MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION AND EDUCATION SERVICES FOUNDATION

COMBINED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2012 AND 2011

CONTENTS

HADDOX
REID
BURKES &
CALHOUN PLLC
CPAs & Advisors

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, 2012 and 2011, 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

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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, 2012 and 2011, 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.

Hadden Rail Burkes & Calhoun PLLC

Jackson, Mississippi
April 3, 2013

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION AND EDUCATION SERVICES FOUNDATION

COMBINED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Cash and cash equivalents	$ 68,412,738	139,251,671
Investments	45,558,992	54,269,140
Student loans receivable	533,690,946	906,935,008
Interest and special allowance receivable	8,899,781	15,370,170
Deferred costs of issuance less accumulated amortization	2,199,358	4,735,653
Other assets	324,796	430,652
Total assets	$ 659,086,611	1,120,992,294

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	$ 1,380,132	1,608,405
Accrued interest payable	418,166	766,054
Excess interest and rebate payable	6,931,100	10,918,601
Bonds and notes payable	470,175,000	962,250,000
Total liabilities	478,904,398	975,543,060
UNRESTRICTED NET ASSETS	180,182,213	145,449,234
Total liabilities and unrestricted net assets	$ 659,086,611	1,120,992,294

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, 2012 AND 2011

	2012	2011
INTEREST INCOME:		
Interest on student loans	$ 16,152,521	20,560,199
Interest subsidy	3,676,726	5,315,680
Special allowance	(6,084,010)	(8,242,744)
Late fees	378,217	305,199
Student loans	14,123,454	17,938,334
Interest on investments	249,611	537,327
Total interest income	14,373,065	18,475,661
INTEREST COST:		
Interest expense	7,460,534	10,792,052
Bond and note fees	567,271	605,310
Amortization of deferred costs of issuance	169,314	251,502
Total interest cost	8,197,119	11,648,864
Net interest revenue	6,175,946	6,826,797
PROVISION FOR LOAN LOSSES	258,103	170,708
Net interest revenue after provision for loan losses	5,917,843	6,656,089
OTHER REVENUE (EXPENSE):		
Other revenue	76,389	81,267
Program services	(3,596,253)	(4,119,434)
Support services	(2,375,833)	(2,216,890)
Total other revenue (expense)	(5,895,697)	(6,255,057)
INCREASE IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT	22,146	401,032
GAINS ON EXTINGUISHMENT OF DEBT	34,710,833	10,953,602
INCREASE IN UNRESTRICTED NET ASSETS	34,732,979	11,354,634
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	145,449,234	134,094,600
UNRESTRICTED NET ASSETS, END OF PERIOD	180,182,213	145,449,234

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, 2012 AND 2011

	2012	2011
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Interest on student loans	$ 9,758,071	11,414,359
Interest subsidy	4,244,440	5,594,471
Special allowance	(6,916,513)	(8,377,881)
Late fees	378,217	305,199
Interest on investments	268,149	676,258
Other program services revenue	76,400	82,136
Interest expense	(7,808,421)	(11,285,003)
Program and support services	(5,947,302)	(6,588,481)
Bond and note fees	(656,761)	(407,307)
Net cash used by operating activities	(6,603,720)	(8,586,249)
Cash flows from investing activities:		
Additions to equipment	(53,557)	(229,778)
Collection of student loan principal	108,454,067	107,396,888
Purchases of student loan principal	(3,516,228)	(4,451,786)
Investments matured/redeemed	8,710,148	11,966,682
Net cash provided by investing activities	113,594,430	114,682,006
Cash flows from financing activities:		
Collection of excess and rebate interest liability	1,167,652	1,327,036
Payment of excess and rebate interest	(317,898)	(131,859)
Payments to redeem bonds and notes	(178,679,397)	(159,363,014)
Net cash used by financing activities	(177,829,643)	(158,167,837)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(70,838,933)	(52,072,080)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	139,251,671	191,323,751
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 68,412,738	139,251,671

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION AND EDUCATION SERVICES FOUNDATION

COMBINED STATEMENTS OF CASH FLOWS - CONTINUED: FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:		
Increase in unrestricted net assets	$ 34,732,979	11,354,634
Adjustments to reconcile increase in unrestricted net assets to net cash used by operating activities:		
Amortization and depreciation	3,821,900	5,350,294
Capitalized interest on student loans	(11,532,085)	(15,717,953)
Provision for loan losses	258,103	170,708
Gains on extinguishment of debt	(34,710,833)	(10,953,602)
Decrease in interest and special allowance receivable	1,353,437	1,852,875
(Increase) decrease in other assets	(116,532)	210,909
Decrease in accounts payable	(62,801)	(361,162)
Decrease in accrued interest payable	(347,888)	(492,952)
Total adjustments	(41,336,699)	(19,940,883)
Net cash used by operating activities	$ (6,603,720)	(8,586,249)

The accompanying notes are an integral part of these statements.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONTINUED:

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Income Taxes - continued:

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 2009.

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, 2012 and 2011, cash and cash equivalents and investments consisted of:

	2012	2011
Cash and cash equivalents:		
Cash	$ 494,583	1,476,377
Money market instruments	67,918,155	137,775,294
	$ 68,412,738	139,251,671

NOTE 3 - CASH AND INVESTMENTS - CONTINUED:

	Maturity	2012	2011
Investments:			
Societe Generale	9/1/35 - 3/1/37	$ 1,779,000	4,179,500
Portigon	8/1/29 - 9/1/33	16,619,500	18,193,500
Bayerische Landesbank	9/1/16	27,160,492	27,160,492
Certificates of Deposit	1/28/11 - 9/27/12	-	4,735,648
		$ 45,558,992	54,269,140

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

NOTE 4 - STUDENT LOANS RECEIVABLE - CONTINUED:

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 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, 2012 and 2011, 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, 2012 and 2011, student loans consisted of:

	2012	2011
Student loans receivable	$ 523,482,154	889,204,302
Unamortized premiums and origination costs	10,803,331	18,740,271
	534,285,485	907,944,573
Provision for loan losses	(594,539)	(1,009,565)
	$ 533,690,946	906,935,008

At December 31, 2012 and 2011, approximately 75% and 74%, respectively, of the student loans were Consolidation loans and approximately 75% and 72%, respectively, of the student loans were in repayment. During the years ended December 31, 2012 and 2011, the average annual yield on student loans was approximately 1.99% and 1.85%, respectively.

NOTE 5 - OTHER ASSETS

At December 31, 2012 and 2011, other assets consisted of:

	2012	2011
Equipment, furniture and software	$ 1,398,850	1,477,366
Accumulated depreciation	(1,251,688)	(1,269,110)
Net book value	147,162	208,256
Prepaid bond and note fees	91,272	107,842
Miscellaneous	86,362	114,554
	$ 324,796	430,652

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, 2012 and 2011, MHEAC settled approximately $4,837,000 and $3,080,000, respectively, of its excess interest liability through the forgiveness of student loan principal and accrued interest. During the years ended December 31, 2012 and 2011, MHEAC settled approximately $0 and $132,000, respectively, of its rebate liability through cash payments to the Federal government. During the years ended December 31, 2012 and 2011, MHEAC settled approximately $318,000 and $0, respectively, of its excess interest liability through cash payments to the Federal government.

NOTE 7 - BONDS AND NOTES PAYABLE

At December 31, 2012, MHEAC bonds and notes payable consisted of:

Series	Indenture	Amount	Maturity	Status	Rate
1996	1996	$ 13,100,000	10/1/26	Taxable	1.59%
1996-A	1993	23,100,000	9/1/16	Exempt	.23
1998-B	1993	30,500,000	9/1/33	Exempt	.23
1999-A-1	1999	21,500,000	8/1/29	Exempt	.23
1999-A-3	1999	12,400,000	8/1/29	Taxable	1.92
2000	1996	3,000,000	7/1/30	Taxable	1.54
2000-A-1	1999	35,000,000	9/1/30	Taxable	1.92
2000-A-2	1999	6,000,000	9/1/30	Exempt	.04
2000-A-3	1999	33,200,000	9/1/30	Taxable	1.92
2000-A-4	1999	1,600,000	9/1/30	Exempt	.32
2001-A-1	1999	3,100,000	9/1/31	Exempt	.08
2003-A-1	1999	17,400,000	9/1/33	Taxable	1.92
2003-A-2	1999	400,000	9/1/33	Taxable	.18
2003-A-3	1999	9,500,000	9/1/33	Taxable	1.92
2004-A-1	2004	22,800,000	3/1/34	Exempt	.28
2004-A-2	1999	21,400,000	9/1/34	Taxable	1.92
2004-A-3	1999	2,000,000	9/1/34	Taxable	1.92
2004-A-4	1999	25,700,000	9/1/34	Taxable	1.92
2005-A-2	1999	5,000,000	9/1/35	Exempt	.23
2005-A-3	1999	26,100,000	9/1/35	Taxable	1.92
2005-A-4	1999	26,500,000	9/1/35	Taxable	1.92
2005-A-5	1999	3,000,000	9/1/35	Taxable	1.92
2006-A-1	1999	70,100,000	9/1/36	Exempt	.23
2006-A-2	1999	7,000,000	9/1/36	Exempt	.23
2007-A-1	2004	45,275,000	3/1/37	Exempt	.23
2007-A-2	2004	5,500,000	3/1/37	Exempt	.23
		$ 470,175,000			

NOTE 7 - BONDS AND NOTES PAYABLE - CONTINUED:

At December 31, 2011, MHEAC bonds and notes payable consisted of:

Series	Indenture	Amount	Maturity	Status	Rate
1996	1996	$ 61,000,000	10/1/26	Taxable	1.53%
1996-A	1993	23,100,000	9/1/16	Exempt	.25
1998-B	1993	41,700,000	9/1/33	Exempt	.23
1999-A-1	1999	26,500,000	8/1/29	Exempt	.18
1999-A-3	1999	14,000,000	8/1/29	Taxable	1.79
1999-B-1	1999	8,500,000	8/1/29	Exempt	.18
2000	1996	40,900,000	7/1/30	Taxable	1.51
2000-A-1	1999	58,600,000	9/1/30	Taxable	1.79
2000-B-1	1999	8,100,000	9/1/30	Taxable	1.93
2000-A-2	1999	12,300,000	9/1/30	Exempt	.21
2000-A-3	1999	46,600,000	9/1/30	Taxable	1.78
2000-B-2	1999	12,000,000	9/1/30	Exempt	.21
2000-A-4	1999	7,100,000	9/1/30	Exempt	.19
2001-A-1	1999	6,400,000	9/1/31	Exempt	.19
2003-A-1	1999	51,300,000	9/1/33	Taxable	1.79
2003-A-2	1999	22,000,000	9/1/33	Taxable	1.79
2003-B-1	1999	15,000,000	9/1/33	Taxable	1.93
2003-A-3	1999	12,400,000	9/1/33	Taxable	1.78
2004-A-1	2004	45,000,000	3/1/34	Exempt	.19
2004-B-1	2004	5,000,000	3/1/34	Exempt	.29
2004-A-2	1999	41,900,000	9/1/34	Taxable	1.79
2004-A-3	1999	2,000,000	9/1/34	Taxable	1.78
2004-A-4	1999	25,700,000	9/1/34	Taxable	1.78
2005-A-1	1999	68,700,000	9/1/35	Exempt	.21
2005-A-2	1999	5,000,000	9/1/35	Exempt	.21
2005-B-1	1999	18,800,000	9/1/35	Exempt	.21
2005-A-3	1999	29,300,000	9/1/35	Taxable	1.79
2005-A-4	1999	34,500,000	9/1/35	Taxable	1.78
2005-A-5	1999	5,500,000	9/1/35	Taxable	1.78
2006-A-1	1999	85,700,000	9/1/36	Exempt	.18
2006-A-2	1999	19,000,000	9/1/36	Exempt	.21
2006-B-1	1999	14,300,000	9/1/36	Exempt	.18
2007-A-1	2004	61,150,000	3/1/37	Exempt	.21
2007-A-2	2004	20,900,000	3/1/37	Exempt	.18
2007-B-1	2004	12,300,000	3/1/37	Exempt	.32
		$ 962,250,000			

NOTE 7 - BONDS AND NOTES PAYABLE - CONTINUED:

At December 31, 2012, remaining maturities and sinking fund redemptions of bonds and notes are as follows:

2012 - 2015	$ -
2016	23,100,000
2017	-
2026 - 2037	447,075,000
	$ 470,175,000

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, 2012 and 2011, MHEAC determined that the cumulative amount of carry-over was approximately $2,453,000 and $6,156,000, 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, 2012 and 2011, the average annual expense rate for bonds and notes was approximately 1.15% and 1.10%, 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, 2012 and 2011, capitalized interest was approximately $11,532,000 and $15,718,000, respectively.

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

During the years ended December 31, 2012 and 2011, MHEAC settled approximately $4,837,000 and $3,080,000, 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, 2012 and 2011, the first 6% of an employee's eligible compensation contributed by the employee was matched by ESF at 200% and 100%, respectively. For 2012 and 2011, ESF's match was $189,870 and $82,072, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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.

NOTE 11 - GAINS ON EXTINGUISHMENT OF DEBT

During the years ended December 31, 2012 and 2011, 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 $34,710,833 and $10,953,602, respectively.

NOTE 12 - SUBSEQUENT EVENTS

From January 1, 2013 through April 3, 2013, MHEAC used available cash to retire bonds and notes for less than their carrying value, resulting in a gain net of expenses of approximately $1,249,000.

Except as disclosed above, MHEAC and ESF had no subsequent events of a material nature requiring disclosure in the financial statements through April 3, 2013, 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, 2012

	MHEAC	ESF	Eliminations	Total
ASSETS				
Cash and cash equivalents	$ 59,131,018	9,281,720	-	68,412,738
Investments	45,558,992	-	-	45,558,992
Student loans receivable	534,199,060	-	(508,114)	533,690,946
Interest and special allowance receivable	8,899,781	-	-	8,899,781
Deferred costs of issuance less accumulated amortization	2,199,358	-	-	2,199,358
Other assets	100,279	958,345	(733,828)	324,796
Total assets	$ 650,088,488	10,240,065	(1,241,942)	659,086,611
LIABILITIES AND UN-RESTRICTED NET ASSETS				
LIABILITIES:				
Accounts payable and accrued expenses	$ 1,304,951	809,009	(733,828)	1,380,132
Accrued interest payable	418,166	-	-	418,166
Excess interest and rebate payable	6,931,100	-	-	6,931,100
Bonds and notes payable	470,175,000	-	-	470,175,000
Total liabilities	478,829,217	809,009	(733,828)	478,904,398
UNRESTRICTED NET ASSETS:				
Bond and note funds	151,982,615	-	(508,114)	151,474,501
General fund	19,276,656	9,431,056	-	28,707,712
Total unrestricted net assets	171,259,271	9,431,056	(508,114)	180,182,213
Total liabilities and unrestricted net assets	$ 650,088,488	10,240,065	(1,241,942)	659,086,611

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, 2012

	MHEAC	ESF	Eliminations	Total
INTEREST INCOME:				
Interest on student loans	$ 15,883,428	-	269,093	16,152,521
Interest subsidy	3,676,726	-	-	3,676,726
Special allowance	(6,084,010)	-	-	(6,084,010)
Late fees	378,217	-	-	378,217
Student loans	13,854,361	-	269,093	14,123,454
Interest on investments	239,003	10,608	-	249,611
Total interest income	14,093,364	10,608	269,093	14,373,065
INTEREST COST:				
Interest expense	7,460,534	-	-	7,460,534
Bond and note fees	567,271	-	-	567,271
Amortization of deferred costs of issuance	169,314	-	-	169,314
Total interest cost	8,197,119	-	-	8,197,119
Net interest revenue	5,896,245	10,608	269,093	6,175,946
PROVISION FOR LOAN LOSSES	258,103	-	-	258,103
Net interest revenue after provision for loan losses	5,638,142	10,608	269,093	5,917,843
OTHER REVENUE (EXPENSE):				
Program services revenue	-	7,876,913	(7,800,524)	76,389
Program services expense	(5,155,224)	(4,617,007)	6,175,978	(3,596,253)
Support services expense	(2,645,300)	(1,355,079)	1,624,546	(2,375,833)
Total other revenue (expense)	(7,800,524)	1,904,827	-	(5,895,697)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT	(2,162,382)	1,915,435	269,093	22,146
GAINS ON EXTINGUISHMENT OF DEBT	34,710,833	-	-	34,710,833
INCREASE IN UNRESTRICTED NET NET ASSETS	32,548,451	1,915,435	269,093	34,732,979
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	138,710,820	7,515,621	(777,207)	145,449,234
UNRESTRICTED NET ASSETS, END OF PERIOD	$ 171,259,271	9,431,056	(508,114)	180,182,213

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

COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	MHEAC	ESF	Eliminations	Total
RECEIPTS (DISBURSEMENTS) IN CASH AND CASH EQUIVALENTS:				
Cash flows from operating activities:				
Interest on student loans	$ 9,758,071	-	-	9,758,071
Interest subsidy	4,244,440	-	-	4,244,440
Special allowance	(6,916,513)	-	-	(6,916,513)
Late fees	378,217	-	-	378,217
Interest on investments	257,541	10,608	-	268,149
Other program services revenue	-	7,715,618	(7,639,218)	76,400
Interest expense	(7,808,421)	-	-	(7,808,421)
Program and support services	(7,748,312)	(5,838,208)	7,639,218	(5,947,302)
Bond and note fees	(656,761)	-	-	(656,761)
Net cash provided (used) by operating activities	(8,491,738)	1,888,018	-	(6,603,720)
Cash flows from investing activities:				
Additions to equipment	-	(53,557)	-	(53,557)
Collection of student loan principal	108,454,067	-	-	108,454,067
Purchases of student loan principal	(3,516,228)	-	-	(3,516,228)
Investments matured/redeemed	8,710,148	-	-	8,710,148
Net cash provided (used) by investing activities	113,647,987	(53,557)	-	113,594,430
Cash flows from financing activities:				
Collection of excess and rebate interest liability	1,167,652	-	-	1,167,652
Payment of excess and rebate interest	(317,898)	-	-	(317,898)
Payments to redeem bonds and notes	(178,679,397)	-	-	(178,679,397)
Net cash used by financing activities	(177,829,643)	-	-	(177,829,643)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(72,673,394)	1,834,461	-	(70,838,933)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	131,804,412	7,447,259	-	139,251,671
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 59,131,018	9,281,720	-	68,412,738

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

COMBINING STATEMENT OF CASH FLOWS - CONTINUED: FOR THE YEAR ENDED DECEMBER 31, 2012

	MHEAC	ESF	Eliminations	Total
RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Increase in unrestricted net assets	$ 32,548,451	1,915,435	269,093	34,732,979
Adjustments to reconcile increase in unrestricted net assets to net cash provided (used) by operating activities:				
Amortization and depreciation	3,976,354	114,639	(269,093)	3,821,900
Capitalized interest on student loans	(11,532,085)	-	-	(11,532,085)
Provision for loan losses	258,103	-	-	258,103
Gains on extinguishment of debt	(34,710,833)	-	-	(34,710,833)
Decrease in interest and special allowance receivable	1,353,437	-	-	1,353,437
(Increase) decrease in other assets	16,570	(133,102)	-	(116,532)
Decrease in accounts payable	(53,847)	(8,954)	-	(62,801)
Decrease in accrued interest payable	(347,888)	-	-	(347,888)
Total adjustments	(41,040,189)	(27,417)	(269,093)	(41,336,699)
Net cash provided (used) by operating activities	$ (8,491,738)	1,888,018	-	(6,603,720)

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

	1993 Indenture	1996 Indenture	1999 Indenture	2004 Indenture	General Fund	Eliminations	Total
ASSETS							
Cash and cash equivalents	$ 15,548,777	8,076,114	23,712,893	3,009,107	8,784,127	-	59,131,018
Investments	42,533,992	-	2,458,000	567,000	8,125,000	(8,125,000)	45,558,992
Student loans receivable	3,806,770	32,011,720	404,574,919	93,050,911	754,740	-	534,199,060
Interest and special allowance receivable	391,147	536,406	5,227,755	2,712,181	40,551	(8,259)	8,899,781
Deferred costs of issuance less accumulated amortization	193,792	72,895	1,481,253	390,299	61,119	-	2,199,358
Other assets	(75,202)	(456,552)	(1,311,645)	(442,616)	2,386,294	-	100,279
Total assets	$ 62,399,276	40,240,583	436,143,175	99,286,882	20,151,831	(8,133,259)	650,088,488
LIABILITIES AND UNRESTRICTED NET ASSETS							
LIABILITIES:							
Accounts payable and accrued expenses	$ 2,832	23,692	345,442	57,810	875,175	-	1,304,951
Accrued interest payable	54,164	1,348	288,136	82,777	-	(8,259)	418,166
Excess interest and rebate payable	1,830,100	-	5,101,000	-	-	-	6,931,100
Bonds and notes payable	53,600,000	16,100,000	326,900,000	81,700,000	-	(8,125,000)	470,175,000
Total liabilities	55,487,096	16,125,040	332,634,578	81,840,587	875,175	(8,133,259)	478,829,217
UNRESTRICTED NET ASSETS	6,912,180	24,115,543	103,508,597	17,446,295	19,276,656	-	171,259,271
Total liabilities and unrestricted net assets	$ 62,399,276	40,240,583	436,143,175	99,286,882	20,151,831	(8,133,259)	650,088,488

MISSISSIPPI HIGHER EDUCATION ASSISTANCE CORPORATION

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2012

	1993 Indenture	1996 Indenture	1999 Indenture	2004 Indenture	General Fund	Eliminations	Total
INTEREST INCOME:							
Interest on student loans	$ (526,669)	1,736,690	10,418,902	4,220,155	34,350	-	15,883,428
Interest subsidy	23,001	273,028	2,207,102	1,165,796	7,799	-	3,676,726
Special allowance	28,788	4,021	(2,529,500)	(3,600,759)	13,440	-	(6,084,010)
Late fees	6,241	46,000	264,420	60,364	1,192	-	378,217
Student loans	(468,639)	2,059,739	10,360,924	1,845,556	56,781	-	13,854,361
Interest on investments	153,312	8,576	62,270	1,568	103,627	(90,350)	239,003
Total interest income	(315,327)	2,068,315	10,423,194	1,847,124	160,408	(90,350)	14,093,364
INTEREST COST:							
Interest expense	173,335	922,403	6,117,967	337,179	-	(90,350)	7,460,534
Bond and note fees	82,168	117,000	294,235	72,868	1,000	-	567,271
Amortization of deferred costs of issuance	21,319	15,967	105,272	22,557	4,199	-	169,314
Total interest cost	276,822	1,055,370	6,517,474	432,604	5,199	(90,350)	8,197,119
Net interest revenue (expense)	(592,149)	1,012,945	3,905,720	1,414,520	155,209	-	5,896,245
PROVISION FOR LOAN LOSSES	(8,015)	23,592	108,491	134,198	(163)	-	258,103
Net interest revenue (expense) after provision for loan losses	(584,134)	989,353	3,797,229	1,280,322	155,372	-	5,638,142
OTHER REVENUE (EXPENSE):							
Program and support services	(35,759)	(286,241)	(2,625,353)	(728,586)	(4,124,585)	-	(7,800,524)
Total other revenue (expense)	(35,759)	(286,241)	(2,625,353)	(728,586)	(4,124,585)	-	(7,800,524)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE GAINS ON EXTINGUISHMENT OF DEBT	(619,893)	703,112	1,171,876	551,736	(3,969,213)	-	(2,162,382)
GAINS ON EXTINGUISHMENT OF DEBT	(68,185)	2,767,381	16,887,904	15,123,733	-	-	34,710,833
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(688,078)	3,470,493	18,059,780	15,675,469	(3,969,213)	-	32,548,451
UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD	7,277,760	20,334,726	82,893,887	1,591,073	26,613,374	-	138,710,820
TRANSFERS IN (OUT)	322,498	310,324	2,554,930	179,753	(3,367,505)	-	-
UNRESTRICTED NET ASSETS, END OF PERIOD	$ 6,912,180	24,115,543	103,508,597	17,446,295	19,276,656	-	171,259,271