,604,482	-
Purchases of student loan principal	(4,200,627)	(3,516,228)
Investments matured/redeemed	<u>43,469,992</u>	<u>8,710,148</u>
Net cash provided by investing activities	<u>153,928,238</u>	<u>113,594,430</u>
Cash flows from financing activities:		
Collection of excess and rebate interest liability	327,450	1,167,652
Payment of excess and rebate interest	(1,420,436)	(317,898)
Payments to redeem bonds and notes	<u>(151,151,640)</u>	<u>(178,679,397)</u>
Net cash used by financing activities	<u>(152,244,626)</u>	<u>(177,829,643)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,699,978)	(70,838,933)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>68,412,738</u>	<u>139,251,671</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ <u>66,712,760</u>	<u>68,412,738</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
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**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ <u>3,148,573</u>	<u>34,732,979</u>
Adjustments to reconcile increase in unrestricted net assets to net cash used by operating activities:		
Amortization and depreciation	2,611,300	3,821,900
Capitalized interest on student loans	(7,773,904)	(11,532,085)
Provision for loan losses	248,569	258,103
Gains on extinguishment of debt	(2,948,314)	(34,710,833)
Loss from sale of student loans	390,813	-
Decrease in interest and special allowance receivable	1,464,961	1,353,437
(Increase) decrease in other assets	321,533	(116,532)
Decrease in accounts payable	(636,619)	(62,801)
Decrease in accrued interest payable	<u>(210,502)</u>	<u>(347,888)</u>
Total adjustments	<u>(6,532,163)</u>	<u>(41,336,699)</u>
Net cash used by operating activities	\$ <u><u>(3,383,590)</u></u>	<u><u>(6,603,720)</u></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, 2013 AND 2012**

NOTE 1 - ORGANIZATIONS

Mississippi Higher Education Assistance Corporation (“MHEAC”) is a nonprofit corporation organized on January 23, 1980, under the laws of the State of Mississippi. MHEAC is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof. MHEAC operates in accordance with the Higher Education Act for the exclusive purpose of acquiring student loans incurred under the Federal Family Education Loans Program (“FFELP”). 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 required that all new Federally funded student loans made on or after July 1, 2010, be originated directly by the Federal government. MHEAC’s acquisition of FFELP loans has since declined substantially.

Education Services Foundation (“ESF”) is a nonprofit corporation organized on March 24, 1995, under the laws of the State of Mississippi. ESF is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof. ESF operates for the purpose of engaging in a variety of activities intended to increase the level of appropriate quality education in the State of Mississippi and elsewhere. These activities include free college planning services and awarding of scholarships. ESF’s primary source of funds is from the provision of management services to MHEAC.

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.

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 are presented separately in the accompanying supplemental financial statements.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONTINUED:

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.

Bonds and Notes Payable

Bonds and notes payable are reported at their principal amount outstanding. 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.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

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 2010.

Estimates

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

NOTE 3 - CASH AND INVESTMENTS

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

At December 31, 2013 and 2012, cash and cash equivalents and investments consisted of:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents:		
Cash	\$ 283,619	494,583
Money market instruments	<u>66,429,141</u>	<u>67,918,155</u>
	<u>\$ 66,712,760</u>	<u>68,412,738</u>

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 3 - CASH AND INVESTMENTS - CONTINUED:

	<u>Maturity</u>		<u>2013</u>	<u>2012</u>
Investments:				
Societe Generale	9/1/2035 - 3/1/2037	\$	926,000	1,779,000
Portigon	8/1/2029 - 9/1/2033		1,163,000	16,619,500
Bayerische Landesbank	1/23/2013		<u>-</u>	<u>27,160,492</u>
		\$	<u>2,089,000</u>	<u>45,558,992</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. 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 by DOE and is referred to as interest subsidy. Interest rates on FFELP loans are either a stated fixed rate or a variable rate, depending on when the loan was originated and the loan type. Variable rates are subject to a cap and are reset annually on July 1 of each year.

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

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 4 - STUDENT LOANS RECEIVABLE - CONTINUED:

2000, the SAP rate is related to the average of 91-day Treasury bill rates during each quarter. For loans first disbursed on or after January 1, 2000, the SAP rate prior to April 1, 2012, is related to the average of 3-month commercial paper rates during each quarter, and the SAP rate effective April 1, 2012, is related to the average of 1-month LIBOR 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. 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, 2013 and 2012, approximately 73% and 73%, respectively, of the loans were subject to the 98% guarantee, with the remainder subject to the 97% guarantee.

At December 31, 2013 and 2012, student loans consisted of:

	<u>2013</u>	<u>2012</u>
Student loans receivable	\$ 420,153,339	523,482,154
Unamortized premiums and origination costs	<u>7,570,865</u>	<u>10,803,331</u>
	427,724,204	534,285,485
Provision for loan losses	<u>(476,699)</u>	<u>(594,539)</u>
	<u>\$ 427,247,505</u>	<u>533,690,946</u>

At December 31, 2013 and 2012, approximately 76% and 75%, respectively, of the student loans were Consolidation loans and approximately 77% and 75%, respectively, of the student loans were in repayment. During the years ended December 31, 2013 and 2012, the average annual yield on student loans was approximately 1.97% and 1.99%, respectively.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 5 - OTHER ASSETS

At December 31, 2013 and 2012, other assets consisted of:

	<u>2013</u>	<u>2012</u>
Equipment, furniture and software	\$ 1,220,735	1,398,850
Accumulated depreciation	<u>(1,095,440)</u>	<u>(1,251,688)</u>
Net book value	125,295	147,162
Prepaid bond and note fees	69,800	91,272
Miscellaneous	<u>141,597</u>	<u>86,362</u>
	<u>\$ 336,692</u>	<u>324,796</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 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, 2013 and 2012, MHEAC settled approximately \$1,406,000 and \$4,837,000, respectively, of its excess interest liability through the forgiveness of student loan principal and accrued interest. During the years ended December 31, 2013 and 2012, MHEAC settled approximately \$1,420,000 and \$0, respectively, of its rebate liability through cash payments to the Federal government. During the years ended December 31, 2013 and 2012, MHEAC settled approximately \$0 and \$318,000, respectively, of its excess interest liability through cash payments to the Federal government.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 7 - BONDS AND NOTES PAYABLE

At December 31, 2013, 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>
1996	1996	\$ 8,800,000	10/1/2026	Taxable	1.57%
1999-A-1	1999	21,500,000	8/1/2029	Exempt	.11
1999-A-3	1999	9,300,000	8/1/2029	Taxable	1.93
2000-A-1	1999	12,200,000	9/1/2030	Taxable	1.93
2000-A-2	1999	4,850,000	9/1/2030	Exempt	.02
2000-A-3	1999	30,200,000	9/1/2030	Taxable	1.93
2000-A-4	1999	1,600,000	9/1/2030	Exempt	.11
2001-A-1	1999	3,100,000	9/1/2031	Exempt	.11
2003-A-1	1999	5,000,000	9/1/2033	Taxable	.14
2003-A-2	1999	200,000	9/1/2033	Taxable	.14
2003-A-3	1999	9,500,000	9/1/2033	Taxable	1.93
2004-A-1	2004	16,700,000	3/1/2034	Exempt	.14
2004-A-2	1999	20,500,000	9/1/2034	Taxable	1.93
2004-A-3	1999	2,000,000	9/1/2034	Taxable	1.93
2004-A-4	1999	24,900,000	9/1/2034	Taxable	1.93
2005-A-2	1999	5,000,000	9/1/2035	Exempt	.04
2005-A-4	1999	16,600,000	9/1/2035	Taxable	1.93
2005-A-5	1999	3,000,000	9/1/2035	Taxable	1.93
2006-A-1	1999	70,100,000	9/1/2036	Exempt	.11
2006-A-2	1999	7,000,000	9/1/2036	Exempt	.11
2007-A-1	2004	37,900,000	3/1/2037	Exempt	.14
2007-A-2	2004	<u>5,500,000</u>	3/1/2037	Exempt	.11
		\$ <u>315,450,000</u>			

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 7 - BONDS AND NOTES PAYABLE - CONTINUED:

At December 31, 2012, 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>
1996	1996	\$ 13,100,000	10/1/2026	Taxable	1.59%
1996-A	1993	23,100,000	9/1/2016	Exempt	.23
1998-B	1993	30,500,000	9/1/2033	Exempt	.23
1999-A-1	1999	21,500,000	8/1/2029	Exempt	.23
1999-A-3	1999	12,400,000	8/1/2029	Taxable	1.92
2000	1996	3,000,000	7/1/2030	Taxable	1.54
2000-A-1	1999	35,000,000	9/1/2030	Taxable	1.92
2000-A-2	1999	6,000,000	9/1/2030	Exempt	.04
2000-A-3	1999	33,200,000	9/1/2030	Taxable	1.92
2000-A-4	1999	1,600,000	9/1/2030	Exempt	.32
2001-A-1	1999	3,100,000	9/1/2031	Exempt	.08
2003-A-1	1999	17,400,000	9/1/2033	Taxable	1.92
2003-A-2	1999	400,000	9/1/2033	Taxable	.18
2003-A-3	1999	9,500,000	9/1/2033	Taxable	1.92
2004-A-1	2004	22,800,000	3/1/2034	Exempt	.28
2004-A-2	1999	21,400,000	9/1/2034	Taxable	1.92
2004-A-3	1999	2,000,000	9/1/2034	Taxable	1.92
2004-A-4	1999	25,700,000	9/1/2034	Taxable	1.92
2005-A-2	1999	5,000,000	9/1/2035	Exempt	.23
2005-A-3	1999	26,100,000	9/1/2035	Taxable	1.92
2005-A-4	1999	26,500,000	9/1/2035	Taxable	1.92
2005-A-5	1999	3,000,000	9/1/2035	Taxable	1.92
2006-A-1	1999	70,100,000	9/1/2036	Exempt	.23
2006-A-2	1999	7,000,000	9/1/2036	Exempt	.23
2007-A-1	2004	45,275,000	3/1/2037	Exempt	.23
2007-A-2	2004	5,500,000	3/1/2037	Exempt	.23
		\$ 470,175,000			

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 7 - BONDS AND NOTES PAYABLE - CONTINUED:

At December 31, 2013, remaining maturities and sinking fund redemptions of bonds and notes are as follows:

2014 - 2025	\$	-
2026 - 2037		<u>315,450,000</u>
	\$	<u><u>315,450,000</u></u>

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. At December 31, 2013 and 2012, MHEAC determined that the cumulative amount of carry-over was approximately \$2,623,000 and \$2,453,000, 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, 2013 and 2012, the average annual expense rate for bonds and notes was approximately 1.15% and 1.15%, respectively.

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

MHEAC has capitalized certain amounts of accrued interest income on student loans and included the amounts in student loans receivable. For the years ended December 31, 2013 and 2012, capitalized interest was approximately \$7,774,000 and \$11,532,000, respectively.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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

During the years ended December 31, 2013 and 2012, MHEAC settled approximately \$1,406,000 and \$4,837,000, respectively, of its excess interest liability through the forgiveness of student loan principal and accrued interest.

During June 2012, MHEAC used approximately \$272,243,000 of student loans, consisting of a representative sample of MHEAC's loan portfolio, to settle payables associated with the retirement of approximately \$299,200,000 of bonds and notes.

NOTE 9 - RETIREMENT PLAN

ESF has a 403(b) deferred compensation plan that covers substantially all employees. Participating employees may contribute up to the maximum dollar amount permitted by law. ESF's board of directors annually determines the amount of an employee's contributions that ESF will match. For the years ended December 31, 2013 and 2012, the first 6% of an employee's eligible compensation contributed by the employee was matched by ESF at 200% and 200%, respectively. For 2013 and 2012, ESF's match was \$219,522 and \$189,870, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

ESF leases office space from third parties under certain operating lease agreements with expiration dates through 2018. Rent expense under these agreements was \$291,682 and \$305,841 for the years ended December 31, 2013 and 2012, respectively. The minimum future payments for the office space leases required for the succeeding years are \$193,332 for 2014, \$156,732 for 2015, \$156,732 for 2016, \$159,864 for 2017, and \$163,068 for 2018.

ESF had contracts with clients to provide origination and servicing of loans in the FFELP prior to July 1, 2010. 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 11 - GAINS ON EXTINGUISHMENT OF DEBT

During the years ended December 31, 2013 and 2012, MHEAC used available cash and student loans to retire bonds and notes for less than their carrying value, resulting in gains net of expenses of \$2,948,314 and \$34,710,833, respectively.

NOTE 12 - OTHER REVENUE

Other revenue for 2013 includes income of approximately \$1,077,000 related to settlement of a contract dispute.

NOTE 13 - SUBSEQUENT EVENTS

From January 1, 2014 through April 21, 2014, MHEAC used available cash to retire bonds and notes, resulting in a gain net of expenses of approximately \$65,000, and a reduction in carry-over of approximately \$975,000.

Except as disclosed above, MHEAC and ESF had no subsequent events of a material nature requiring disclosure in the financial statements through April 21, 2014, 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, 2013**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 56,883,606	9,829,154	-	66,712,760
Investments	2,089,000	-	-	2,089,000
Student loans receivable	427,539,965	-	(292,460)	427,247,505
Interest and special allowance receivable	6,644,979	-	-	6,644,979
Deferred costs of issuance less accumulated amortization	1,464,339	-	-	1,464,339
Other assets	<u>78,807</u>	<u>637,260</u>	<u>(379,375)</u>	<u>336,692</u>
Total assets	\$ <u>494,700,696</u>	<u>10,466,414</u>	<u>(671,835)</u>	<u>504,495,275</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>				
LIABILITIES:				
Accounts payable and accrued expenses	\$ 724,427	729,773	(379,375)	1,074,825
Accrued interest payable	207,664	-	-	207,664
Excess interest and rebate payable	4,432,000	-	-	4,432,000
Bonds and notes payable	<u>315,450,000</u>	-	-	<u>315,450,000</u>
Total liabilities	<u>320,814,091</u>	<u>729,773</u>	<u>(379,375)</u>	<u>321,164,489</u>
UNRESTRICTED NET ASSETS:				
Bond and note fund	146,395,208	-	(292,460)	146,102,748
General fund	<u>27,491,397</u>	<u>9,736,641</u>	-	<u>37,228,038</u>
Total unrestricted net assets	<u>173,886,605</u>	<u>9,736,641</u>	<u>(292,460)</u>	<u>183,330,786</u>
Total liabilities and unrestricted net assets	\$ <u>494,700,696</u>	<u>10,466,414</u>	<u>(671,835)</u>	<u>504,495,275</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, 2013**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
INTEREST INCOME:				
Interest on student loans	\$ 11,036,256	-	215,654	11,251,910
Interest subsidy	2,284,752	-	-	2,284,752
Special allowance	(4,230,175)	-	-	(4,230,175)
Late fees	325,277	-	-	325,277
Student loans	9,416,110	-	215,654	9,631,764
Interest on investments	44,190	7,739	-	51,929
Total interest income	9,460,300	7,739	215,654	9,683,693
INTEREST COST:				
Interest expense	3,945,869	-	-	3,945,869
Bond and note fees	313,647	-	-	313,647
Amortization of deferred costs of issuance	86,832	-	-	86,832
Total interest cost	4,346,348	-	-	4,346,348
Net interest revenue	5,113,952	7,739	215,654	5,337,345
PROVISION FOR LOAN LOSSES	248,569	-	-	248,569
Net interest revenue after provision for loan losses	4,865,383	7,739	215,654	5,088,776
OTHER REVENUE (EXPENSE):				
Loss from sale of student loans	(390,813)	-	-	(390,813)
Program services revenue	-	6,036,928	(4,795,550)	1,241,378
Program services expense	(2,809,756)	(4,733,882)	3,897,563	(3,646,075)
Support services expense	(1,985,794)	(1,005,200)	897,987	(2,093,007)
Total other revenue (expense)	(5,186,363)	297,846	-	(4,888,517)
INCREASE IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT	(320,980)	305,585	215,654	200,259
GAINS ON EXTINGUISHMENT OF DEBT	2,948,314	-	-	2,948,314
INCREASE IN UNRESTRICTED NET ASSETS	2,627,334	305,585	215,654	3,148,573
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	171,259,271	9,431,056	(508,114)	180,182,213
UNRESTRICTED NET ASSETS, END OF PERIOD	\$ 173,886,605	9,736,641	(292,460)	183,330,786

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

**COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 7,163,948	-	-	7,163,948
Interest subsidy	2,481,802	-	-	2,481,802
Special allowance	(4,477,931)	-	-	(4,477,931)
Late fees	325,277	-	-	325,277
Interest on investments	294,970	7,739	-	302,709
Other program services revenue	-	6,392,224	(5,150,003)	1,242,221
Interest expense	(4,156,372)	-	-	(4,156,372)
Program and support services	(5,352,487)	(5,770,140)	5,150,003	(5,972,624)
Bond and note fees	(292,620)	-	-	(292,620)
	<u>(4,013,413)</u>	<u>629,823</u>	<u>-</u>	<u>(3,383,590)</u>
Net cash provided (used) by operating activities				
Cash flows from investing activities:				
Additions to equipment	-	(82,389)	-	(82,389)
Collection of student loan principal	67,136,780	-	-	67,136,780
Proceeds from sale of student loans	47,604,482	-	-	47,604,482
Purchases of student loan principal	(4,200,627)	-	-	(4,200,627)
Investments matured/redeemed	43,469,992	-	-	43,469,992
	<u>154,010,627</u>	<u>(82,389)</u>	<u>-</u>	<u>153,928,238</u>
Net cash provided (used) by investing activities				
Cash flows from financing activities:				
Collection of excess and rebate interest liability	327,450	-	-	327,450
Payment of excess and rebate interest	(1,420,436)	-	-	(1,420,436)
Payments to redeem bonds and notes	(151,151,640)	-	-	(151,151,640)
	<u>(152,244,626)</u>	<u>-</u>	<u>-</u>	<u>(152,244,626)</u>
Net cash used by financing activities				
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,247,412)	547,434	-	(1,699,978)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>59,131,018</u>	<u>9,281,720</u>	<u>-</u>	<u>68,412,738</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 56,883,606</u>	<u>9,829,154</u>	<u>-</u>	<u>66,712,760</u>

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

**COMBINING STATEMENT OF CASH FLOWS - CONTINUED:
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>MHEAC</u>	<u>ESF</u>	<u>Eliminations</u>	<u>Total</u>
RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Increase in unrestricted net assets	\$ <u>2,627,334</u>	<u>305,585</u>	<u>215,654</u>	<u>3,148,573</u>
Adjustments to reconcile increase in unrestricted net assets to net cash provided (used) by operating activities:				
Amortization and depreciation	2,723,541	103,413	(215,654)	2,611,300
Capitalized interest on student loans	(7,773,904)	-	-	(7,773,904)
Provision for loan losses	248,569	-	-	248,569
Gains on extinguishment of debt	(2,948,314)	-	-	(2,948,314)
Loss from sale of student loans	390,813	-	-	390,813
Decrease in interest and special allowance receivable	1,464,961	-	-	1,464,961
Decrease in other assets	21,472	300,061	-	321,533
Decrease in accounts payable	(557,383)	(79,236)	-	(636,619)
Decrease in accrued interest payable	<u>(210,502)</u>	<u>-</u>	<u>-</u>	<u>(210,502)</u>
Total adjustments	<u>(6,640,747)</u>	<u>324,238</u>	<u>(215,654)</u>	<u>(6,532,163)</u>
Net cash provided (used) by operating activities	\$ <u>(4,013,413)</u>	<u>629,823</u>	<u>-</u>	<u>(3,383,590)</u>

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)

COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

	1993	1996	1999	2004	General	Total
	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Fund</u>	<u>Eliminations</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ -	5,955,140	25,087,221	6,404,716	19,436,529	- 56,883,606
Investments	-	-	1,655,000	434,000	3,400,000	(3,400,000) 2,089,000
Student loans receivable	-	27,612,227	324,648,640	71,658,253	3,620,845	- 427,539,965
Interest and special allowance receivable	-	433,877	4,103,999	1,932,135	176,161	(1,193) 6,644,979
Deferred costs of issuance less accumulated amortization	-	37,464	1,091,499	288,712	46,664	- 1,464,339
Other assets	-	(322,745)	(602,288)	(197,409)	1,201,249	- 78,807
Total assets	\$ -	33,715,963	355,984,071	80,520,407	27,881,448	(3,401,193) 494,700,696
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>						
<u>LIABILITIES:</u>						
Accounts payable and accrued expenses	\$ -	20,535	284,122	29,719	390,051	- 724,427
Accrued interest payable	-	768	183,222	24,867	-	(1,193) 207,664
Excess interest and rebate payable	-	-	4,432,000	-	-	- 4,432,000
Bonds and notes payable	-	8,800,000	246,550,000	63,500,000	-	(3,400,000) 315,450,000
Total liabilities	-	8,821,303	251,449,344	63,554,586	390,051	(3,401,193) 320,814,091
<u>UNRESTRICTED NET ASSETS</u>						
Total liabilities and unrestricted net assets	\$ -	24,894,660	104,534,727	16,965,821	27,491,397	- 173,886,605
	\$ -	33,715,963	355,984,071	80,520,407	27,881,448	(3,401,193) 494,700,696

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)

**COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	1993	1996	1999	2004	General		
	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Indenture</u>	<u>Fund</u>	<u>Eliminations</u>	<u>Total</u>
INTEREST INCOME:							
Interest on student loans	\$ 12,900	920,976	6,462,136	3,467,057	173,187	-	11,036,256
Interest subsidy	1,007	115,793	1,374,350	780,246	13,356	-	2,284,752
Special allowance	-	(6,052)	(1,483,120)	(2,772,161)	31,158	-	(4,230,175)
Late fees	<u>211</u>	<u>28,551</u>	<u>221,572</u>	<u>69,556</u>	<u>5,387</u>	<u>-</u>	<u>325,277</u>
Student loans	14,118	1,059,268	6,574,938	1,544,698	223,088	-	9,416,110
Interest on investments	<u>18,939</u>	<u>439</u>	<u>20,306</u>	<u>403</u>	<u>68,451</u>	<u>(64,348)</u>	<u>44,190</u>
Total interest income	<u>33,057</u>	<u>1,059,707</u>	<u>6,595,244</u>	<u>1,545,101</u>	<u>291,539</u>	<u>(64,348)</u>	<u>9,460,300</u>
INTEREST COST:							
Interest expense	5,923	206,256	3,669,886	128,152	-	(64,348)	3,945,869
Bond and note fees	21,598	26,548	222,325	42,176	1,000	-	313,647
Amortization of deferred costs							
of issuance	<u>-</u>	<u>4,022</u>	<u>65,183</u>	<u>14,960</u>	<u>2,667</u>	<u>-</u>	<u>86,832</u>
Total interest cost	<u>27,521</u>	<u>236,826</u>	<u>3,957,394</u>	<u>185,288</u>	<u>3,667</u>	<u>(64,348)</u>	<u>4,346,348</u>
Net interest revenue	5,536	822,881	2,637,850	1,359,813	287,872	-	5,113,952
PROVISION FOR LOAN LOSSES							
Net interest revenue after provision for loan losses	<u>9,342</u>	<u>810,804</u>	<u>2,516,225</u>	<u>1,244,415</u>	<u>284,597</u>	<u>-</u>	<u>4,865,383</u>
OTHER REVENUE (EXPENSE):							
Gain (loss) from sale of student loans	-	-	(403,908)	13,095	-	-	(390,813)
Program and support services	<u>-</u>	<u>(18,154)</u>	<u>(1,225,575)</u>	<u>(332,481)</u>	<u>(3,219,340)</u>	<u>-</u>	<u>(4,795,550)</u>
Total other revenue (expense)	<u>-</u>	<u>(18,154)</u>	<u>(1,629,483)</u>	<u>(319,386)</u>	<u>(3,219,340)</u>	<u>-</u>	<u>(5,186,363)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT							
EXTINGUISHMENT OF DEBT	9,342	792,650	886,742	925,029	(2,934,743)	-	(320,980)
GAINS ON EXTINGUISHMENT OF DEBT							
OF DEBT	<u>(193,793)</u>	<u>(13,534)</u>	<u>2,639,790</u>	<u>515,851</u>	<u>-</u>	<u>-</u>	<u>2,948,314</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD							
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	6,912,180	24,115,544	103,508,596	17,446,295	19,276,656	-	171,259,271
TRANSFERS IN (OUT)	<u>(6,727,729)</u>	<u>-</u>	<u>(2,500,401)</u>	<u>(1,921,354)</u>	<u>11,149,484</u>	<u>-</u>	<u>-</u>
UNRESTRICTED NET ASSETS, END OF PERIOD							
\$	<u>-</u>	<u>24,894,660</u>	<u>104,534,727</u>	<u>16,965,821</u>	<u>27,491,397</u>	<u>-</u>	<u>173,886,605</u>