MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION AND SUBSIDIARY EDUCATION SERVICES FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014 AND 2013

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Mississippi Higher Education Assistance Corporation (a nonprofit organization) and subsidiary Education Services Foundation, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and changes in unrestricted net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Higher Education Assistance Corporation and subsidiary Education Services Foundation, as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Haddox Reid Eubank Betts PLLC

Jackson, Mississippi
June 19, 2015

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
Cash and cash equivalents	$ 21,718,832	66,712,760
Investments	148,304,501	2,089,000
Student loans receivable	368,202,351	427,247,505
Interest and special allowance receivable	5,217,255	6,644,979
Deferred costs of issuance less accumulated amortization	2,418,825	1,464,339
Other assets	108,881	336,692
Total assets	$ 545,970,645	504,495,275

LIABILITIES AND UNRESTRICTED NET ASSETS

	2014	2013
LIABILITIES:		
Accounts payable and accrued expenses	$ 923,694	1,074,825
Accrued interest payable	51,756	207,664
Excess interest and rebate payable	-	4,432,000
Bonds and notes payable	365,552,000	315,450,000
Total liabilities	366,527,450	321,164,489
UNRESTRICTED NET ASSETS	179,443,195	183,330,786
Total liabilities and unrestricted net assets	$ 545,970,645	504,495,275

The accompanying notes are an integral part of these statements.

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION AND SUBSIDIARY EDUCATION SERVICES FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING REVENUES:		
Interest on student loans	$ 9,433,142	11,251,910
Interest subsidy	1,774,055	2,284,752
Special allowance	(3,545,102)	(4,230,175)
Late fees	313,859	325,277
Program services revenue	142,431	1,241,378
Total operating revenues	8,118,385	10,873,142
OPERATING EXPENSES:		
Interest expense	2,851,024	3,945,869
Bond and note fees	288,425	313,647
Amortization of deferred costs of issuance	231,862	86,832
Provision for loan losses	214,607	248,569
Program services expense	3,693,033	3,646,075
Support services expense	2,275,964	2,093,007
Total operating expenses	9,554,915	10,333,999
Net operating revenue (expense)	(1,436,530)	539,143
OTHER REVENUE (EXPENSE):		
Income (loss) on investments:		
Interest and dividends	1,187,992	51,929
Realized gain on investments	353,190	-
Unrealized loss on investments	(2,280,838)	-
Investment management fees	(147,787)	-
Total income (loss) on investments	(887,443)	51,929
Gain (loss) on extinguishment of debt	(1,563,618)	2,948,314
Loss from sale of student loans	-	(390,813)
Total other revenue (expense)	(2,451,061)	2,609,430
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(3,887,591)	3,148,573
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	183,330,786	180,182,213
UNRESTRICTED NET ASSETS, END OF PERIOD	$ 179,443,195	183,330,786

The accompanying notes are an integral part of these statements.

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION AND SUBSIDIARY EDUCATION SERVICES FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

		2014	2013
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:			
Cash flows from operating activities:			
Interest on student loans	$	6,363,945	7,163,948
Interest subsidy		1,857,505	2,481,802
Special allowance		(3,590,619)	(4,477,931)
Late fees		313,859	325,277
Program services revenue		269,057	1,242,221
Interest expense		(3,006,932)	(4,156,372)
Bond and note fees		(253,827)	(292,620)
Program and support services		(6,046,237)	(5,972,624)
Interest and dividends		1,090,498	302,709
Investment management fees		(97,537)	-
Net cash used by operating activities		(3,100,288)	(3,383,590)
Cash flows from investing activities:			
Additions to equipment		(23,109)	(82,389)
Collection of student loan principal		63,601,737	67,136,780
Proceeds from sale of student loans		-	47,604,482
Purchases of student loan principal		(4,681,152)	(4,200,627)
Dividends and capital gains reinvested		1,545,557	-
Proceeds from sale of investments		111,343,860	43,469,992
Purchases of investments		(261,032,567)	-
Net cash provided (used) by investing activities		(89,245,674)	153,928,238
Cash flows from financing activities:			
Collection of excess and rebate interest liability		-	327,450
Payment of rebate interest		-	(1,420,436)
Proceeds from note issue		387,000,000	-
Payments to redeem bonds and notes		(337,037,514)	(151,151,640)
Payments for cost of issuance		(2,610,452)	-
Net cash provided (used) by financing activities		47,352,034	(152,244,626)

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION
AND SUBSIDIARY EDUCATION SERVICES FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED:
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

		2014	2013
NET DECREASE IN CASH AND CASH EQUIVALENTS	$	(44,993,928)	(1,699,978)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		66,712,760	68,412,738
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	21,718,832	66,712,760
RECONCILIATION OF INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:			
Increase (decrease) in unrestricted net assets	$	(3,887,591)	3,148,573
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used by operating activities:			
Amortization and depreciation		2,152,525	2,611,300
Net realized and unrealized loss on investments		1,927,648	-
Capitalized interest on student loans		(6,481,385)	(7,773,904)
Provision for loan losses		313,974	248,569
Loss (gain) on extinguishment of debt		1,563,618	(2,948,314)
Loss from sale of student loans		-	390,813
Decrease in interest and special allowance receivable		1,427,724	1,464,961
Decrease in other assets		249,626	321,533
Decrease in accounts payable		(210,519)	(636,619)
Decrease in accrued interest payable		(155,908)	(210,502)
Total adjustments		787,303	(6,532,163)
Net cash used by operating activities	$	(3,100,288)	(3,383,590)

The accompanying notes are an integral part of these statements.

NOTE 1 - ORGANIZATIONS

Mississippi Higher Education Assistance Corporation ("MHEAC") is a nonprofit corporation organized in 1980 under the laws of the State of Mississippi. MHEAC is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof. MHEAC operates in accordance with the Higher Education Act and was organized for the exclusive purpose of acquiring student loans incurred under the Federal Family Education Loans Program ("FFELP"). As a qualified student loan funding corporation under Section 150(d) of the Internal Revenue Code, MHEAC was eligible to issue tax-exempt bonds to fund its exempt activities. Since its inception, the primary source for funds for MHEAC's exempt activities was the issuance of tax-exempt bonds and taxable notes.

MHEAC no longer has any outstanding tax-exempt bonds, has ceased operating as a qualified student loan funding corporation, and is no longer eligible to issue tax-exempt bonds under Section 150(d) of the Internal Revenue Code. MHEAC's student loan portfolio is now financed only by taxable notes. With MHEAC having ceased operating as a qualified student loan funding corporation, MHEAC filed an amendment to its Articles of Incorporation on July 30, 2014. The amendment provides that MHEAC will be operated exclusively for charitable and educational purposes.

Education Services Foundation ("ESF") is a nonprofit corporation organized in 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.

On July 30, 2014, after MHEAC ceased operating as a qualified student loan funding corporation, ESF amended its Articles of Incorporation and its bylaws. The amendment provides that ESF will be operated exclusively for the benefit of, to perform the functions of, and to carry out the purposes of MHEAC. There is now a parent-subsidiary relationship between MHEAC and ESF, with MHEAC serving as the parent, and ESF serving as a subsidiary supporting organization of MHEAC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Because ESF is now a subsidiary supporting organization of MHEAC, generally accepted accounting principles require that the financial statements of MHEAC and ESF be

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Principles of Consolidation - continued:

consolidated. Accordingly, the accompanying financial statements present the consolidation of the financial statements of MHEAC and ESF. Material intercompany transactions and balances have been eliminated in the consolidated financial statements. The financial statements of MHEAC and ESF were required to be combined prior to ESF becoming a subsidiary supporting organization of MHEAC.

MHEAC and ESF continue to be operated as separate and distinct organizations. The financial statements of MHEAC are presented separately in the accompanying supplemental consolidating financial statements.

Basis of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

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

Investments

The overall, long-term investment goal of the MHEAC portfolio is to achieve an annualized return (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending, thus protecting the purchasing power of the assets.

MHEAC carries investments at fair value. Interest and dividends from investments, as well as realized and unrealized gains and losses, are recorded as nonoperating revenues in the consolidated statements of activities and changes in unrestricted net assets. Investments may include investments in funds managed by others, which from time to time include cash or cash equivalents waiting to be reinvested. For investments in funds, MHEAC utilizes the investment's net asset value per share as a practical expedient for determining fair value.

MHEAC records investment transactions on their trade dates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Student Loans Receivable

MHEAC records student loan receivables that it has the intent and ability to hold for the foreseeable future or until maturity or payoff on its consolidated statements of financial position at outstanding principal adjusted for charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and any unamortized premiums or discounts. Origination costs and premiums are amortized over sixteen years for consolidated loans and eight years for all other loans, using the effective interest method.

The allowance for loan losses is maintained at a level MHEAC believes is sufficient to absorb probable credit losses inherent in the student loan portfolio. The allowance is determined based on estimates of the probable future net credit losses and a provision is charged against earnings to maintain the allowance for loan losses at that level. MHEAC's net credit losses include the principal amount of loans charged off less current year recoveries.

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.

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 consolidated 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 2011.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities and changes in unrestricted net assets. Accordingly, certain costs have been allocated among the programs and supporting services based on benefits derived.

Estimates

The preparation of 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 CASH EQUIVALENTS

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 cash equivalents credit risk exposure is limited.

At December 31, 2014 and 2013, cash and cash equivalents consisted of:

		2014	2013
Cash	$	392,144	283,619
Money market instruments		14,803,175	66,429,141
60-Day U.S. Bank commercial paper		6,523,513	-
	$	21,718,832	66,712,760

Included in cash and cash equivalents are restricted cash and cash equivalents of $14,830,131 and $37,447,077 as of December 31, 2014 and 2013, respectively.

NOTE 4 - FAIR VALUE MEASUREMENTS

Authoritative guidance establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that MHEAC has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2014.

Public equity funds: Value based on quoted market prices.

Hedge funds: These funds invest in institutional quality hedge fund managers. Net asset value is calculated based upon valuations received from the underlying hedge funds.

NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED:

Private equity funds: Net asset value is calculated on a quarterly basis using the value of the underlying investment funds and other fund assets and liabilities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although MHEAC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, MHEAC's assets at fair value as of December 31, 2014 and 2013:

	December 31, 2014			
	(Level 1)	(Level 2)	(Level 3)	Total
Public equity funds	$ 124,070,844	-	-	124,070,844
Hedge funds	-	-	22,102,834	22,102,834
Private equity funds	-	-	2,130,823	2,130,823
	$ 124,070,844	-	24,233,657	148,304,501

	December 31, 2013			
	(Level 1)	(Level 2)	(Level 3)	Total
Repurchase agreements	$ 2,089,000	-	-	2,089,000
	$ 2,089,000	-	-	2,089,000

The following is a reconciliation of MHEAC's investments with significant unobservable inputs (Level 3):

	Hedge Funds	Private Equity Funds	Total
Balance as of December 31, 2013:	$ -	-	-
Unrealized gains (losses)	227,834	(269,177)	(41,343)
Purchases	21,875,000	2,400,000	24,275,000
Balance as of December 31, 2014:	$ 22,102,834	2,130,823	24,233,657

NOTE 5 - 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, the U.S. Department of Education ("DOE") pays the loan interest while the loan is in the in-school, grace, or deferment period. This interest is paid quarterly to MHEAC by DOE and is referred to as interest subsidy. Interest rates on FFELP loans are either a stated fixed rate or a variable rate, depending on when the loan was originated and the loan type. Variable rates are subject to a cap and are reset annually on July 1 of each year.

For loans disbursed prior to April 1, 2006, MHEAC earns interest at the greater of the loan rate or a floating rate based on the special allowance payment ("SAP") formula, with any interest earned at the SAP rate that exceeds the interest earned at the loan rate being paid directly by DOE on a quarterly basis. For loans disbursed on or after April 1, 2006, MHEAC earns interest at the SAP rate, as any interest earned at the loan rate that exceeds the interest earned at the SAP rate is required to be refunded to DOE on a quarterly basis. For loans first disbursed prior to January 1, 2000, the SAP rate is related to the average of 91-day Treasury bill rates during each quarter. For loans first disbursed on or after January 1, 2000, the SAP rate is related to the average of 1-month LIBOR rates during each quarter. Prior to July 29, 2014, 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, 2014 and 2013, approximately 76% and 73%, respectively, of the loans were subject to the 98% guarantee, with the remainder subject to the 97% guarantee.

NOTE 5 - STUDENT LOANS RECEIVABLE - CONTINUED:

At December 31, 2014 and 2013, student loans consisted of:

	2014	2013
Student loans receivable	$ 362,896,846	420,153,339
Unamortized premiums and origination costs	5,710,884	7,570,865
	368,607,730	427,724,204
Provision for loan losses	(405,379)	(476,699)
	$ 368,202,351	427,247,505

At December 31, 2014 and 2013, approximately 77% and 76%, respectively, of the student loans were Consolidation loans and approximately 80% and 77%, respectively, of the student loans were in repayment. During the years ended December 31, 2014 and 2013, the average annual yield on student loans was approximately 2.00% and 1.97%, respectively.

NOTE 6 - OTHER ASSETS

At December 31, 2014 and 2013, other assets consisted of:

	2014	2013
Equipment, furniture and software	$ 1,186,486	1,220,735
Accumulated depreciation	(1,098,777)	(1,095,440)
Net book value	87,709	125,295
Prepaid bond and note fees	15,208	69,800
Miscellaneous	5,964	141,597
	$ 108,881	336,692

NOTE 7 - 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

NOTE 7 - EXCESS INTEREST AND REBATE PAYABLE - CONTINUED:

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, 2014 and 2013, MHEAC settled approximately $4,619,000 and $1,406,000, respectively, of its excess interest liability through the forgiveness of student loan principal and accrued interest. During the years ended December 31, 2014 and 2013, MHEAC settled approximately $-0- and $1,420,000, respectively, of its rebate liability through cash payments to the Federal government.

NOTE 8 - BONDS AND NOTES PAYABLE

At December 31, 2014, MHEAC notes payable consisted of $365,552,000 of 2014 Indenture taxable LIBOR floating rate notes with a stated maturity of October 25, 2035. Interest is paid monthly, and Indenture cash remaining after payment of interest and expenses is used to pay down principal monthly. Interest is reset monthly at 1-month LIBOR plus .68%. The interest rate at December 31, 2014 was .85%.

At December 31, 2013, MHEAC bonds and notes payable consisted of:

Series	Indenture	Amount	Maturity	Status	Rate
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

NOTE 8 - BONDS AND NOTES PAYABLE - CONTINUED:

Series	Indenture	Amount	Maturity	Status	Rate
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	5,500,000	3/1/2037	Exempt	.11
		$ 315,450,000			

Prior to July 29, 2014, all of MHEAC's bonds and notes outstanding were auction rate securities 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 auction rate 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

NOTE 8 - BONDS AND NOTES PAYABLE - CONTINUED:

maximum rate had been used, less the amount of interest that was accrued for the period using the net loan rate. The payment of cumulative carry-over amounts is governed by the related indentures. At December 31, 2014 and 2013, MHEAC determined that the cumulative amount of carry-over was approximately $-0- and $2,623,000, respectively. In 2014, MHEAC paid approximately $370,000 in carry-over in connection with the retirement of the taxable auction rate notes.

During the years ended December 31, 2014 and 2013, the average annual expense rate for bonds and notes was approximately 1.01% and 1.15%, respectively.

NOTE 9 - 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, 2014 and 2013, capitalized interest was approximately $6,481,000 and $7,774,000, respectively.

During the years ended December 31, 2014 and 2013, MHEAC settled approximately $4,619,000 and $1,406,000, respectively, 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 2014 and 2013, the match for the first 6% of an employee's eligible compensation contributed by the employee is 200% and 200%, respectively. For 2014 and 2013, ESF's match was $239,564 and $221,894, respectively.

NOTE 11 - 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 $249,432 and $304,637 for the years ended December 31, 2014 and 2013, respectively. The minimum future payments for the office space leases required for the succeeding years are $250,802 for 2015, $251,927 for 2016, $229,106 for 2017, and $171,318 for 2018.

NOTE 11 - COMMITMENTS AND CONTINGENCIES - CONTINUED:

In December 2014, MHEAC's third party servicer notified MHEAC that certain student loan accounts serviced for MHEAC and other parties had not been properly updated for all loan activity, and as a result certain account balances may have been stated inaccurately. The servicer has retained an independent outside auditor to assist in the account adjustments and the updates of any required credit or tax reporting. On June 4, 2015 the servicer submitted a remediation plan to the Consumer Financial Protection Bureau and the U.S. Department of Education for their approval. Management does not believe the resolution of this matter will have a material adverse effect on MHEAC.

In the normal course of business, MHEAC and 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 12 - GAINS (LOSSES) ON EXTINGUISHMENT OF DEBT

During the years ended December 31, 2014 and 2013, MHEAC used available cash and debt proceeds to retire bonds and notes, resulting in gains (losses) net of expenses of ($1,563,618) and $2,948,314 respectively.

NOTE 13 - PROGRAM SERVICES REVENUE

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

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

MHEAC and ESF's financial instruments principally consist of cash and cash equivalents, investments, student loans receivable, and bonds and notes payable. Cash and cash equivalents reflected in the financial statements approximates fair value because of the short-term maturity of these instruments. Long-term debt approximates fair value based on interest rates that are believed to be available to MHEAC for instruments with similar provisions provided for in the existing agreements. It is not practical to estimate the fair value of the student loans receivable because there is no quoted market price for these instruments and they are reported at unamortized cost. The methods for valuing investments are described in Note 4.

NOTE 15 - SUBSEQUENT EVENTS

MHEAC and ESF have evaluated subsequent events through June 19, 2015, the date the consolidated financial statements were approved by MHEAC's and ESF's management and thereby available to be issued, and determined that there are no subsequent events of a material nature requiring adjustment to or disclosure in the accompanying consolidated financial statements.

SUPPLEMENTAL INFORMATION

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

	MHEAC	ESF	Eliminations	Total
ASSETS				
Cash and cash equivalents	$ 18,368,714	3,350,118	-	21,718,832
Investments	148,304,501	-	-	148,304,501
Student loans receivable	368,337,031	-	(134,680)	368,202,351
Interest and special allowance receivable	5,217,255	-	-	5,217,255
Deferred costs of issuance less accumulated amortization	2,418,825	-	-	2,418,825
Other assets	15,208	413,660	(319,987)	108,881
Total assets	$ 542,661,534	3,763,778	(454,667)	545,970,645
LIABILITIES AND UNRESTRICTED NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	$ 716,111	527,570	(319,987)	923,694
Accrued interest payable	51,756	-	-	51,756
Notes payable	365,552,000	-	-	365,552,000
Total liabilities	366,319,867	527,570	(319,987)	366,527,450
UNRESTRICTED NET ASSETS:				
Note fund	14,763,614	-	(134,680)	14,628,934
General fund	161,578,053	3,236,208	-	164,814,261
Total unrestricted net assets	176,341,667	3,236,208	(134,680)	179,443,195
Total liabilities and unrestricted net assets	$ 542,661,534	3,763,778	(454,667)	545,970,645

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

CONSOLIDATING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

	MHEAC	ESF	Eliminations	Total
OPERATING REVENUES:				
Interest on student loans	$ 9,275,362	-	157,780	9,433,142
Interest subsidy	1,774,055	-	-	1,774,055
Special allowance	(3,545,102)	-	-	(3,545,102)
Late fees	313,859	-	-	313,859
Program services revenue	-	4,196,288	(4,053,857)	142,431
Total operating revenues	7,818,174	4,196,288	(3,896,077)	8,118,385
OPERATING EXPENSES:				
Interest expense	2,851,024	-	-	2,851,024
Bond and note fees	288,425	-	-	288,425
Amortization of deferred costs of issuance	231,862	-	-	231,862
Provision for loan losses	214,607	-	-	214,607
Program services expense	2,306,706	4,303,493	(2,917,166)	3,693,033
Support services expense	2,263,501	1,149,154	(1,136,691)	2,275,964
Total operating expenses	8,156,125	5,452,647	(4,053,857)	9,554,915
Net operating expense	(337,951)	(1,256,359)	157,780	(1,436,530)
OTHER REVENUE (EXPENSE):				
Income (loss) on investments:				
Interest and dividends	1,182,066	5,926	-	1,187,992
Realized gain on investments	353,190	-	-	353,190
Unrealized loss on investments	(2,280,838)	-	-	(2,280,838)
Investment management fees	(147,787)	-	-	(147,787)
Total income (loss) on investments	(893,369)	5,926	-	(887,443)
Loss on extinguishment of debt	(1,563,618)	-	-	(1,563,618)
Donations	5,250,000	(5,250,000)	-	-
Total other revenue (expense)	2,793,013	(5,244,074)	-	(2,451,061)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	2,455,062	(6,500,433)	157,780	(3,887,591)
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	173,886,605	9,736,641	(292,460)	183,330,786
UNRESTRICTED NET ASSETS, END OF PERIOD	$ 176,341,667	3,236,208	(134,680)	179,443,195

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

CONSOLIDATING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014

	MHEAC	ESF	Eliminations	Total
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:				
Cash flows from operating activities:				
Interest on student loans	$ 6,363,945	-	-	6,363,945
Interest subsidy	1,857,505	-	-	1,857,505
Special allowance	(3,590,619)	-	-	(3,590,619)
Late fees	313,859	-	-	313,859
Program services revenue	-	4,382,302	(4,113,245)	269,057
Interest expense	(3,006,932)	-	-	(3,006,932)
Bond and note fees	(253,827)	-	-	(253,827)
Program and support services	(4,565,327)	(5,594,155)	4,113,245	(6,046,237)
Interest and dividends	1,084,572	5,926	-	1,090,498
Investment management fees	(97,537)	-	-	(97,537)
Donations	5,250,000	(5,250,000)	-	-
Net cash provided (used) by operating activities	3,355,639	(6,455,927)	-	(3,100,288)
Cash flows from investing activities:				
Additions to equipment	-	(23,109)	-	(23,109)
Collection of student loan principal	63,601,737	-	-	63,601,737
Purchases of student loan principal	(4,681,152)	-	-	(4,681,152)
Dividends and capital gains reinvested	1,545,557	-	-	1,545,557
Proceeds from sale of investments	111,343,860	-	-	111,343,860
Purchases of investments	(261,032,567)	-	-	(261,032,567)
Net cash used by investing activities	(89,222,565)	(23,109)	-	(89,245,674)
Cash flows from financing activities:				
Proceeds from note issue	387,000,000	-	-	387,000,000
Payments to redeem bonds and notes	(337,037,514)	-	-	(337,037,514)
Payments for costs of issuance	(2,610,452)	-	-	(2,610,452)
Net cash provided by financing activities	47,352,034	-	-	47,352,034
NET DECREASE IN CASH AND CASH EQUIVALENTS	(38,514,892)	(6,479,036)	-	(44,993,928)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	56,883,606	9,829,154	-	66,712,760
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 18,368,714	3,350,118	-	21,718,832

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

CONSOLIDATING STATEMENT OF CASH FLOWS - CONTINUED: FOR THE YEAR ENDED DECEMBER 31, 2014

		MHEAC	ESF	Eliminations	Total
RECONCILIATION OF INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Increase (decrease) in unrestricted net assets	$	2,455,062	(6,500,433)	157,780	(3,887,591)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided (used) by operating activities:					
Amortization and depreciation		2,249,623	60,682	(157,780)	2,152,525
Net realized and unrealized loss on investments		1,927,648	-	-	1,927,648
Capitalized interest on student loans		(6,481,385)	-	-	(6,481,385)
Provision for loan losses		313,974	-	-	313,974
Loss on extinguishment of debt		1,563,618	-	-	1,563,618
Decrease in interest and special allowance receivable		1,427,724	-	-	1,427,724
Decrease in other assets		63,599	186,027	-	249,626
Decrease in accounts payable		(8,316)	(202,203)	-	(210,519)
Decrease in accrued interest payable		(155,908)	-	-	(155,908)
Total adjustments		900,577	44,506	(157,780)	787,303
Net cash provided (used) by operating activities	$	3,355,639	(6,455,927)	-	(3,100,288)

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

		1996 Indenture	1999 Indenture	2004 Indenture	2014 Indenture	General Fund	Eliminations	Total
ASSETS								
Cash and cash equivalents	$	-	-	-	14,830,131	3,538,583	-	18,368,714
Investments		-	-	-	-	158,304,501	(10,000,000)	148,304,501
Student loans receivable		-	-	-	368,337,031	-	-	368,337,031
Interest and special allowance receivable		-	-	-	5,113,996	105,208	(1,949)	5,217,255
Deferred costs of issuance less accumulated			-	-				
amortization		-	-	-	2,418,825	-	-	2,418,825
Other assets		-	-	-	15,208	-	-	15,208
Total assets	$	-	-	-	390,715,191	161,948,292	(10,001,949)	542,661,534
LIABILITIES AND UNRESTRICTED NET ASSETS								
LIABILITIES:								
Accounts payable and accrued expenses	$	-	-	-	345,872	370,239	-	716,111
Accrued interest payable		-	-	-	53,705	-	(1,949)	51,756
Notes payable		-	-	-	375,552,000	-	(10,000,000)	365,552,000
Total liabilities		-	-	-	375,951,577	370,239	(10,001,949)	366,319,867
UNRESTRICTED NET ASSETS		-	-	-	14,763,614	161,578,053	-	176,341,667
Total liabilities and unrestricted net assets	$	-	-	-	390,715,191	161,948,292	(10,001,949)	542,661,534

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

		1996 Indenture	1999 Indenture	2004 Indenture	2014 Indenture	General Fund	Eliminations	Total
OPERATING REVENUES:								
Interest on student loans	$	204,163	3,285,932	1,707,166	3,696,481	381,620	-	9,275,362
Interest subsidy		27,293	665,108	336,921	702,631	42,102	-	1,774,055
Special allowance		(1,769)	(724,955)	(1,314,234)	(1,523,249)	19,105	-	(3,545,102)
Late fees		7,671	122,708	36,456	136,534	10,490	-	313,859
Total operating revenues		237,358	3,348,793	766,309	3,012,397	453,317	-	7,818,174
OPERATING EXPENSES:								
Interest expense		27,894	1,388,454	42,021	1,446,510	-	(53,855)	2,851,024
Bond and note fees		12,172	195,662	45,005	34,169	1,417	-	288,425
Amortization of deferred costs of issuance		558	30,751	7,576	191,627	1,350	-	231,862
Provision for loan losses		3,443	65,982	71,043	72,354	1,785	-	214,607
Program and support services		36,284	957,267	303,010	1,144,427	2,129,219	-	4,570,207
Total operating expenses		80,351	2,638,116	468,655	2,889,087	2,133,771	(53,855)	8,156,125
Net operating revenue (expense)		157,007	710,677	297,654	123,310	(1,680,454)	53,855	(337,951)

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

COMBINING STATEMENT OF ACTIVITIES AND
CHANGES IN UNRESTRICTED NET ASSETS - CONTINUED:
FOR THE YEAR ENDED DECEMBER 31, 2014

		1996 Indenture	1999 Indenture	2004 Indenture	2014 Indenture	General Fund	Eliminations	Total
OTHER REVENUE (EXPENSE):								
Income (loss) on investments:								
Interest and dividends	$	60	10,141	475	1,571	1,223,674	(53,855)	1,182,066
Realized gain on investments		-	-	-	-	353,190	-	353,190
Unrealized loss on investments		-	-	-	-	(2,280,838)	-	(2,280,838)
Investment management fees		-	-	-	-	(147,787)	-	(147,787)
Total income (loss) on investments		60	10,141	475	1,571	(851,761)	(53,855)	(893,369)
Loss on extinguishment of debt		(42,905)	(1,273,667)	(247,046)	-	-	-	(1,563,618)
Donations		-	-	-	-	5,250,000	-	5,250,000
Total other revenue (expense)		(42,845)	(1,263,526)	(246,571)	1,571	4,398,239	(53,855)	2,793,013
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS		114,162	(552,849)	51,083	124,881	2,717,785	-	2,455,062
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD		24,894,660	104,534,727	16,965,821	-	27,491,397	-	173,886,605
TRANSFERS IN (OUT)		(25,008,822)	(103,981,878)	(17,016,904)	14,638,733	131,368,871	-	-
UNRESTRICTED NET ASSETS, END OF PERIOD	$	-	-	-	14,763,614	161,578,053	-	176,341,667