

**MISSISSIPPI HIGHER EDUCATION  
ASSISTANCE CORPORATION  
AND  
SUBSIDIARY WOODWARD HINES  
EDUCATION FOUNDATION**

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

**DECEMBER 31, 2017 AND 2016**

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CPAs & Advisors

## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying consolidated financial statements of Mississippi Higher Education Assistance Corporation (a nonprofit organization) and subsidiary Woodward Hines Education Foundation which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, 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

**Auditor's Responsibility - continued:**

statements in order to design audit procedures that are appropriate in the circumstances, but not for the 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.

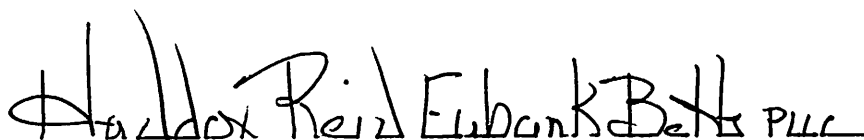
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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 Woodward Hines Education Foundation, as of December 31, 2017 and 2016, 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.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary 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.

A handwritten signature in black ink that reads "Harold Reid Eubank, CPA". The signature is written in a cursive, flowing style.

Jackson, Mississippi  
May 25, 2018

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<b><u>2017</u></b>	<b><u>2016</u></b>
Cash and cash equivalents	\$ 6,995,932	8,032,979
Investments	157,510,432	147,679,412
Student loans receivable	249,711,787	280,125,146
Interest and special allowance receivable	3,332,557	2,974,375
Other assets	<u>127,527</u>	<u>80,101</u>
 Total assets	 \$ <u>417,678,235</u>	 <u>438,892,013</u>

**LIABILITIES AND UNRESTRICTED NET ASSETS**

**LIABILITIES:**

Accounts payable and accrued expenses	\$ 587,791	513,168
Accrued interest payable	85,571	52,461
Grants payable	657,750	-
Notes payable	<u>228,739,558</u>	<u>261,409,896</u>
 Total liabilities	 230,070,670	 261,975,525

<b>UNRESTRICTED NET ASSETS</b>	<u>187,607,565</u>	<u>176,916,488</u>
 Total liabilities and unrestricted net assets	 \$ <u>417,678,235</u>	 <u>438,892,013</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**CONSOLIDATED STATEMENTS OF ACTIVITIES  
AND CHANGES IN UNRESTRICTED NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES:</b>		
Interest on student loans	\$ 7,667,329	7,647,305
Interest subsidy	976,172	1,196,111
Special allowance	(923,357)	(2,222,968)
Late fees	142,722	175,948
Program services revenue	96,760	130,183
Total operating revenues	<u>7,959,626</u>	<u>6,926,579</u>
<b>OPERATING EXPENSES:</b>		
Interest expense	4,700,554	3,746,140
Note fees	65,345	67,326
Provision for loan losses	44,172	70,229
Program services expense	4,147,747	3,329,064
Support services expense	1,632,505	1,339,575
Total operating expenses	<u>10,590,323</u>	<u>8,552,334</u>
Net operating expense	<u>(2,630,697)</u>	<u>(1,625,755)</u>
<b>OTHER REVENUE (EXPENSE):</b>		
Gain (loss) on investments:		
Interest and dividends	2,590,680	2,028,410
Net realized and unrealized gains on investments	11,120,033	5,446,647
Investment management fees	(388,939)	(438,207)
Total gain on investments	<u>13,321,774</u>	<u>7,036,850</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	10,691,077	5,411,095
<b>UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD</b>	<u>176,916,488</u>	<u>171,505,393</u>
<b>UNRESTRICTED NET ASSETS, END OF PERIOD</b>	\$ <u>187,607,565</u>	<u>176,916,488</u>

The accompanying notes are an integral part of these statements.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:</b>		
Cash flows from operating activities:		
Interest on student loans	\$ 3,760,558	4,524,007
Interest subsidy	1,009,208	1,194,150
Special allowance	(1,284,682)	(2,443,288)
Late fees	142,722	175,948
Program services revenue	83,247	121,531
Interest expense	(4,339,782)	(3,350,677)
Note fees	(66,499)	(67,525)
Program and support services	(4,989,319)	(4,594,122)
Interest and dividends	27,724	281,918
Investment management fees	<u>(372,803)</u>	<u>(438,207)</u>
Net cash used in operating activities	<u>(6,029,626)</u>	<u>(4,596,265)</u>
Cash flows from investing activities:		
Additions to equipment	(87,271)	(12,242)
Collection of student loan principal	37,405,103	47,592,033
Purchases of student loan principal	(3,171,502)	(4,596,416)
Proceeds from sale of investments and distributions	40,726,399	61,050,987
Purchases of investments	<u>(36,882,150)</u>	<u>(59,426,770)</u>
Net cash provided by investing activities	<u>37,990,579</u>	<u>44,607,592</u>
Cash flows from financing activities:		
Payments to redeem notes	<u>(32,998,000)</u>	<u>(48,579,000)</u>
Net cash used in financing activities	<u>(32,998,000)</u>	<u>(48,579,000)</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED:  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	\$ (1,037,047)	(8,567,673)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>8,032,979</u>	<u>16,600,652</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ <u>6,995,932</u>	<u>8,032,979</u>
<b>RECONCILIATION OF INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Increase in unrestricted net assets	\$ <u>10,691,077</u>	<u>5,411,095</u>
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:		
Amortization and depreciation	746,502	1,657,922
Net realized and unrealized gain on investments	(11,120,032)	(5,446,647)
Capitalized interest on student loans	(4,230,171)	(5,391,180)
Dividends reinvested	(2,555,237)	(1,746,384)
Provision for loan losses	43,847	108,395
(Increase) decrease in interest and special allowance receivable	(358,182)	796,876
Increase in other assets	(12,912)	31,772
Increase (decrease) in accounts payable	74,622	(32,436)
Increase in accrued interest payable	33,110	14,322
Increase in grants payable	<u>657,750</u>	<u>-</u>
Total adjustments	<u>(16,720,703)</u>	<u>(10,007,360)</u>
Net cash used in operating activities	\$ <u>(6,029,626)</u>	<u>(4,596,265)</u>

The accompanying notes are an integral part of these statements.



**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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 exclusively for charitable and educational purposes.

Woodward Hines Education Foundation (“WHEF”) is a nonprofit corporation organized in 1995 under the laws of the State of Mississippi. WHEF is not an agency or instrumentality of the State of Mississippi or any agency or political subdivision thereof. WHEF is a subsidiary supporting organization of MHEAC and operates exclusively for the benefit of, to perform the functions of, and to carry out the purposes of MHEAC.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

Because WHEF is a subsidiary supporting organization of MHEAC, U.S. generally accepted accounting principles (“GAAP”) require that the financial statements of MHEAC and WHEF (“the Company”) be consolidated. Material intercompany transactions and balances have been eliminated in the consolidated financial statements.

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include all checking accounts, money market accounts, commercial paper, and investment agreements with an original maturity of three months or less.

Investments

The overall, long-term investment goal of the investment 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

Investments - continued:

Investments are carried at fair value. Interest and dividends from investments, as well as net realized and unrealized gains and losses, are recorded as nonoperating revenues in the consolidated statements of activities and changes in unrestricted net assets. Investments 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, the Company utilizes the investment's net asset value per share as a practical expedient for determining fair value.

Investment transactions are recorded on their trade dates.

Student Loans Receivable

The Company 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 the expected life of the related loans using the effective interest method.

The allowance for loan losses is maintained at a level the Company 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. The Company's net credit losses include the principal amount of loans charged off less current year recoveries.

Notes Payable

Notes payable are reported at their principal amount outstanding net of unamortized debt issuance costs. The costs of issuing 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.

Grants

Unconditional grants are recorded as an expense in the year they are committed. Conditional grants are recorded as an expense when the conditions have been met. As of December 31, 2017 and 2016, the Company had no conditional grants outstanding.

Advertising

Advertising costs are charged to operations when incurred.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

Income Taxes

The Company is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Company believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

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 consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 3 - CASH AND INVESTMENTS**

Financial instruments which potentially subject the Company 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, 2017 and 2016, cash and cash equivalents and investments consisted of:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents:		
Cash	\$ 2,089,882	497,036
Money market instruments	<u>4,906,050</u>	<u>7,535,943</u>
	<u>\$ 6,995,932</u>	<u>8,032,979</u>
Investments	\$ <u>157,510,432</u>	<u>147,679,412</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 - CASH AND INVESTMENTS - CONTINUED:**

Included in cash and cash equivalents are restricted cash and cash equivalents of \$3,506,306 and \$4,987,847 as of December 31, 2017 and 2016, respectively. Investments primarily consist of public equity funds, hedge funds, and private equity funds.

**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 the Company 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.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED:**

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2017 and 2016.

Public equity funds: Value based on quoted market prices.

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

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 the Company 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. Certain investments that are measured at fair value using net asset value per share or its equivalent as a practical expedient to estimated fair value have not been classified in the fair value hierarchy.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2017 and 2016:

		December 31, 2017			
		(Level 1)	(Level 2)	(Level 3)	Total
Public equity funds	\$	<u>78,619,929</u>	<u>-</u>	<u>-</u>	78,619,929
Alternative investment vehicles at net asset value					74,770,336
Distribution Receivable					4,120,167
					\$ <u>157,510,432</u>
		December 31, 2016			
		(Level 1)	(Level 2)	(Level 3)	Total
Public equity funds	\$	<u>68,452,344</u>	<u>-</u>	<u>-</u>	68,452,344
Alternative investment vehicles at net asset value					79,227,068
					\$ <u>147,679,412</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED:**

The Company uses the net asset value (NAV) to determine the fair value of all investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments which use net asset value to determine fair value by major category:

Fund	Category of Investment	Investment Strategy	Fair Value determined using NAV at December 31, 2017	Unfunded commitments (approximate)	Remaining Life	Redemption Frequency	Redemption Notice
FEG Absolute Access Fund I LLC	Hedge Funds	Fund of Funds-Portfolio Funds	30,275,492	N/A	N/A	Semi-Annually	90 Days
FEG Directional Access Fund LLC	Hedge Funds	Fund of Funds-Portfolio Funds	3,364,073	N/A	N/A	Semi-Annually	90 Days
FEG Private Opportunities Fund II, L.P.	Private Equity Funds	Private Capital	27,702,106	14,000,000	9	N/A	N/A
FEG Private Opportunities Fund III, L.P.	Private Equity Funds	Private Capital	5,991,500	19,500,000	9	N/A	N/A
Harvest MLP Income Fund II LLC	Hedge Funds	Long-Only Public Equity	7,437,165	N/A	N/A	Monthly	30 Days

Fund	Category of Investment	Investment Strategy	Fair Value determined using NAV at December 31, 2016	Unfunded commitments (approximate)	Remaining Life	Redemption Frequency	Redemption Notice
FEG Absolute Access Fund I LLC	Hedge Funds	Fund of Funds-Portfolio Funds	37,785,207	N/A	N/A	Semi-Annually	90 Days
FEG Directional Access Fund Ltd	Hedge Funds	Fund of Funds-Portfolio Funds	14,724,844	N/A	N/A	Semi-Annually	90 Days
FEG Private Opportunities Fund II, L.P.	Private Equity Funds	Private Capital	18,763,757	22,000,000	10	N/A	N/A
FEG Private Opportunities Fund III, L.P.	Private Equity Funds	Private Capital	-	25,000,000	10	N/A	N/A
Harvest MLP Income Fund II LLC	Hedge Funds	Long-Only Public Equity	7,953,260	N/A	N/A	Monthly	30 Days

**NOTE 5 - STUDENT LOANS RECEIVABLE**

Student loans are Federal Family Education Loans Program (“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 the Company 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.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 5 - STUDENT LOANS RECEIVABLE - CONTINUED:**

For loans disbursed prior to April 1, 2006, the Company 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, the Company 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.

The Company 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.

All of the student loans are pledged to the repayment of 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, 2017 and 2016, approximately 77% and 77%, respectively, of the loans were subject to the 98% guarantee, with the remainder subject to the 97% guarantee.

At December 31, 2017 and 2016, student loans consisted of:

	<u>2017</u>	<u>2016</u>
Student loans receivable	\$ 247,388,452	277,469,265
Unamortized premiums and origination costs	<u>2,598,326</u>	<u>2,964,408</u>
	249,986,778	280,433,673
Provision for loan losses	<u>(274,991)</u>	<u>(308,527)</u>
	<u>\$ 249,711,787</u>	<u>280,125,146</u>

At December 31, 2017 and 2016, approximately 79% and 79%, respectively, of the student loans were Consolidation loans and approximately 84% and 82%, respectively, of the student loans were in repayment. During the years ended December 31, 2017 and 2016, the average annual yield on student loans was approximately 2.98% and 2.27%, respectively.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 5 - STUDENT LOANS RECEIVABLE - CONTINUED:**

At December 31, 2017 and 2016, 100% and 96%, respectively, of the student loans were serviced by Navient Solutions, LLC, and the remainder were serviced by Conduent Education Services, LLC.

**NOTE 6 - OTHER ASSETS**

At December 31, 2017 and 2016, other assets consisted of:

	<u>2017</u>	<u>2016</u>
Equipment, furniture and software	\$ 959,392	980,322
Accumulated depreciation	<u>(867,665)</u>	<u>(922,506)</u>
Net book value	91,727	57,816
Prepaid note fees	4,375	4,375
Miscellaneous	<u>31,425</u>	<u>17,910</u>
	<u>\$ 127,527</u>	<u>80,101</u>

**NOTE 7 - NOTES PAYABLE**

At December 31, 2017 and 2016, notes payable consisted of \$228,739,558 and \$261,409,896, respectively, of 2014 Indenture taxable LIBOR floating rate notes with a stated maturity of October 25, 2035. The notes payable are reported net of unamortized debt issuance costs as follows:

	<u>2017</u>	<u>2016</u>
Notes payable principal amount	\$ 230,016,000	263,014,000
Less unamortized debt issuance costs	<u>1,276,442</u>	<u>1,604,104</u>
Notes payable, net of unamortized debt issuance costs	<u>\$ 228,739,558</u>	<u>261,409,896</u>

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, 2017 and 2016 was 2.23% and 1.44%, respectively. During the years ended December 31, 2017 and 2016, the average annual expense rate for notes was approximately 1.94% and 1.34%, respectively.



**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

The Company 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, 2017 and 2016, capitalized interest was approximately \$4,230,000 and \$5,391,000, respectively.

For the years ended December 31, 2017 and 2016, dividend income included approximately \$2,555,000 and \$1,747,000, respectively, which was reinvested.

**NOTE 9 - RETIREMENT PLAN**

The Company 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. The board of directors annually determines the amount of an employee's contributions that will be matched. For 2017 and 2016, the match for the first 6% of an employee's eligible compensation contributed by the employee is 100%. For 2017 and 2016, the match was \$109,194 and \$103,130, respectively.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The Company leases office space from third parties under certain operating lease agreements with expiration dates through 2020. Rent expense under these agreements was \$266,757 and \$263,849 for the years ended December 31, 2017 and 2016, respectively. The minimum future payments for the office space leases required for the succeeding years are \$216,158 for 2018, \$44,640 for 2019, and \$18,600 for 2020.

Periodically, the Company commits to making additional investments. At December 31, 2017 and 2016, the Company's unfunded commitments were \$33,500,000 and \$47,000,000, respectively.

In December 2014, Conduent Education Services, LLC, formerly known as ACS Education Loan Services, LLC, ("Conduent") notified the Company that certain student loan accounts serviced for the Company and other parties had not been properly updated for all loan activity, and as a result certain account balances may have been stated inaccurately. Conduent has retained an independent outside auditor to assist in the account adjustments and the updates of any required credit or tax reporting in accordance with a remediation plan approved by the Consumer Financial Protection Bureau ("CFPB") and the DOE. Management does not believe the resolution of this matter will have a material adverse effect on the Company.

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION  
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 10 - COMMITMENTS AND CONTINGENCIES - CONTINUED:**

During 2017, the CFPB and Attorneys General for the State of Illinois, the State of Washington and the State of Pennsylvania initiated civil actions naming Navient Corporation and several of its subsidiaries as defendants alleging violations of Federal and State consumer protection statutes, including the Consumer Financial Protection Act of 2010, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act and various State consumer protection laws. Navient in its 2017 financial statements states it believes the suits improperly seek to impose penalties on Navient based on new, unannounced standards applied retroactively only against one servicer, and that the allegations are false. Navient intends to vigorously defend against the allegations in each of these cases. Management does not believe the resolution of this matter will have a material adverse effect on the Company.

In the normal course of business, the Company is 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 the Company.

**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's financial instruments principally consist of cash and cash equivalents, investments, student loans receivable 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 the Company 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 12 - SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through May 25, 2018, the date the consolidated financial statements were approved by the Company'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.

**SUPPLEMENTARY INFORMATION**

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)  
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION (WHEF)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017**

	<u>MHEAC</u>	<u>WHEF</u>	<u>Eliminations</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 3,544,348	3,451,584	-	6,995,932
Investments	-	157,510,432	-	157,510,432
Student loans receivable	249,711,787	-	-	249,711,787
Interest and special allowance receivable	3,279,346	53,211	-	3,332,557
Other assets	<u>4,375</u>	<u>123,152</u>	<u>-</u>	<u>127,527</u>
Total assets	\$ <u>256,539,856</u>	<u>161,138,379</u>	<u>-</u>	<u>417,678,235</u>
<b><u>LIABILITIES AND UNRESTRICTED NET ASSETS</u></b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued expenses	\$ 228,908	358,883	-	587,791
Accrued interest payable	85,571	-	-	85,571
Grants payable	-	657,750	-	657,750
Notes payable	<u>228,739,558</u>	<u>-</u>	<u>-</u>	<u>228,739,558</u>
Total liabilities	<u>229,054,037</u>	<u>1,016,633</u>	<u>-</u>	<u>230,070,670</u>
<b>UNRESTRICTED NET ASSETS:</b>				
Note fund	17,443,523	-	-	17,443,523
General fund	<u>10,042,296</u>	<u>160,121,746</u>	<u>-</u>	<u>170,164,042</u>
Total unrestricted net assets	<u>27,485,819</u>	<u>160,121,746</u>	<u>-</u>	<u>187,607,565</u>
Total liabilities and unrestricted net assets	\$ <u>256,539,856</u>	<u>161,138,379</u>	<u>-</u>	<u>417,678,235</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)  
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION (WHEF)**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND  
CHANGES IN UNRESTRICTED NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>MHEAC</u>	<u>WHEF</u>	<u>Eliminations</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>				
Interest on student loans	\$ 7,659,870	-	7,459	7,667,329
Interest subsidy	976,172	-	-	976,172
Special allowance	(923,357)	-	-	(923,357)
Late fees	142,722	-	-	142,722
Program services revenue	-	2,751,834	(2,655,074)	96,760
Total operating revenues	<u>7,855,407</u>	<u>2,751,834</u>	<u>(2,647,615)</u>	<u>7,959,626</u>
<b>OPERATING EXPENSES:</b>				
Interest expense	4,700,554	-	-	4,700,554
Note fees	65,345	-	-	65,345
Provision for loan losses	44,172	-	-	44,172
Program services expense	694,599	4,091,884	(638,736)	4,147,747
Support services expense	<u>2,571,227</u>	<u>1,077,616</u>	<u>(2,016,338)</u>	<u>1,632,505</u>
Total operating expenses	<u>8,075,897</u>	<u>5,169,500</u>	<u>(2,655,074)</u>	<u>10,590,323</u>
Net operating expense	<u>(220,490)</u>	<u>(2,417,666)</u>	<u>7,459</u>	<u>(2,630,697)</u>
<b>OTHER REVENUE (EXPENSE):</b>				
Gain (loss) on investments:				
Interest and dividends	1,114,000	1,476,680	-	2,590,680
Net realized and unrealized gains on investments	8,164,283	2,955,750	-	11,120,033
Investment management fees	<u>(307,777)</u>	<u>(81,162)</u>	<u>-</u>	<u>(388,939)</u>
Total gain on investments	8,970,506	4,351,268	-	13,321,774
Donations	<u>(156,332,337)</u>	<u>156,332,337</u>	<u>-</u>	<u>-</u>
Total other revenue (expense)	<u>(147,361,831)</u>	<u>160,683,605</u>	<u>-</u>	<u>13,321,774</u>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<u>(147,582,321)</u>	<u>158,265,939</u>	<u>7,459</u>	<u>10,691,077</u>
<b>UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD</b>	<u>175,068,140</u>	<u>1,855,807</u>	<u>(7,459)</u>	<u>176,916,488</u>
<b>UNRESTRICTED NET ASSETS, END OF PERIOD</b>	<u>\$ 27,485,819</u>	<u>160,121,746</u>	<u>-</u>	<u>187,607,565</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)  
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION (WHEF)**

**CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>MHEAC</u>	<u>WHEF</u>	<u>Eliminations</u>	<u>Total</u>
<b>RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:</b>				
Cash flows from operating activities:				
Interest on student loans	\$ 3,760,558	-	-	3,760,558
Interest subsidy	1,009,208	-	-	1,009,208
Special allowance	(1,284,682)	-	-	(1,284,682)
Late fees	142,722	-	-	142,722
Program services revenue	-	3,015,858	(2,932,611)	83,247
Interest expense	(4,339,782)	-	-	(4,339,782)
Note fees	(66,499)	-	-	(66,499)
Program and support services	(3,561,805)	(4,360,125)	2,932,611	(4,989,319)
Interest and dividends	24,687	3,037	-	27,724
Investment management fees	(307,777)	(65,026)	-	(372,803)
Donations	<u>(156,332,337)</u>	<u>156,332,337</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>(160,955,707)</u>	<u>154,926,081</u>	<u>-</u>	<u>(6,029,626)</u>
Cash flows from investing activities:				
Additions to equipment	-	(87,271)	-	(87,271)
Collection of student loan principal	37,405,103	-	-	37,405,103
Purchases of student loan principal	(3,171,502)	-	-	(3,171,502)
Proceeds from sale of investments	188,712,642	4,177,631	(152,163,874)	40,726,399
Purchases of investments	<u>(31,734,143)</u>	<u>(157,311,881)</u>	<u>152,163,874</u>	<u>(36,882,150)</u>
Net cash provided by (used in) investing activities	<u>191,212,100</u>	<u>(153,221,521)</u>	<u>-</u>	<u>37,990,579</u>
Cash flows from financing activities:				
Payments to redeem notes	<u>(32,998,000)</u>	<u>-</u>	<u>-</u>	<u>(32,998,000)</u>
Net cash used in financing activities	<u>(32,998,000)</u>	<u>-</u>	<u>-</u>	<u>(32,998,000)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,741,607)</b>	<b>1,704,560</b>	<b>-</b>	<b>(1,037,047)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u><b>6,285,955</b></u>	<u><b>1,747,024</b></u>	<u><b>-</b></u>	<u><b>8,032,979</b></u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ <u>3,544,348</u></b>	<b><u>3,451,584</u></b>	<b><u>-</u></b>	<b><u>6,995,932</u></b>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION (MHEAC)  
AND SUBSIDIARY WOODWARD HINES EDUCATION FOUNDATION (WHEF)**

**CONSOLIDATING STATEMENT OF CASH FLOWS - CONTINUED:  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>MHEAC</u>	<u>WHEF</u>	<u>Eliminations</u>	<u>Total</u>
<b>RECONCILIATION OF INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>				
Increase (decrease) in unrestricted net assets	\$ (147,582,321)	158,265,939	7,459	10,691,077
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by (used in) operating activities:				
Amortization and depreciation	701,204	52,757	(7,459)	746,502
Net realized and unrealized loss on investments	(8,164,282)	(2,955,750)	-	(11,120,032)
Capitalized interest on student loans	(4,230,171)	-	-	(4,230,171)
Dividends reinvested	(1,134,805)	(1,420,432)	-	(2,555,237)
Provision for loan losses	43,847	-	-	43,847
Decrease in interest and special allowance receivable	(304,971)	(53,211)	-	(358,182)
Increase (decrease) in other assets	-	264,625	(277,537)	(12,912)
Increase (decrease) in accounts payable	(317,318)	114,403	277,537	74,622
Increase in accrued interest payable	33,110	-	-	33,110
Increase in grants payable	-	657,750	-	657,750
Total adjustments	<u>(13,373,386)</u>	<u>(3,339,858)</u>	<u>(7,459)</u>	<u>(16,720,703)</u>
Net cash provided by (used in) operating activities	\$ <u>(160,955,707)</u>	<u>154,926,081</u>	<u>-</u>	<u>(6,029,626)</u>

**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION**

**STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017**

	<u>2014</u> <u>Indenture</u>	<u>General</u> <u>Fund</u>	<u>Eliminations</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 3,506,306	38,042	-	3,544,348
Investments	-	10,000,000	(10,000,000)	-
Student loans receivable	249,711,787	-	-	249,711,787
Interest and special allowance receivable	3,279,346	4,254	(4,254)	3,279,346
Other assets	<u>4,375</u>	<u>-</u>	<u>-</u>	<u>4,375</u>
 Total assets	 \$ <u>256,501,814</u>	 <u>10,042,296</u>	 <u>(10,004,254)</u>	 <u>256,539,856</u>
 <b><u>LIABILITIES AND UNRESTRICTED NET ASSETS</u></b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued	\$ 228,908	-	-	228,908
Accrued interest payable	89,825	-	(4,254)	85,571
Notes payable	<u>238,739,558</u>	<u>-</u>	<u>(10,000,000)</u>	<u>228,739,558</u>
 Total liabilities	 239,058,291	 -	 (10,004,254)	 229,054,037
 <b>UNRESTRICTED NET ASSETS</b>	 <u>17,443,523</u>	 <u>10,042,296</u>	 <u>-</u>	 <u>27,485,819</u>
 Total liabilities and unrestricted net assets	 \$ <u>256,501,814</u>	 <u>10,042,296</u>	 <u>(10,004,254)</u>	 <u>256,539,856</u>



**MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION**

**STATEMENT OF ACTIVITIES AND  
CHANGES IN UNRESTRICTED NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>2014</u> <u>Indenture</u>	<u>General</u> <u>Fund</u>	<u>Eliminations</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>				
Interest on student loans	\$ 7,659,756	114	-	7,659,870
Interest subsidy	976,172	-	-	976,172
Special allowance	(923,357)	-	-	(923,357)
Late fees	<u>142,722</u>	<u>-</u>	<u>-</u>	<u>142,722</u>
Total operating revenues	<u>7,855,293</u>	<u>114</u>	<u>-</u>	<u>7,855,407</u>
<b>OPERATING EXPENSES:</b>				
Interest expense	4,911,342	-	(210,788)	4,700,554
Note fees	65,345	-	-	65,345
Provision for loan losses	44,172	-	-	44,172
Program and support services	<u>1,660,565</u>	<u>1,605,261</u>	<u>-</u>	<u>3,265,826</u>
Total operating expenses	<u>6,681,424</u>	<u>1,605,261</u>	<u>(210,788)</u>	<u>8,075,897</u>
Net operating revenue (expense)	<u>1,173,869</u>	<u>(1,605,147)</u>	<u>210,788</u>	<u>(220,490)</u>
<b>OTHER REVENUE (EXPENSE):</b>				
Gain (loss) on investments:				
Interest and dividends	9,648	1,315,140	(210,788)	1,114,000
Realized gain on investments	-	-	-	-
Unrealized gain on investments	-	8,164,283	-	8,164,283
Investment management fees	<u>-</u>	<u>(307,777)</u>	<u>-</u>	<u>(307,777)</u>
Total gain (loss) on investments	9,648	9,171,646	(210,788)	8,970,506
Donations	<u>-</u>	<u>(156,332,337)</u>	<u>-</u>	<u>(156,332,337)</u>
Total other revenue (expense)	<u>9,648</u>	<u>(147,160,691)</u>	<u>(210,788)</u>	<u>(147,361,831)</u>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	1,183,517	(148,765,838)	-	(147,582,321)
<b>UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD</b>	16,332,506	158,735,634	-	175,068,140
<b>TRANSFERS IN (OUT)</b>	<u>(72,500)</u>	<u>72,500</u>	<u>-</u>	<u>-</u>
<b>UNRESTRICTED NET ASSETS, END OF PERIOD</b>	\$ <u>17,443,523</u>	<u>10,042,296</u>	<u>-</u>	<u>27,485,819</u>