Annual Financial Report
June 30, 2014 and 2013

PHEAA conducts its student loan servicing operations commercially as American Education Services and for federally-owned loans as FedLoan Servicing.

This discussion and analysis of the financial performance of the Pennsylvania Higher Education Assistance Agency (PHEAA) is required supplementary information. It introduces the basic financial statements and provides an analytical overview of our financial activities. Please read it in conjunction with the financial statements that follow this discussion.

Change in Accounting Principle

On July 1, 2013, we adopted GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities* ("GASB 65"). This Statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Some of these items previously reported as assets and liabilities were deferred gains on debt refundings, debt issuance costs, loan origination fees and costs, and commitment fees.

See **Note 4 – Change in Accounting Principle** for more details on the impact of these changes.

About PHEAA

Our mission is to improve higher education opportunities for Pennsylvanians. We are a public corporation and government instrumentality created by the Pennsylvania General Assembly. We serve students and schools nationally through our state grant, guaranty, servicing, and financial aid processing systems.

We administer the Pennsylvania State Grant program, as well as other grant programs, on behalf of the Commonwealth of Pennsylvania ("Commonwealth") each year without taxpayer support. Our business earnings fund the administration of these programs ensuring that every appropriated dollar goes directly to students.

Our debt management professionals, our use of technology, and our websites, YouCanDealWithIt.com and EducationPlanner.org, have reduced financial risk for our customers and ensured that funds remain accessible to all students. We have enhanced EducationPlanner.org with the addition of MySmartBorrowing. MySmartBorrowing is a uniquely interactive online tool to help users easily understand the long-term implications of personal and financial choices that are necessary for a student's higher education success plan. MySmartBorrowing includes estimators that assist users in identifying their possible cost of a higher education at different schools, future salary expectations for a particular degree, availability of related employment opportunities, and their potential ability to repay student loans comfortably while also affording an independent lifestyle after graduation.

On October 28, 2009, the Department of Education ("ED") published in the Federal Register the regulations that govern the calculation of the 3-year cohort default rates beginning with the fiscal year 2009 cohort year. Under the new provisions, ED calculates a guaranty agency's cohort default rate as the percentage of borrowers in certain Federal Family Education Loan ("FFEL") Program loans in the cohort who default before the end of the second fiscal year following the fiscal year in which the borrowers entered repayment. This extends the length of time in which a student can default from two to three years. Each year ED publishes cohort default rates based on the percentage of a lender's or guarantor's student borrowers who enter repayment on FFEL program loans during a federal fiscal year (October 1–September 30) and default before the end of the next fiscal year.

Our 3-year cohort default rate for fiscal year 2011, the most recent year available, was 9.3%, which was better than the national industry average of 13.7%. Our 3-year cohort default rates for fiscal years 2010 and 2009 were 9.8% and 9.3%, respectively, which were better than the national industry average of 14.7% and 13.4%, respectively.

We facilitated the guarantee of Federal Stafford, PLUS and Consolidation loans originated before July 1, 2010. For the year ended June 30, 2014, the average original principal balance outstanding of student loans guaranteed was $36.9 billion compared to $39.4 billion in 2013 and $43.5 billion in 2012.

We service student loans that we own and loans owned by third parties through our Commercial Servicing, FedLoan Servicing ("FLS"), and Remote Servicing lines of business. Our Commercial Servicing line of business services alternative and FFEL program loans. Our FLS line of business services federally owned FFEL and William D. Ford ("Direct Loan") program loans. Our Remote Servicing line of business provides our system to guarantors, other servicers, and Not for Profit ("NFP") servicers to use in their internal servicing operations.

Public Service Benefits

The following table highlights the public service benefits and the operating expenses incurred by us.

(Dollars in thousands)

For the years ended June 30,	2014	2013	2012
Self-funded			
Pennsylvania State Grant Program Supplement	$ **75,000**	75,000	50,002
Pennsylvania Distance Education Program Supplement	**5,750**	-	-
Pennsylvania Targeted Industry Cluster Certificate Scholarship Program Supplement, net of refunds	**5,146**	4,434	-
Costs of operating state and federal governmental programs	**13,482**	13,552	12,603
Other public service activities and outreach	**2,690**	3,587	3,800
	102,068	96,573	66,405
Financial support funded by our business partners			
Keystone loan program origination fees and benefits paid on behalf of borrowers	**16**	24	122
	$ **102,084**	96,597	66,527

We administer various programs to help students pursue higher education with the most significant Commonwealth programs as follows:

- On June 19, 2014, the Board of Directors approved the following allocations for fiscal year 2014-15:
  - Pennsylvania State Grant Program Supplement - $75.0 million;
  - Pennsylvania Distance Education Program Supplement - $10.0 million; and
  - Pennsylvania Targeted Industry Cluster Certificate Scholarship Program Supplement – $6.0 million.

- On July 10, 2014, the Governor of Pennsylvania ("Governor") signed the budget for fiscal year 2014-15:
  - Pennsylvania State Grant Program - $344.9 million;
  - Institutional Assistance Grant Program - $24.4 million;
  - Matching Funds Grant Program - $12.5 million;
  - Pennsylvania Ready to Succeed Scholarship Program - $5.0 million;
  - Higher Education for the Disadvantaged Program - $2.2 million;
  - Cheyney University Keystone Academy Program - $1.5 million;
  - Horace Mann Bond-Leslie Pickney Hill Scholarship for outreach and recruitment activities at Lincoln and Cheyney Universities Program - $534.0 thousand;
  - Pennsylvania Internship Program Grants - $350.0 thousand; and
  - Higher Education of Blind or Deaf Program - $47.0 thousand.

- The Pennsylvania State Grant Program is the largest of the Commonwealth supported student aid programs with approximately 165 thousand projected recipients and the maximum award is $4,011 for the 2014-2015 award year.

  During the 2013-2014 award year, the Pennsylvania State Grant Program supported approximately 179 thousand recipients and the maximum award was $4,363. As of June 30, 2014, we have disbursed $75.0 million from the Pennsylvania State Grant Supplement and disbursed $5.1 million, net of refunds, from the Pennsylvania Targeted Industry Cluster Certificate Scholarship Program Supplement. As of June 30, 2014, we transferred $10.0 million to the Pennsylvania Distance Education Program Supplement and disbursed

$5.8 million, net of refunds. As of June 30, 2014, the remaining undisbursed allocation to the Pennsylvania Distance Education Program Supplement was $4.2 million.

During the 2012-2013 award year, the Pennsylvania State Grant Program supported approximately 171 thousand recipients and the maximum award was $4,348. During the 2012-2013 award year, the Board of Directors approved and PHEAA supplemented a $75.0 million allocation to the Pennsylvania State Grant Program and a $5 million allocation to the Pennsylvania Targeted Industry Cluster Certificate Scholarship Program.

- The Institutional Assistance Grants ("IAG") Program serves as an integral part of the Commonwealth's commitment to the development and preservation of a planned system of postsecondary education. The IAG program goals are fulfilled through formula grants, which help non-profit independent, postsecondary institutions to maintain enrollment levels and stabilize costs.

- The Matching Funds Program provides financial assistance to higher education institutions to assist them in capturing federal funds that require a state or local match as part of the federal grant award. It also provides matching grants to scholarship awards made by selected non-profit foundations.

- The Pennsylvania National Guard Education Assistance Program ("EAP") is for members of the Pennsylvania National Guard. This program provides tuition assistance for students who enter into a service commitment with the Pennsylvania National Guard, typically for a period of six years. The maximum EAP award for full-time students (undergraduates) is the lesser of the actual tuition charged for the full-time course of study, or 100% of the tuition charged to a Pennsylvania resident at a state-owned university.

- The Postsecondary Educational Gratuity Program ("PEGP") assists birth or adoptive children of Pennsylvania police officers, firefighters, rescue and ambulance squad members, corrections employees and National Guard members who died in the line of duty since January 1, 1976. The program also includes the birth and adoptive children of Pennsylvania sheriffs, deputy sheriffs and certain other individuals who were on federal or state active military duty who died in the line of duty since September 11, 2001. The PEGP covers all institutional charges for tuition, fees, room and board not covered by other grants and scholarships for students attending public colleges and universities in Pennsylvania.

- The Ready To Succeed Scholarship Program ("RTSS") was initiated by the Governor and is being administered by us in close cooperation with the Pennsylvania Department of Education. The Pennsylvania General Assembly will fund the RTSS and the RTSS will provide awards to high achieving students whose annual family income does not exceed $110,000. Students must be nominated by their post-secondary institution for participation in the program and the awards from the RTSS can be used to cover tuition, books, fees, supplies, and living expenses.

Finally, we fund other public service and outreach initiatives to ensure students are aware of the financial aid opportunities available to them and to avert student loan defaults.

Operations

To serve Pennsylvanians effectively, we operate both inside and outside Pennsylvania and our primary operations involve servicing activities, student loan holdings and guaranty activities. In the table that follows, we present total assets managed.

(Dollars in thousands)

As of June 30,		2014	2013	2012
Commercial Servicing:				
Client-owned student loans	$	**46,283,711**	51,520,958	53,201,428
PHEAA-owned student loans		**7,223,471**	7,669,402	7,529,370
Total commercial servicing		**53,507,182**	59,190,360	60,730,798
Federal Servicing		**185,212,708**	140,867,651	76,012,492
Remote Servicing:				
Federal Servicing		**37,949,856**	33,139,128	15,393,193
Commercial Servicing		**10,370,374**	10,564,333	18,307,939
Total remote servicing		**48,320,230**	43,703,461	33,701,132
Total servicing		**287,040,120**	243,761,472	170,444,422
Guaranty:				
Original principal outstanding		**35,274,795**	38,329,414	41,400,585
Inventory of defaulted loans		**4,862,600**	4,718,417	4,116,819
Total guaranty		**40,137,395**	43,047,831	45,517,404
Total assets managed	$	**327,177,515**	286,809,303	215,961,826

Servicing Activities

We service student loans that we own and loans owned by third parties through our Commercial Servicing, FLS, and Remote Servicing lines of business. Our Remote Servicing line of business provides our systems to guarantors, other servicers, and NFP servicers to use in their internal servicing operations.

Our Commercial Servicing line of business services student loans that were originated under the FFEL program, prior to July 1, 2010, and various alternative loan programs. Our FLS line of business services student loans that were originated under the Direct Loan program and the FFEL program, which are owned by ED. The FFEL and the Direct Loan programs are federal programs that allow undergraduate or graduate students at eligible postsecondary schools or parents of such students to obtain loans. Furthermore, as a servicer, we are responsible for maintaining and pursuing collections on student loans.

There are four types of loans under the FFEL and the Direct Loan programs:

- Subsidized Stafford – The federal government pays the interest on these loans while the student is in school, during the qualifying grace periods, and during deferments;
- Unsubsidized Stafford – The student is responsible for all interest;
- PLUS – This is a supplemental loan to parents and graduate students; and
- Consolidation – This allows the borrower to combine Stafford and certain other education-related loans, fix the rate of interest on the loans, and extend the repayment period.

On December 3, 2013, the Consumer Financial Protection Bureau ("CFPB"), a federal agency created pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") issued regulations subjecting us to the supervision of the CFPB as a "larger participant" (as defined for purposes of the Dodd-Frank

Act). The regulations provide for the examination and monitoring of larger participants in student loan servicing by the CFPB. The CFPB seeks to make sure that all relevant federal consumer financial laws are followed by student loan servicers and those such rules are applied to both federal and private student loans, from origination through servicing to debt collection. As such supervision has only recently been announced, we are unable to predict the ultimate effect such supervision or required examinations could have on our operations or those of our affiliates. Our operational expenses will likely increase to address new or additional compliance requirements that could be imposed on our operations as a result of these regulations and CFPB supervision as the risk of penalties and fines on all supervised entities may increase and our profitability, results of operations, financial condition, cash flows or future business prospects could be affected as a result.

Student Loan Holdings

The Student Aid and Fiscal Responsibility Act ("SAFRA") terminated our authority to originate new loans under the FFEL program after June 30, 2010, and all new Stafford, PLUS and Consolidation student loans are originated under the Direct Loan program.

We earn interest subsidies and special allowance payments on certain FFELP student loans within our student loan portfolio. ED makes interest subsidy payments to holders of qualifying FFEL program loans under the Higher Education Act of 1965, as amended, on subsidized Stafford loans and qualifying Consolidation loans, while the student is a qualified student, during a qualifying grace period and during periods of deferment. ED pays the interest subsidy payments based on the amount of interest accruing on the unpaid balance, prior to the commencement of repayment or during the deferment period. We record the interest subsidy payments as "Student Loan Interest Revenue".

ED makes special allowance payments to holders of qualifying insured loans and guaranteed loans, subject to certain requirements under the Higher Education Act of 1965, as amended. ED makes the payments during any quarter in which the special allowance calculation is a positive number. For loans first disbursed between April 1, 2006 and June 30, 2010, ED will collect excess interest for quarters in which the interest rate on the loan exceeds the special allowance support level, commonly referred to as negative special allowance. We record the special allowance payments as "Student Loan Interest Revenue".

Special allowance rates vary according to the type of loan, the date of the loan disbursement, the loan period and the loan status. ED calculates the special allowance rates using the following factors:

- The average of the bond equivalent rates on the quotes of the 3-month financial commercial paper rates in effect for each of the days in such quarter as reported by the Federal Reserve in Publication H-15 (or its successor) for such 3-month period;
- The average of the bond equivalent rates of the quotes of the 1-month London Inter-Bank Offered Rate ("LIBOR") in effect for each of the days in such quarter as compiled and released by the British Bankers Association;
- The average bond equivalent rate of the 91-day Treasury bills as published by the Department of Treasury; and
- A factor prescribed by law for each category of loans. This factor is added to or subtracted from the applicable 3-month financial commercial paper rate, 1-month LIBOR or 91-day Treasury bill rate.

In addition, we are required to pay ED a monthly Consolidation Loan Rebate Fee as a holder of Federal Consolidation loans. The Consolidation Loan Rebate Fee is equal to 0.0875 percent of the unpaid principal balance and the accrued interest on all Federal Consolidation Loans disbursed after October 1, 1993, and held by the lender on the last day of the month. This is equal to an annualized rate of 1.05 percent. Except for loans based on applications received during the period from October 1, 1998 and January 31, 1999, for which the rebate is equal to 0.05167 percent on a monthly basis or 0.62 percent on an annual basis.

Guaranty Activities

We manage the Federal Student Loan Reserve Fund ("Federal Fund") for ED, so there is enough money to pay lenders when their normal collection efforts fail and a borrower defaults on a student loan. For more information on the Federal Fund, see the section titled "Federal Student Loan Reserve Fund (Federal Fund)" within the MD&A.

We facilitate the guarantee of at least 97% of the principal and accrued interest on Stafford, PLUS, SLS and Consolidation loans made by a lender prior to July 1, 2010, in which the lender is party to a guarantee agreement with us.

ED reimburses the Federal Fund and the reinsurance rates vary based upon the default rates of our portfolio of guaranteed loans and the disbursement date of the loan. The following outlines reinsurance rates, which are based on loan disbursement dates:

▪ Before October 1, 1993	80% - 100%
▪ Between October 1, 1993 and September 30, 1998	78% - 98%
▪ Between October 1, 1998 and June 30, 2010	75% - 95%

We have a federal reinsurance agreement and a supplemental guarantee agreement with ED in which ED will reimburse the Federal Fund for at least 75%, and as much as 100%, of amounts expended resulting from defaulted loans, depending on the default rates of our portfolio of guaranteed loans for that fiscal year and the disbursement date of the loan. In addition, we have agreements with ED in which ED will reimburse us for 100% of the amounts expended by us resulting from the bankruptcy, death or disability of the borrower.

We have established a loan rehabilitation program for all borrowers with an enforceable promissory note. However, the following circumstances will exclude a borrower from the loan rehabilitation program:

- A judgment has been obtained on the loan;
- Default claims were filed on the loan under the Code of Federal Regulations, Title 34, Chapter VI, Sec. 682.412 (Consequences of the failure of a borrower or a student to establish eligibility); and
- The borrower has been convicted of, or has pled nolo contendere or guilty to, a crime involving fraud in obtaining Title IV, Higher Education Act program assistance.

A borrower must meet the following requirements for us to consider the loan rehabilitated:

- The borrower has made nine of the ten payments required under a monthly repayment agreement;
- Nine payments have been received by us within a ten month period; and
- The loan is sold to an eligible lender.

In order to facilitate the sale of the rehabilitated student loans to eligible lenders, we purchase and sell rehabilitated student loans.

Once the borrower meets the above program requirements, the borrower regains all benefits of the loan program, including any remaining deferment eligibility.

On December 26, 2013, President Obama signed into law the Bipartisan Budget Act of 2013 (the "2013 Budget"). Section 502 of the 2013 Budget reduces the amount that PHEAA and other guaranty agencies are permitted to retain on rehabilitated defaulted student loans. Under current rules, guaranty agencies are permitted to retain 18.5 percent of the principal balance of the rehabilitated loan and 100% of accrued interest, plus up to another 18.5 percent of the principal balance and accrued interest at the time of loan sale and retain such amount to defray collection costs. For rehabilitated loan sales on and after July 1, 2014, the 2013 Budget requires that the guaranty agency pay ED 100% of the principal balance of the loan at the time of sale (multiplied by the reinsurance percentage in effect when payment under the guaranty agreement was made). In addition, the guaranty agency can charge to the borrower an amount not to exceed 16% of the outstanding principal and interest at the time of the loan sale in order to defray collection costs.

For the year ended June 30, 2014, retention of collections on defaulted loans was $207.7 million, total operating revenues were $640.2 million, and operating income was $221.9 million. We estimate that had the 2013 Budget been in effect, and all other variables affecting revenues and income had remained constant, retention of collections would have been $116.2 million, total operating revenues would have been $548.7 million, and operating income would have been $130.5 million.

For the year ended June 30, 2013 (restated), retention of collections on defaulted loans was $180.8 million, total operating revenues were $603.4 million, and operating income was $244.0 million. We estimate that had the 2013 Budget been in effect, and all other variables affecting revenues and income had remained constant, retention of collections would have been $93.6 million, total operating revenues would have been $516.2 million, and operating income would have been $156.8 million.

Description of the Basic Financial Statements

The Statements of Revenues, Expenses and Changes in Net Position report our revenues and expenses. These statements measure the results of our operations over a period of time.

The Statements of Net Position include recorded assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets are resources with present service capacity that we presently control. Deferred outflows of resources are the consumption of net position that is applicable to a future reporting period. Liabilities are present obligations to sacrifice resources that we have little or no discretion to avoid. Deferred inflows of resources are the acquisition of net position that is applicable to a future reporting period. Net position remains after assets plus deferred outflows of resources, less liabilities and deferred inflows of resources. These statements report our assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at a point in time.

The Statements of Cash Flows supplement these statements by providing relevant information about cash receipts and payments over a period of time.

The notes to the financial statements are an integral part of the financial statements and contain important information necessary to get a complete view of our finances.

We are financed and operated similar to a private business enterprise. We follow the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. While private business enterprises follow the accounting guidance issued by the Financial Accounting Standards Board (“FASB”), we follow the guidance issued by the Governmental Accounting Standards Board (“GASB”).

Condensed Financial Information

Statements of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

For the years ended June 30,	2014	Restated 2013	Restated 2012
Student loan interest revenue	$ **154,029**	142,766	160,197
Investment interest revenue	**13,419**	8,615	5,454
Interest expense on student loan financings and notes and bonds payable	**(53,300)**	(66,679)	(88,959)
Interest expense on other financings	**(1,994)**	(1,422)	(3,038)
Net interest revenue	**112,154**	83,280	73,654
Provision for loan losses	**(8,064)**	(5,069)	(3,086)
Net interest revenue after provision for loan losses	**104,090**	78,211	70,568
Total noninterest revenue	**536,079**	525,189	441,520
Operating revenues	**640,169**	603,400	512,088
Operating expenses	**(418,225)**	(359,403)	(318,099)
Operating income	**221,944**	243,997	193,989
Non-operating gains (losses)	**175**	(79)	76
Income before grants and financial aid	**222,119**	243,918	194,065
Total grants and financial aid	**(86,620)**	(96,112)	(79,848)
Change in net position	**135,499**	147,806	114,217
Net position, beginning of period	**893,204**	745,398	631,181
Net position, end of period	$ **1,028,703**	893,204	745,398

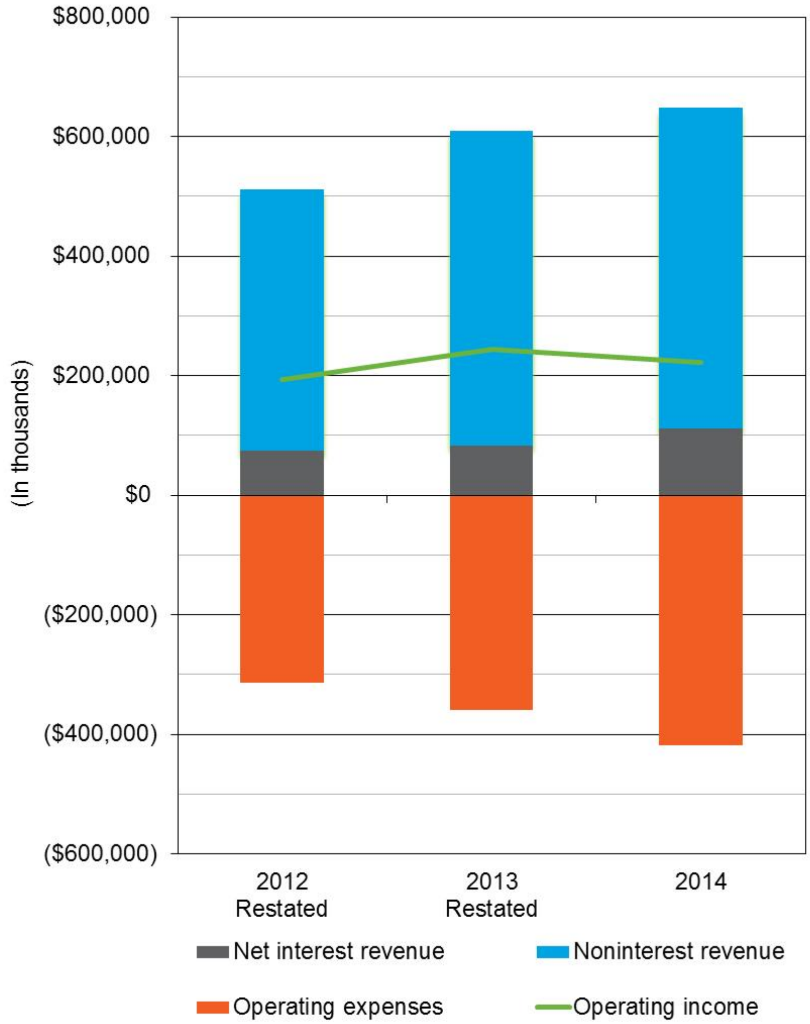
Statements of Net Position

(Dollars in thousands)

As of June 30,		2014	Restated 2013	Restated 2012
Current assets:				
Cash, cash equivalents, and investments (restricted and unrestricted)	$	**1,024,895**	842,416	910,482
Student loans receivable		**947,152**	1,067,929	928,297
Other assets		**332,743**	320,352	282,960
Total current assets		**2,304,790**	2,230,697	2,121,739
Long-term assets:				
Student loans receivable, net		**6,245,917**	6,573,201	6,603,422
Other assets		**61,639**	60,568	55,706
Total long-term assets		**6,307,556**	6,633,769	6,659,128
Total assets		**8,612,346**	8,864,466	8,780,867
Total deferred outflow of resources		**2,728**	5,140	7,471
Current liabilities:				
Student loan financings and notes and bonds payable		**444,140**	165,963	120,000
Other liabilities		**269,546**	230,404	226,667
Total current liabilities		**713,686**	396,367	346,667
Long-term liabilities:				
Student loan financings and notes and bonds payable, net		**6,621,556**	7,303,247	7,375,799
Other liabilities		**58,177**	66,491	118,828
Total long-term liabilities		**6,679,733**	7,369,738	7,494,627
Total liabilities		**7,393,419**	7,766,105	7,841,294
Total deferred inflow of resources		**192,952**	210,297	201,646
Net position:				
Net investment in capital assets		**61,639**	60,492	55,557
Restricted for debt service		**216,916**	249,962	157,796
Restricted for financial aid grant programs		**41,110**	36,647	52,243
Unrestricted		**709,038**	546,103	479,802
Total net position	$	**1,028,703**	893,204	745,398

Results of Operations

Years ended June 30



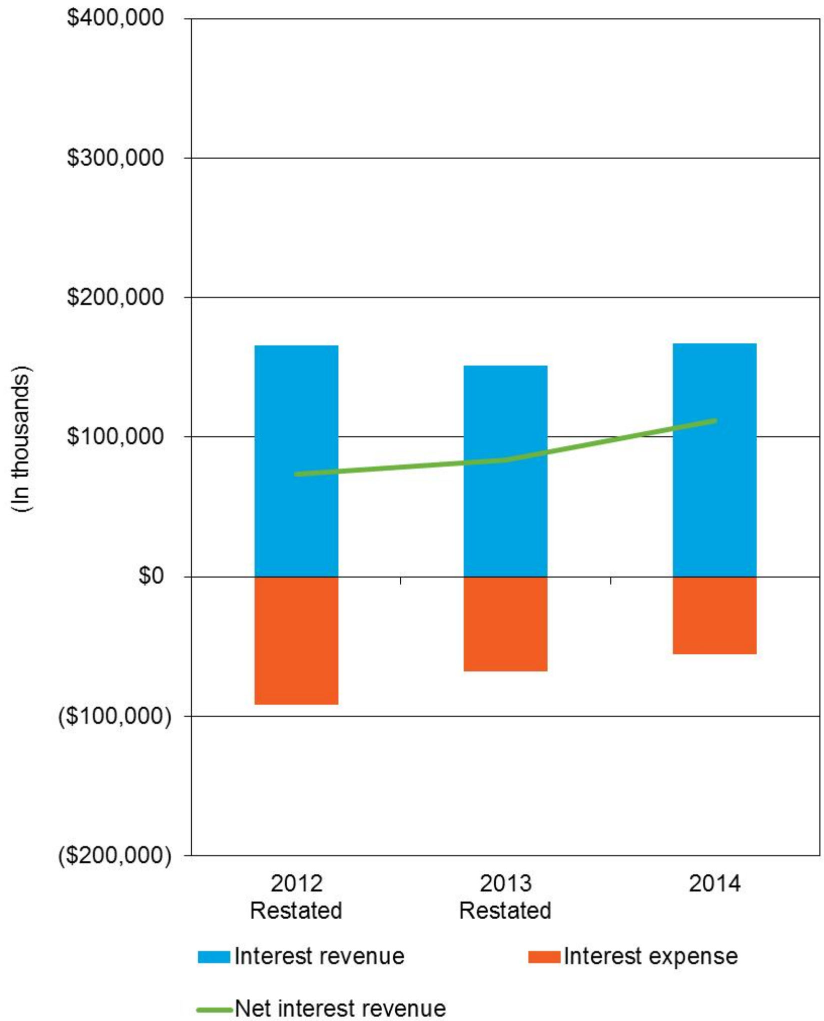
Operating income for the year ended June 30, 2014, was $221.9 million, a 9.1% decrease from $244.0 million in 2013. Operating revenues were $640.2 million in 2014, a 6.1% increase from $603.4 million in 2013. Net interest revenue was $112.2 million in 2014, a 34.7% increase from $83.3 million in 2013. Noninterest revenue was $536.1 million in 2014, a 2.1% increase from $525.2 million in 2013. Operating expenses were $418.2 million in 2014, a 16.4% increase from $359.4 million in 2013.

Operating income for the year ended June 30, 2013, was $244.0 million, a 25.8% increase from $194.0 million in 2012. Operating revenues were $603.4 million in 2013, a 17.8% increase from $512.1 million in 2012. Net interest revenue was $83.3 million in 2013, a 13.0% increase from $73.7 million in 2012. Noninterest revenue was $525.2 million in 2013, a 19.0% increase from $441.5 million in 2012. Operating expenses were $359.4 million in 2013, a 13.0% increase from $318.1 million in 2012.

A more detailed explanation of the results of operations follows.

Net Interest Revenue

Years ended June 30



Net interest revenue results primarily from the interest rate margin in our portfolio of student loans, although we have investments and debt not related to those student loans that can also create net interest revenue.

For the year ended June 30, 2014, net interest revenue was $112.2 million, a 34.7% increase from $83.3 million in 2013. The increase in net interest revenue was due to an increase in student loan interest revenue, an increase in investment income and a decrease in interest expense on student loan financings and notes and bonds payable.

The increase in student loan interest revenue was due to an increase in the FFEL student loan portfolio. On June 27, 2013, we purchased $1.0 billion of FFEL student loans from a nonprofit corporation. The increase in investment income was due to better returns on our investments. The decrease in interest expense on student loan financings and notes and bonds payable was mainly due to the decrease in auction rate security interest expense, which was offset by increases in interest expense on our warehouse lines of credit and our floating rate notes.

For the year ended June 30, 2013, net interest revenue was $83.3 million, a 13.0% increase from $73.7 million in 2012. The increase in net interest revenue was mainly due to an increase in investment income and a decrease in interest expense on student loan financings and notes and bonds payable.

The increase in investment income was due to better returns on our investments. The decrease in interest expense on student loan financings and notes and bonds payable was mainly due to the decrease in auction rate security interest expense as a result of the purchase and cancellation of bonds from the 1997 Master Trust through our various warehouse lines of credit and from our unrestricted cash reserves.

The following table shows the average balances and rates earned on interest earning assets and the average balances and rates paid on interest bearing liabilities. For presentation purposes only, those items classified as deferred outflows and inflows of resources in the Statement of Net Position were included with their respective interest earning/bearing assets and liabilities. For example, the deferred gains and loss on bond refundings were included with student loans financings and notes and bonds payable, net.

For the years ended June 30,	**2014**		Restated 2013		Restated 2012	
(Dollars in thousands)	**Balances**	**Rate**	Balances	Rate	Balances	Rate
Average interest earning assets						
Student loans receivable, net	**$ 7,272,233**	**2.12%**	$ 7,105,871	2.01%	$ 8,139,366	1.97%
Investments	**853,370**	**1.57%**	852,220	1.01%	834,813	0.65%
	$ 8,125,603	**2.06%**	$ 7,958,091	1.90%	$ 8,974,179	1.85%
Average interest bearing liabilities						
Student loan financings and notes and bonds payable, net	**$ 7,300,069**	**0.73%**	$ 7,193,339	0.93%	$ 8,285,944	1.07%
Other financings, net	**38,842**	**5.13%**	72,783	1.95%	120,291	2.53%
	$ 7,338,911	**0.75%**	$ 7,266,122	0.94%	$ 8,406,235	1.09%
Net interest margin		**1.31%**		0.96%		0.76%

<u>2014</u>

For the year ended June 30, 2014, the increase in the average balance of our student loans receivable, net, was due to the purchase of $1.0 billion of FFEL student loans from a nonprofit corporation on June 27, 2013, which was partially offset by payments made by borrowers on our student loan portfolio. The increase in the rate of the average balance of our investments was due to better returns earned on our investments.

For the year ended June 30, 2014, the increase in the average balance of our student loan financings and notes and bonds payable, net, was primarily due to the refunding of auction rate security bonds with floating rate notes issued by the PHEAA Student Loan Trusts. The decrease in the balance of other financings, net, was due to cancellation of note purchase agreements and scheduled debt payments of our term financings. The increase in the rate of other financings, net, was due to the increase in interest expense paid due to the early extinguishment of term financing debt on July 30, 2013, and the increase in interest expense paid on our Capital Acquisition Refunding Bonds, Series of 2012. We issued the Capital Acquisition Refunding Bonds, Series of 2012, on December 15, 2012.

<u>2013</u>

For the year ended June 30, 2013, the decrease in the average balance of our student loan receivables, net, was due to borrower payments received on our student loan portfolio.

For the year ended June 30, 2013, the decrease in the average interest bearing liabilities was primarily due to the purchase and cancellation of bonds from the 1997 Master Trust and various bond refundings that occurred during the year; scheduled debt payments; and the early extinguishment of other financing debt.

See **Note 9 – Notes and Bonds Payable and Other Financings** for more details on our student loan holdings and weighted-average interest rates.

The following table shows the net interest margin on student loans.

(Dollars in thousands)

For the years ended June 30,	**2014**	Restated 2013	Restated 2012
Student loan yields	**3.08%**	3.05%	3.08%
Consolidation loan rebate fees	**(0.85)**	(0.80)	(0.78)
Premium amortization	**(0.11)**	(0.24)	(0.33)
Student loan interest revenue	**2.12%**	2.01%	1.97%
Student loan financings and notes and bonds payable interest expense	**(0.73)**	(0.93)	(1.07)
Net interest margin on student loans	**1.39%**	1.08%	0.90%

For the years ended June 30, 2014 and 2013, the increase in the rate on student loan interest revenue was mainly due to the decrease in the scheduled amortization of purchased premium. The decrease in the rate on student loan financings and notes and bonds payable interest expense was due to a decline in the maximum interest expense payable on the auction rate securities with the 1997 Master Trust. This decline was mainly due to the refunding of auction rate security bonds from the 1997 Master Trust with floating rate notes issued through our PHEAA Student Loan Trusts.

The amounts we earn as student loan interest revenue are based on fixed and variable rate student loans, and involve interpreting, and complying with complicated regulations issued by ED. ED makes special allowance payments, which are included in student loan interest revenue. ED calculates special allowance payments based on the type of loan, the date of the loan disbursement, the loan period, the loan status and a factor prescribed by law. ED calculates the special allowance rates using factors such as the 3-month financial commercial paper rate, 1-month LIBOR and 91-day Treasury bill rate.

As of June 30, 2014, the 91-day U.S. Treasury Bill rate was used to calculate special allowance for 3% of the student loan portfolio, the 3-month financial commercial paper rate was used to calculate special allowance for 16% of the student loan portfolio, and the 1-month LIBOR was used to calculate special allowance for 81% of the student loan portfolio.

As of June 30, 2013 and 2012, the 91-day U.S. Treasury Bill rate was used to calculate special allowance for 3% of the student loan portfolio, the 3-month financial commercial paper rate was used to calculate special allowance for 19% of the student loan portfolio, and the 1-month LIBOR was used to calculate special allowance for 78% of the student loan portfolio.

The following rate and volume analysis shows the relative contribution of changes in interest rates and changes in volumes to changes in net interest revenue.

(Dollars in thousands)		**2014 vs. 2013 Increase (decrease) attributable to change in**				2013 vs. 2012 (Restated) Increase (decrease) attributable to change in		
For the years ended June 30		**Increase (decrease)**	**Rate**	**Volume**		Increase (decrease)	Rate	Volume
Student loan interest revenue	$	11,263	7,921	3,342	$	(17,431)	2,910	(20,341)
Investment interest revenue		4,804	4,792	12		3,161	3,047	114
		16,067	12,713	3,354		(14,270)	5,957	(20,227)
Student loan financings and notes and bonds payable interest expense		(13,379)	(14,368)	989		(22,280)	(10,550)	(11,730)
Other financings interest expense		572	1,235	(663)		(1,616)	(416)	(1,200)
		(12,807)	(13,133)	326		(23,896)	(10,966)	(12,930)
Net interest revenue	$	28,874	25,846	3,028	$	9,626	16,923	(7,297)

2014 vs. 2013

For the year ended June 30, 2014, the increase in the rate and volume of our student loan interest revenue was due to an increase in our student loan portfolio as a result of the purchase of $1.0 billion of FFEL student loans from a nonprofit corporation on June 27, 2013.

For the year ended June 30, 2014, the increase in the rate of our investment interest revenue was due to better returns earned on our investments.

For the year ended June 30, 2014, the decrease in the rate of our student loan financings and notes and bonds payable interest expense was due to a decrease in the interest expense paid on our auction rate securities associated with the 1997 Master Trust. This decrease was due to the refunding of auction rate security bonds with floating rate notes issued by the PHEAA Student Loan Trusts.

For the year ended June 30, 2014, the increase in the rate of other financings interest expense was due to the interest expense paid on the extinguishment of a note purchase agreement with a financial institution on July 30, 2013, and the increase in interest expense paid on our Capital Acquisition Refunding Bonds, Series of 2012.

2013 vs. 2012

For the year ended June 30, 2013, the decrease in the volume of our student loan interest revenue was due to a decreasing student loan portfolio. The increase in the rate of our investment interest revenue was due to unrealized gains earned on our investments during the current year compared to unrealized losses earned on our investments during the prior year.

For the year ended June 30, 2013, the decrease in the rate and volume of our student loan financings and notes and bonds payable interest expense was due to scheduled debt payments, the purchase and cancellation of auction rate security bonds from the 1997 Master Trust, and lower interest rates due to previous bond refundings.

For more details on our debt financing activity, see the debt financing activity table within the section titled "Debt Activity and Capital Assets" of the MD&A.

Interest Rate Risk Management

Student loans are generally variable-rate assets, so we generally fund them with variable-rate debt.

In the table that follows, we categorize variable-rate assets and liabilities by reset date and fixed-rate assets and liabilities by their maturity dates. For presentation purposes only, those items classified as deferred outflows and inflows of resources in the Statement of Net Position were included with their respective assets and liabilities. For example, the deferred gains on bond refundings were included with student loans financings and notes and bonds payable, net. An interest rate gap is the difference between the volumes of assets and liabilities maturing or re-pricing during specific future time intervals. The above mentioned table includes only those assets and liabilities related to our student loan financings and notes and bonds payable. As of June 30, 2014, we had $771.0 million of cash, cash equivalents and investments and $51.2 million of student loans, as well as other assets and liabilities, not included in the previously mentioned table, because they do not relate to the student loan financings and notes and bonds payable.

If a period gap is positive, it means there are more assets than liabilities re-pricing during the period. If interest rates rise in a period with a positive gap, net interest revenue will increase. Conversely, if interest rates fall in a period with a positive gap, net interest revenue will decrease.

The opposite is true when the period gap is negative. This occurs when more liabilities than assets are re-pricing during the period. If interest rates rise in a period with a negative gap, net interest revenue will decrease. If interest rates fall in a period with a negative gap, net interest revenue will increase.

The gap analysis that follows reflects rate-sensitive positions as of June 30, 2014, and is not necessarily reflective of positions that existed throughout the period.

(Dollars in thousands)		Interest rate sensitivity period					
As of June 30, 2014		**3 months or less**	**3 months to 6 months**	**6 months to 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Assets							
Restricted cash and cash equivalents	$	253,922	-	-	-	-	-
Student loans, net		7,072,468	34,933	34,067	122	79	191
Other assets		86,726	6,579	2,540	1,727	2,289	-
Total assets		7,413,116	41,512	36,607	1,849	2,368	191
Liabilities							
Student loan financings and notes and bonds payable, net		7,055,372	200,000	-	-	-	-
Other liabilities		23,342	13	-	-	-	-
Total liabilities		7,078,714	200,013	-	-	-	-
Net position							
Restricted for debt service	$	-	-	-	-	-	216,916
Period gap	$	334,402	(158,501)	36,607	1,849	2,368	(216,725)
Cumulative gap	$	334,402	175,901	212,508	214,357	216,725	-
Ratio of interest-sensitive assets to interest-sensitive liabilities and net position		104.7 %	20.8 %	-%	-%	-%	0.1 %
Ratio of cumulative gap to total assets		4.5%	2.3 %	2.8 %	2.9 %	2.9 %	-%

The table below includes only those assets and liabilities related to our student loan financings and notes and bonds payable. For presentation purposes only, those items classified as deferred outflows and inflows of resources in the Statement of Net Position were included with their respective assets and liabilities. For example, the deferred student loan purchase discounts were included with student loans receivable, net, and the deferred gains on bond refundings were included with student loans financings and notes and bonds payable, net. As of June 30, 2013, we had $612.8 million of cash, cash equivalents and investments and $35.0 million of student loans, as well as other assets and liabilities, not included in the table below, because they do not relate to the student loan financings and notes and bonds payable.

The gap analysis that follows reflects rate-sensitive positions as of June 30, 2013, and is not necessarily reflective of positions that existed throughout the period.

(Dollars in thousands)		**Interest rate sensitivity period**					
As of June 30, 2013 **Restated**		**3 months or less**	**3 months to 6 months**	**6 months to 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Assets							
Restricted cash and cash equivalents	$	229,620	-	-	-	-	-
Student loans, net		7,395,348	67,998	140,882	1,549	204	194
Other assets		87,591	14,494	5,027	3,162	4,248	-
Total assets		7,712,559	82,492	145,909	4,711	4,452	194
Liabilities							
Student loan financings and notes and bonds payable, net		7,512,422	161,300	-	-	-	-
Other liabilities		26,614	19	-	-	-	-
Total liabilities		7,539,036	161,319	-	-	-	-
Net position							
Restricted for debt service	$	-	-	-	-	-	249,962
Period gap	$	173,523	(78,827)	145,909	4,711	4,452	(249,768)
Cumulative gap	$	173,523	94,696	240,605	245,316	249,768	-
Ratio of interest-sensitive assets to interest-sensitive liabilities and net position		102.3 %	51.1 %	-%	-%	-%	0.1 %
Ratio of cumulative gap to total assets		2.2 %	1.2 %	3.0 %	3.1 %	3.1 %	-%

Allowance for Loan Losses

FFEL Program Loans

The allowance for loan losses-FFEL program loans represents our estimate of the costs related to the risk sharing on FFEL program loans only. This allowance does not include the risk associated with non-FFEL program loans. We record a provision for loan losses on "FFEL program loans" as follows:

- FFEL program loans - The allowance for loan losses represents our estimate of the costs related to the risk sharing on the FFEL program loans and it is a weighted average calculation based upon the following guarantee rates:
    - 100% of the unpaid principal balance of each loan disbursed before October 1, 1993;
    - Not more than 98% of the unpaid principal balance of each loan disbursed on or after October 1, 1993 and before July 1, 2006; and
    - Not more than 97% of the unpaid principal balance of each loan disbursed on or after July 1, 2006 and before July 1, 2010. Student loans were no longer originated under the FFEL program on or after July 1, 2010.

This allowance along with the allowance for loan losses-other program loans (Non-FFEL) are included in the section titled "Allowance for loan losses" in **Note 7 – Student Loans Receivable, net**.

In making our estimates, we consider the trend in default rates in our portfolio. When a student loan defaults, the guarantor reimburses the lender based on the disbursement date of the student loan. We record a charge-off for the difference between the ending balance of the student loan and the guarantee rate discussed above.

We report the allowance for loan losses-FFEL program loans in the following table along with the allowance for loan losses-other program loans (Non-FFEL) on the following page in "Student loans receivable, net" in the Statements of Net Position. The provision for loan losses on FFEL student loans in the following table along with the provision for loan losses on non-FFEL program loans on the following page are included in the "provision for losses" in the Statements of Revenues, Expenses and Changes in Net Position.

(Dollars in thousands)

As of June 30,		**2014**	2013	2012
Balance at beginning of period	$	**12,621**	11,770	11,290
Provision for losses		**7,384**	5,035	4,194
Charge-offs		**(5,448)**	(4,184)	(3,714)
Balance at end of period	$	**14,557**	12,621	11,770
Ending balance of FFEL student loans	$	**7,126,263**	7,551,035	7,386,186
Allowance as a percentage of ending balance of student loans		**0.20%**	0.17%	0.16%

As of June 30, 2014, we believe the allowance for loan losses is adequate to cover the inherent losses on our FFEL student loan portfolio.

Other Program Loans (Non-FFEL)

The allowance for loan losses-other program loans (Non-FFEL) represents our estimate of the risk associated with non-FFEL program loans, such as private and cure loans. We record a provision for loan losses on "other program loans" as follows:

- Private loans – We record a provision for loan losses on private loans when the student loan delinquency status is no longer current (payments not received within the past 60 days) and/or in-litigation. Included with private loans are loans formerly guaranteed by The Education Resource Institute, Inc. (TERI). For those loans formerly guaranteed by TERI, we record a provision for loan losses on 100% of the loan balances that have a payment delinquency status of 121 days and greater, and those loans classified as "claims filed but not paid".

- Cure loans – We consider a loan to be in "cure" status when a due diligence violation has occurred on a PHEAA owned loan and the servicer is attempting to correct or "cure" the loan. When a student loan enters a cure status, the guarantor will not guarantee the student loan and reimburse the lender for the outstanding principal and interest of the loan if the borrower defaults on the student loan while in a cure status. A loan can become incurable after three years of unsuccessfully trying to cure the loan, if a loan does not pay-off within the defined terms (i.e. 120 months for a 10 year Stafford loan), or due to an origination error. We record a provision for loan losses on any loans that have been in a cure status for greater than 24 months, and any loans considered incurable.

These allowances along with allowance for losses on FFEL program loans are included in the section titled "Allowance for loan losses" in **Note 7 – Student Loans Receivable, net**.

We report the allowance for loan losses-other program loans (Non-FFEL) in the following table along with the allowance for loan losses-FFEL program loans from the previous page within "Student loans receivable, net" within the Statements of Net Position. The provision for loan losses on non-FFEL student loans in the following table along with the provision for loan losses on FFEL program loans from the previous page are included in the "provision for losses" in the Statements of Revenues, Expenses and Changes in Net Position.

(Dollars in thousands)

As of June 30,		**2014**	2013	2012
Balance at beginning of period	$	**4,463**	4,400	5,439
Provision for losses		**680**	34	(1,108)
Recoveries		**12**	29	69
Balance at end of period	$	**5,155**	4,463	4,400
Ending balance of non-FFEL student loans	$	**89,267**	109,821	134,183
Allowance as a percentage of ending balance of student loans		**5.77%**	4.06%	3.28%

As of June 30, 2014, we believe the allowance for loan losses is adequate to cover the inherent losses on our non-FFEL student loan portfolio.

Delinquencies have the potential to adversely affect earnings through increased collection costs and charge-offs. The June 30, 2014, table below presents our student loan delinquency trends on FFEL and non-FFEL student loans, but does not include $9.4 million of student loans categorized as in-litigation, $9.8 million of student loans categorized as uninsured and $179 thousand of student loans with credit balances.

(Dollars in thousands)

As of June 30, 2014	FFEL		Non-FFEL		Total	
Loans in-school/in-grace	$ 24,353		$ 176		$ 24,529	
Loans in deferment and forbearance:						
Deferment	699,442		2,397		701,839	
Forbearance	776,328		620		776,948	
Total loans in-school/in-grace, and deferment and forbearance	$ 1,500,123		$ 3,193		$ 1,503,316	
Loans in repayment:						
Current	$ 4,883,715	86.9%	$ 75,945	92.7%	$ 4,959,660	87.0%
31 – 60 days	234,751	4.2%	1,576	1.9%	236,327	4.1%
61 – 90 days	124,169	2.2%	565	0.7%	124,734	2.2%
91 – 120 days	80,839	1.5%	139	0.2%	80,978	1.4%
121 – 180 days	124,465	2.2%	326	0.3%	124,791	2.2%
181 – 270 days	102,374	1.8%	237	0.3%	102,611	1.8%
271 days or greater	44,309	0.8%	151	0.2%	44,460	0.8%
Claims filed not paid	24,559	0.4%	2,994	3.7%	27,553	0.5%
Total loans in repayment	$ 5,619,181	100.0%	$ 81,933	100.0%	$ 5,701,114	100.0%

The June 30, 2013, table below presents our student loan delinquency trends on FFEL and non-FFEL student loans, but does not include $10.1 million of student loans categorized as in-litigation, $10.0 million of student loans categorized as uninsured and $195 thousand of student loans with credit balances.

(Dollars in thousands)

As of June 30, 2013		**FFEL**			**Non-FFEL**			**Total**	
Loans in-school/in-grace	$	41,673		$	385		$	42,058	
Loans in deferment and forbearance:									
Deferment		857,876			3,616			861,492	
Forbearance		893,008			984			893,992	
Total loans in-school/in-grace, and deferment and forbearance	$	1,792,557		$	4,985		$	1,797,542	
Loans in repayment:									
Current	$	5,090,551	88.5%	$	93,466	93.7%	$	5,184,017	88.6%
31 – 60 days		222,325	3.9%		1,880	1.9%		224,205	3.8%
61 – 90 days		119,266	2.1%		1,003	1.0%		120,269	2.1%
91 – 120 days		75,819	1.3%		246	0.2%		76,065	1.3%
121 – 180 days		103,699	1.8%		308	0.3%		104,007	1.8%
181 – 270 days		98,687	1.7%		31	0.1%		98,718	1.7%
271 days or greater		30,376	0.5%		98	0.1%		30,474	0.5%
Claims filed not paid		11,488	0.2%		2,726	2.7%		14,214	0.2%
Total loans in repayment	$	5,752,211	100.0%	$	99,758	100.0%	$	5,851,969	100.0%

Servicing Liability

We can incur losses on our portfolio of loans and on the portfolio of loans serviced by us for our clients (excluding the federally owned FFEL and Direct Loan program loans) by not meeting servicing regulations. We make estimates of the potential loan losses based upon our continuing evaluation of the loan portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. We record charge-offs for liabilities associated with servicing student loans for our clients.

In the following table, we report the allowance for loan losses-servicing liability within "Accounts payable and accrued expenses" within the Statements of Net Position. In the following table, we report the "provision for losses" as "servicing liability" in "Other" operating expenses in the Statements of Revenues, Expenses and Changes in Net Position.

(Dollars in thousands)

As of June 30,		**2014**	2013	2012
Balance at beginning of period	$	**3,716**	4,349	3,020
Provision for losses		**2,340**	1,180	1,817
Charge-offs		**(693)**	(1,813)	(488)
Balance at end of period	$	**5,363**	3,716	4,349

As of June 30, 2014, we believe the allowance for loan losses-servicing liability is adequate to cover the inherent losses on our portfolio of loans and on the portfolio of loans serviced by us for our clients.

Noninterest Revenue

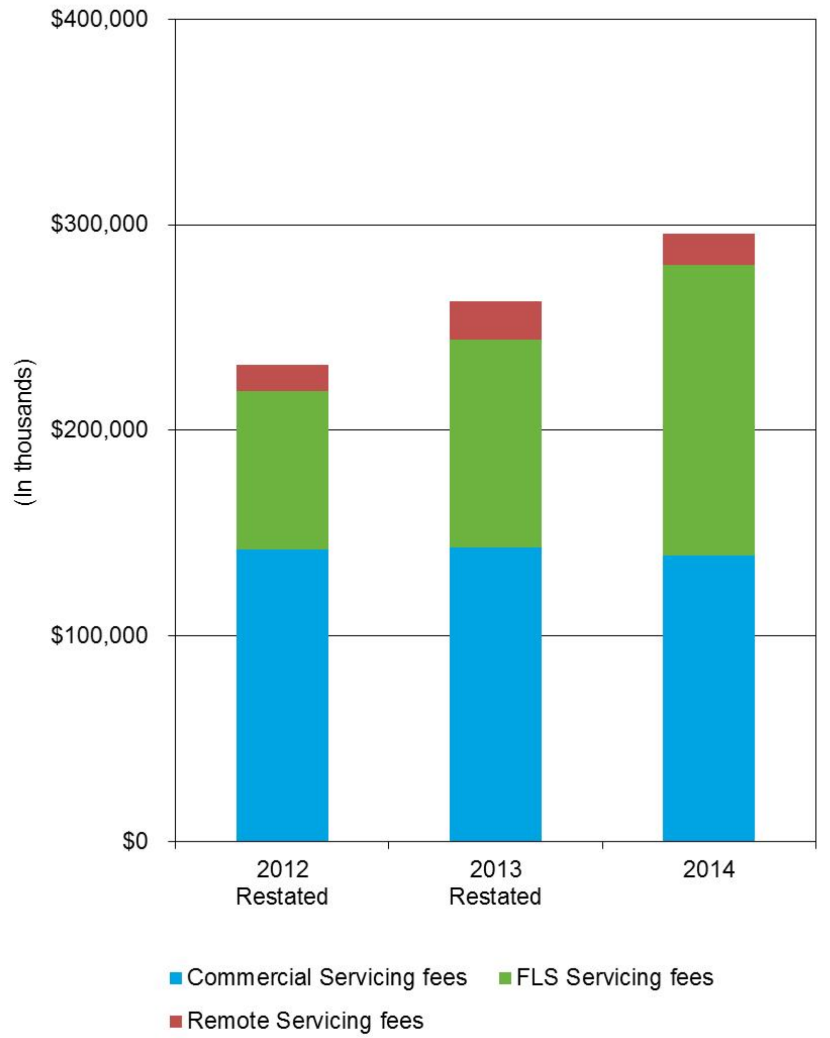
The following table displays the categories of noninterest revenue for the years ended June 30.

(Dollars in thousands)

For the years ended June 30,		2014	Restated 2013	Restated 2012
Servicing fees	$	**295,537**	262,743	235,089
Retention of collections on defaulted loans, net		**207,688**	180,776	171,117
Federal fees		**22,567**	24,017	26,253
Gains on debt retirement		**9,681**	57,790	23,315
Gain (loss) on student loan sales, net		**3,099**	1,763	(12,770)
Other		**(2,493)**	(1,900)	(1,484)
Total noninterest revenue	$	**536,079**	525,189	441,520

For the year ended June 30, 2014, total noninterest revenue was $536.1 million, a 2.1% increase from $525.2 million in 2013. For the year ended June 30, 2013, total noninterest revenue was $525.2 million, a 19.0% increase from $441.5 million in 2013. In the sections that follow, we provide a more detailed explanation of the changes in total noninterest revenue.

Servicing Fees
Years ended June 30



We earn servicing fee revenue by servicing student loans owned by third parties. We categorize revenue earned from loans owned by financial institutions and secondary markets as "Commercial Servicing"; whereas, we categorize revenue earned from loans owned by ED as "FLS Servicing". Our Remote Servicing line of business provides our system to guarantors and other servicers to use, as well as, to NFP servicers who were awarded servicing contracts by ED.

Total Servicing Fees

For the year ended June 30, 2014, total servicing fees were $295.5 million, a 12.5% increase from $262.7 million in 2013. During 2014, total servicing fees increased due to increased volume of loans serviced in our FLS line of business, which was offset by decreased servicing revenue in our Commercial and Remote Servicing lines of business. For the year ended June 30, 2014, the average third party loans serviced on our systems were $266.1 billion, a 36.1% increase from $195.5 billion in 2013.

For the year ended June 30, 2013, total servicing fees were $262.7 million, an 11.7% increase from $235.1 million in 2012. During 2013, total servicing fees increased due to increased volume of loans serviced in our FLS and Remote Servicing lines of business, which was offset by decreased servicing revenue in our Commercial Servicing line of business. For the year ended June 30, 2013, the average third party loans serviced on our systems were $195.5 billion, a 40.7% increase from $138.9 billion in 2012.

Commercial Servicing Fees

For the year ended June 30, 2014, Commercial Servicing fees were $139.1 million, a 2.7% decrease from $142.9 million in 2013. For the year ended June 30, 2014, the average Commercial Servicing portfolio of loans was $49.2 billion, a 3.0% decrease from $50.7 billion in 2013.

For the year ended June 30, 2013, Commercial Servicing fees were $142.9 million, a 1.6% decrease from $145.2 million in 2012. For the year ended June 30, 2013, the average Commercial Servicing portfolio of loans was $50.7 billion, a 3.8% decrease from $52.7 billion in 2012.

For the years ended June 30, 2014 and 2013, the decrease in Commercial Servicing fees was primarily due to a decrease in the Commercial Servicing loan portfolio.

FLS Servicing Fees

For the year ended June 30, 2014, FLS Servicing fees were $141.1 million, a 39.3% increase from $101.3 million in 2013. For the year ended June 30, 2014, the average FLS servicing portfolio of loans was $167.3 billion, a 62.0% increase from $103.3 billion in 2013.

For the year ended June 30, 2013, FLS Servicing fees were $101.3 million, a 31.2% increase from $77.2 million in 2012. For the year ended June 30, 2013, the average FLS servicing portfolio of loans was $103.3 billion, a 66.9% increase from $61.9 billion in 2012.

For the years ended June 30, 2014 and 2013, the increase in FLS Servicing fees was due to an increase in the portfolio of loans serviced by us for ED.

Remote Servicing Fees

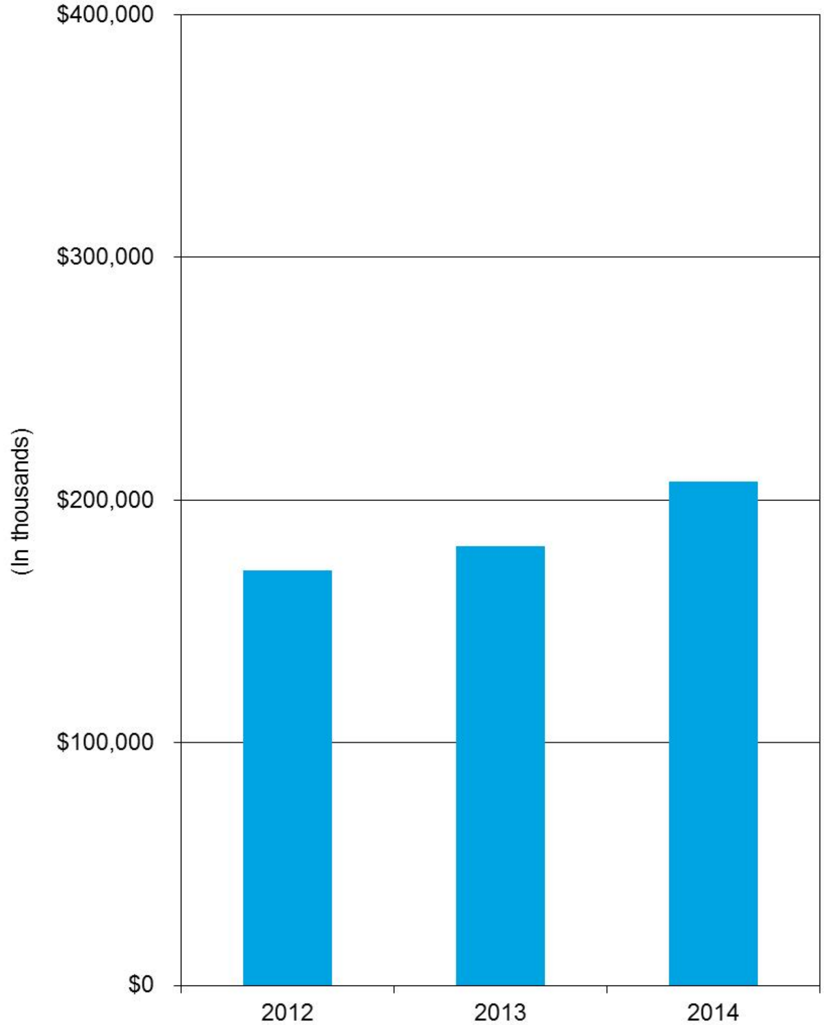
For the year ended June 30, 2014, Remote Servicing fees were $15.3 million, a 17.3% decrease from $18.5 million in 2013. For the year ended June 30, 2014, the average Remote Servicing portfolio of loans, excluding the NFP Servicers, was $10.4 billion, a 30.2% decrease from $14.9 billion in 2013. For the year ended June 30, 2014, the average portfolio of loans related to the NFP Servicers was $39.2 billion, a 47.4% increase from $26.6 billion for the same period ended 2013.

For the year ended June 30, 2014, the decrease in Remote Servicing fees was mainly due to a decrease in the portfolio of loans held on our system for our Remote customers, excluding the NFP Servicers.

For the year ended June 30, 2013, Remote Servicing fees were $18.5 million, a 45.7% increase from $12.7 million in 2012. For the year ended June 30, 2013, the average Remote Servicing portfolio of loans, excluding the NFP Servicers, was $14.9 billion, a 23.6% decrease from $19.5 billion in 2012. For the year ended June 30, 2013, the average portfolio of loans related to the NFP Servicers was $26.6 billion, an increase from $4.8 billion in 2012.

For the year ended June 30, 2013, the increase in Remote Servicing fees was mainly due to an increase in the portfolio of loans held on our system for NFP Servicers.

Retention of Collections on Defaulted Loans, net
Years ended June 30



As a guarantor, we facilitate the guarantee of 97% - 100% of the borrower's outstanding loan balance depending on the disbursement date of the borrower's loan. The federal government reinsures the Federal Fund based upon default rates of the portfolio of guaranteed loans and the disbursement date of the loan.

After a loan defaults, we continue to try to collect on the loan and we earn revenue on the collection of defaulted loans. The federal government allows us to retain up to 16% of the borrower's payments collected as revenue and we remit the remaining amount to the federal government, after reducing the amount by the reinsurance complement. The reinsurance complement is equal to the collection amount times a percentage (calculated as 100% less the reinsurance percentage). For rehabilitation payments, we retain 18.5% of the outstanding principal balance, 100% of the collection costs (capped at 18.5% of principal and accrued interest) and 100% of accrued interest collected as revenue.

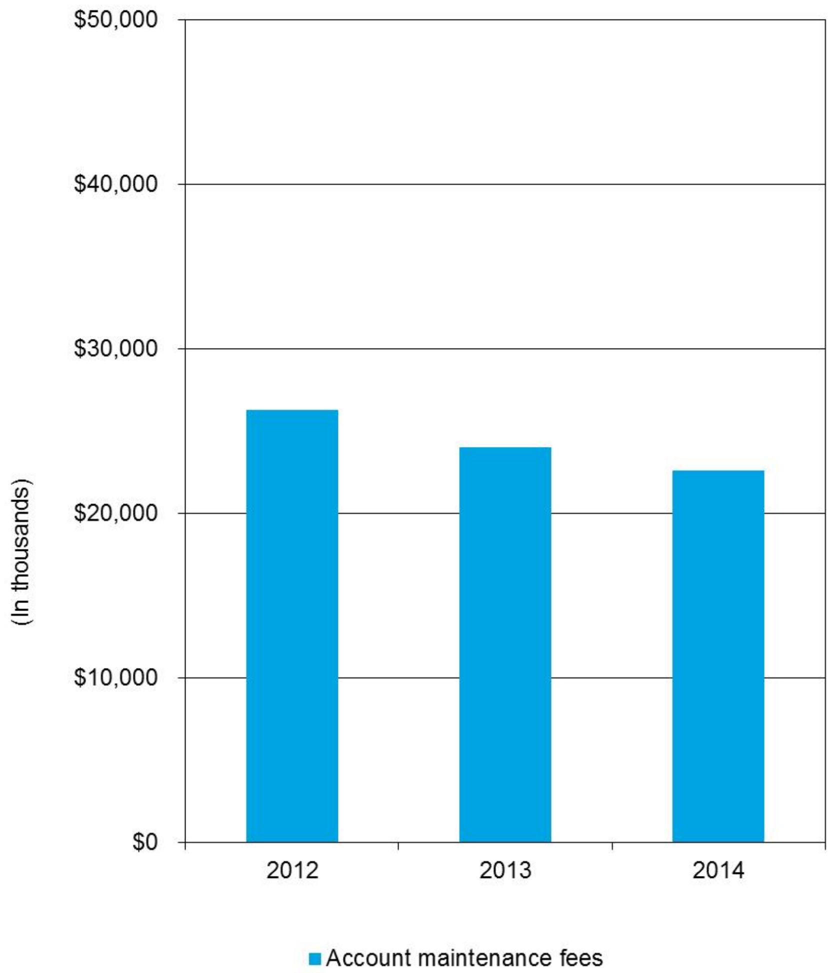
On December 26, 2013, President Obama signed into law the 2013 Budget. Section 502 of the 2013 Budget reduces retention fees on rehabilitation payments from the above stated amounts to 100% of collection costs (capped at 16% of principal and accrued interest at the time of loan sale) to the borrower. This change is effective July 1, 2014.

For the year ended June 30, 2014, the retention of collections on defaulted loans, net, was $207.7 million, a 14.9% increase from $180.8 million in 2013. For the year ended June 30, 2014, the discount on rehabilitation collections was $2.5 million compared to $26.6 million in 2013. The increase in the collections on defaulted loans, net, was mainly due to an increase in the collection of rehabilitation loans and a decrease in the discounts offered to eligible lenders for purchasing rehabilitation loans.

For the year ended June 30, 2013, the retention of collections on defaulted loans, net, was $180.8 million, a 5.7% increase from $171.1 million in 2012. For the year ended June 30, 2013, the discount on rehabilitation collections was $26.6 million, a 1.1% increase from $26.3 million in 2012. The increase in the collections on defaulted loans, net, was mainly due to the increase in the collection of rehabilitation loan payments, which was offset by a decrease in the collection of direct consolidation loan payments.

Federal Fees

Years ended June 30



We earn account maintenance fees, which we classify as federal fees, from operating the guaranty agency. ED pays us an annual account maintenance fee that is 0.06% of the original principal amount of outstanding loans guaranteed as long as the guarantee remains in force.

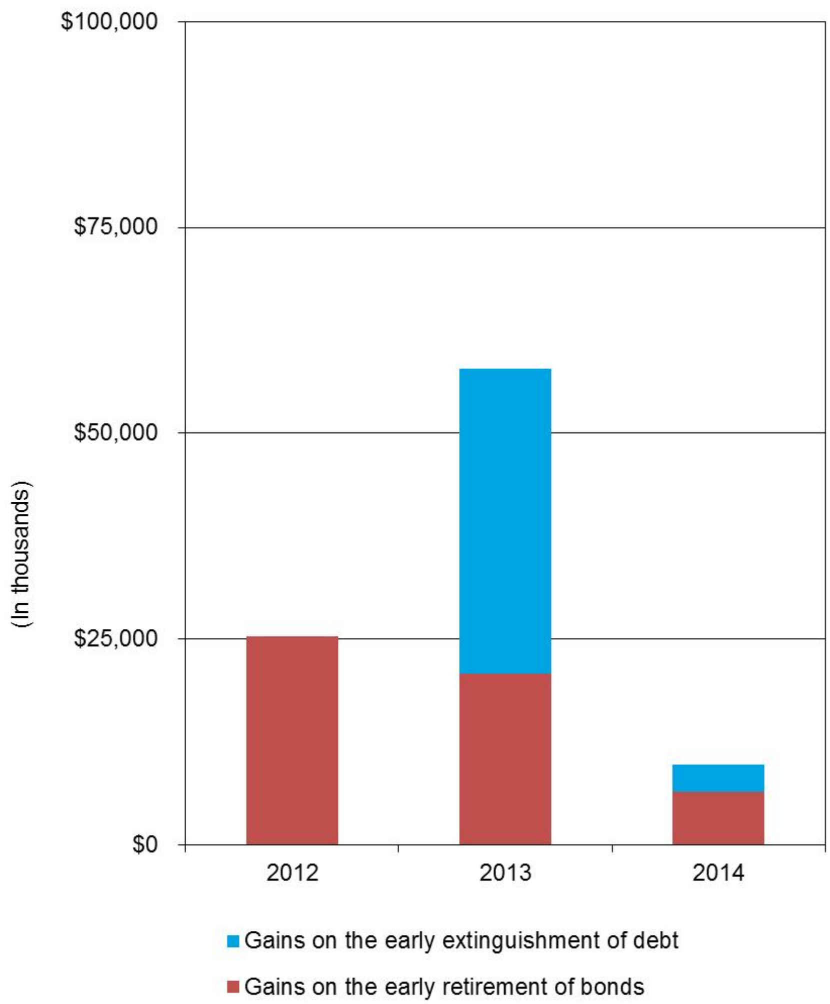
For the year ended June 30, 2014, federal fees were $22.6 million, a 5.8% decrease from $24.0 million in 2013. For the year ended June 30, 2014, the average original principal balance of outstanding loans guaranteed was $36.9 billion, a 6.3% decrease from $39.4 billion in 2013.

For the year ended June 30, 2013, federal fees were $24.0 million, an 8.7% decrease from $26.3 million in 2012. For the year ended June 30, 2013, the average original principal balance of outstanding loans guaranteed was $39.4 billion, a 9.4% decrease from $43.5 billion in 2012.

For the years ended June 30, 2014 and 2013, the decrease in federal fees was mainly due to a decrease in the average original principal balance of outstanding loans guaranteed.

Gains on Debt Retirement

Years ended June 30



We categorize "Gains on the early extinguishment of debt" and "Gains on the early retirement of bonds" as "Gains on debt retirement".

For the year ended June 30, 2014, the gains on debt retirement were $9.7 million, an 83.2% decrease from $57.8 million in 2013. The decrease in the gains on debt retirement was mainly due to higher bid prices on the bonds purchased from the 1997 Master Trust during the current period and the prior period results included a $37.0 million gain on the early extinguishment of a note purchase agreement.

For the year ended June 30, 2013, the gains on debt retirement were $57.8 million, an increase from $23.3 million in 2012. The increase in the gains on debt retirement was mainly due to a $37.0 million gain on the early extinguishment of a note purchase agreement on November 14, 2012.

Operating Expenses

The following table displays our major categories of operating expenses for the years ended June 30.

(Dollars in thousands)

For the years ended June 30,		**2014**			Restated 2013			Restated 2012	
Personnel and benefits	$	**204,071**	**48.8%**	$	176,080	49.0%	$	155,892	49.0%
Professional services		**55,552**	**13.3%**		57,976	16.1%		55,513	17.5%
Information technology		**36,933**	**8.9%**		31,880	8.9%		29,751	9.3%
Mail services		**35,531**	**8.5%**		30,142	8.4%		27,886	8.8%
Depreciation		**9,827**	**2.3%**		8,578	2.4%		7,667	2.4%
Other		**76,311**	**18.2%**		54,747	15.2%		41,390	13.0%
Total operating expenses	$	**418,225**	**100.0%**	$	359,403	100.0%	$	318,099	100.0%

For the year ended June 30, 2014, operating expenses were $418.2 million, a 16.4% increase from $359.4 million in 2013. For the year ended June 30, 2013, operating expenses were $359.4 million, a 13.0% increase from $318.1 million in 2012. In the following section, we discuss changes in personnel and benefits, professional services and other expenses.

Personnel and Benefits

The following table displays personnel and benefits expenses:

(Dollars in thousands)

For years ended June 30,		**2014**			2013			2012	
Personnel and Benefits									
Compensation	$	**138,419**	**67.8%**	$	124,646	70.8%	$	113,895	73.1%
Health care benefits for employees and retirees		**27,992**	**13.7%**		24,566	13.9%		22,031	14.1%
Retirement contributions		**18,709**	**9.2%**		12,028	6.8%		7,561	4.9%
Independent contractor fees		**11,663**	**5.7%**		8,099	4.6%		6,423	4.1%
Employer's share of Social Security		**10,152**	**5.0%**		9,090	5.2%		8,295	5.2%
Capitalized software development costs		**(4,229)**	**(2.1%)**		(3,593)	(2.0%)		(3,332)	(2.1%)
Other		**1,365**	**0.7%**		1,244	0.7%		1,019	0.7%
Total personnel and benefits	$	**204,071**	**100.0%**	$	176,080	100.0%	$	155,892	100.0%

For the year ended June 30, 2014, personnel and benefits costs were $204.1 million, a 15.9% increase from $176.1 million in 2013. For the year ended June 30, 2013, personnel and benefits costs were $176.1 million, a 13.0% increase from $155.9 million in 2012. A discussion on the changes in personnel and benefit costs follows.

Compensation

For the year ended June 30, 2014, compensation costs were $138.4 million, an 11.1% increase from $124.6 million in 2013. For the year ended June 30, 2014, our average personnel headcount was 2,996, a 7.0% increase from 2,801 in 2013.

For the year ended June 30, 2013, compensation costs were $124.6 million, a 9.4% increase from $113.9 million in 2012. For the year ended June 30, 2013, our average personnel headcount was 2,801, a 7.9% increase from 2,597 in 2012.

For the years ended June 30, 2014 and 2013, the increase in compensation costs was due to an increase in personnel, and salary and union pay increases.

Healthcare Benefits for Employees and Retirees

For the year ended June 30, 2014, healthcare benefits for employees and retirees were $28.0 million, a 13.8% increase from $24.6 million in 2013. The increase in healthcare benefits for employees and retirees was due to an increase in personnel, as discussed above under "*Compensation*", and an increase in the employer's share of healthcare costs. For the year ended June 30, 2014, the employer's share of healthcare costs increased from $390 per employee per pay period to $425 per employee per pay period, which was an increase of 9.0%.

For the year ended June 30, 2013, healthcare benefits for employees and retirees were $24.6 million, an 11.8% increase from $22.0 million in 2012. The increase in healthcare benefits for employees and retirees was due to an increase in personnel, as discussed above under "*Compensation*", and an increase in the employer's share of healthcare costs. For the year ended June 30, 2013, the employer's share of healthcare costs increased from $375 per employee per pay period to $390 per employee per pay period, which was an increase of 4.0%.

Retirement Contributions

For the year ended June 30, 2014, retirement contributions were $18.7 million, a 55.8% increase from $12.0 million in 2013. The increase in retirement contributions was due to an increase in the employer's contribution rate and an increase in personnel, as discussed above under "*Compensation*". The employer's contribution rate increased from 10.51% to 15.12% for the "AA" Class of Service employees, which was an increase of 43.9%. The majority of our employees fall under the "AA" Class of Service.

For the year ended June 30, 2013, retirement contributions were $12.0 million, a 57.9% increase from $7.6 million in 2012. The increase in retirement contributions was due to an increase in the employer's contribution rate and an increase in personnel, as discussed above under "*Compensation*". The employer's contribution rate increased from 6.99% to 10.51% for the "AA" Class of Service employees, which was an increase of 50.4%. The majority of our employees fall under the "AA" Class of Service.

Independent Contractors Fees

For the year ended June 30, 2014, independent contractor fees were $11.7 million, a 44.4% increase from $8.1 million in 2013. The increase in independent contractor fees was due to an increase in information technology and internal audit contractors. For the year ended June 30, 2014, our average independent contractor headcount was 79, a 33.9% increase from 59 in 2013.

For the year ended June 30, 2013, independent contractor fees were $8.1 million, a 26.6% increase from $6.4 million in 2012. The increase in independent contractor fees was due to an increase in information technology contractors. For the year ended June 30, 2013, our average independent contractor headcount was 59, a 20.4% increase from 49 in 2012.

Professional Services

The following table displays professional services expenses:

(Dollars in thousands)

For the year ended June 30,		**2014**			2013			2012	
Professional Services									
Collection agency fees	$	**39,248**	**70.6%**	$	41,592	71.7%	$	41,929	75.5%
Legal fees		**7,045**	**12.7%**		7,647	13.2%		6,061	10.9%
Default aversion outsourcing fees		**3,755**	**6.7%**		3,611	6.2%		3,838	6.9%
Audit fees		**2,090**	**3.8%**		1,678	2.9%		1,337	2.4%
Consulting fees		**1,604**	**2.9%**		706	1.2%		825	1.5%
Other professional services		**1,810**	**3.3%**		2,742	4.8%		1,523	2.8%
Total professional services	$	**55,552**	**100.0%**	$	57,976	100.0%	$	55,513	100.0%

For the year ended June 30, 2014, professional services were $55.6 million, an 4.1% decrease from $58.0 million in 2013. The decrease in professional services was mainly due to a decrease in collection agency fees. Third party collection agency fees decreased due to an increase in our internal collection efforts.

For the year ended June 30, 2013, professional services were $58.0 million, a 4.5% increase from $55.5 million in 2012. The increase in professional services was mainly due to an increase in legal fees associated with bond refundings that occurred during the year. The legal fees are not debt issuance costs, but rather current period costs incurred to create and review the various legal documents associated with the bond refundings.

Other

The following table displays other expenses:

(Dollars in thousands)

For the years ended June 30,		**2014**			Restated 2013			Restated 2012	
Other expenses									
Net realizable value adjustment in amounts due from the Federal Fund	**$**	**24,202**	**31.7%**	$	11,623	21.2%	$	-	-
Bond issuance costs and bank fees		**22,747**	**29.8%**		15,210	27.8%		15,857	38.3%
Buildings and grounds		**6,333**	**8.3%**		5,116	9.3%		4,777	11.5%
Telephone		**5,908**	**7.7%**		4,683	8.6%		4,052	9.8%
Servicing liability		**2,340**	**3.1%**		1,180	2.2%		1,817	4.4%
Other G&A		**14,781**	**19.4%**		16,935	30.9%		14,887	36.0%
Total other expenses	**$**	**76,311**	**100.0%**	$	54,747	100.0%	$	41,390	100.0%

For the year ended June 30, 2014, other expenses were $76.3 million, a 39.5% increase from $54.7 million in 2013. For the year ended June 30, 2013, other expenses were $54.7 million, a 32.1% increase from $41.4 million in 2012.

A discussion on the changes in other expenses follows.

Net Realizable Value Adjustment in Amounts due from the Federal Fund

For the year ended June 30, 2014, the net realizable value ("NRV") adjustment in amounts due from the Federal Fund was $24.2 million, an increase from $11.6 million in 2013. The increase was due to an increase in amounts due to us from the Federal Fund, which was greater than the total net position (total assets less accounts payable and accrued expenses) of the Federal Fund. As of June 30, 2014, the total net position (total assets less accounts payable and accrued expenses) of the Federal Fund, after adding back amounts owed to PHEAA, were $90.8 million. The amounts due to PHEAA were $120.6 million, so the $29.8 million adjustment was necessary to reduce the amounts due to PHEAA to their NRV. In addition, we wrote-off $6.0 million of our receivable that was determined to be not collectible.

For the year ended June 30, 2013, the NRV adjustment in amounts due from the Federal Fund was $11.6 million, an increase from zero in 2012. As of June 30, 2013, the total net position (total assets less accounts payable and accrued expenses) of the Federal Fund, after adding back amounts owed to PHEAA, were $78.6 million. The amounts due to PHEAA were $90.2 million, so the $11.6 million adjustment was necessary to reduce the amounts due to PHEAA to their NRV.

See **Note 5 – Federal Student Loan Reserve Fund (Federal Fund) and Assets held for the U.S. Department of Education** for the details on the net position held by us for ED in the Federal Fund.

Bond issuance costs and bank fees

For the year ended June 30, 2014, bond issuance costs and bank fees were $22.7 million, a 49.3% increase from $15.2 million in 2013. The increase was due to bond issuance costs associated with the bond refundings that took place on July 30, 2013, November 20, 2013, March 14, 2014 and June 17, 2014.

For the year ended June 30, 2013, bond issuance costs and bank fees were $15.2 million, a 4.4% decrease from $15.9 million in 2012.

Changes in Net Position

The following table shows the changes in net position:

(Dollars in thousands)

For the years ended June 30,		**2014**	Restated 2013	Restated 2012
Income before grants and financial aid	$	**222,119**	243,918	194,065
Commonwealth of Pennsylvania grants		**397,293**	396,784	436,305
Federal grants		**1,876**	2,435	2,650
Grants and other financial aid, net of refunds		**(485,789)**	(495,243)	(510,451)
Grant funds returned to the Commonwealth		**-**	(88)	(8,352)
Total grants and financial aid		**(86,620)**	(96,112)	(79,848)
Changes in net position	$	**135,499**	147,806	114,217

Commonwealth of Pennsylvania Grants

For the year ended June 30, 2014, Commonwealth of Pennsylvania grants were $397.3 million, a 0.1% increase from $396.8 million in 2013. The increase was due to the timing of funds received from the Commonwealth.

For the year ended June 30, 2013, Commonwealth of Pennsylvania grants were $396.8 million, a 9.1% decrease from $436.3 million in 2012. The decrease was due to the Commonwealth allocating fewer funds to the Pennsylvania State Grant program.

Grants and Other Financial Aid Activity, net of refunds

The following table shows the changes within "Grants and other financial aid activity, net of refunds".

(Dollars in thousands)

For the years ended June 30,		2014	2013	2012
Pennsylvania State Grant Program, net of refunds	$	**424,612**	435,505	450,277
Institutional Assistance Grant Program, net of refunds		**24,332**	24,204	25,134
Matching Funds Grant Program, net of refunds		**11,241**	14,165	14,016
Pennsylvania National Guard Education Assistance Program, net of refunds		**10,779**	10,427	12,129
Pennsylvania Distance Education Program, net of refunds		**5,750**	-	-
Pennsylvania Targeted Industry Cluster Certificate Scholarship Program Supplement, net of refunds		**5,146**	4,434	-
Higher Education for the Disadvantaged Program		**2,002**	2,456	1,654
Other Programs, net of refunds		**1,927**	4,052	7,241
Total grants and other financial aid, net of refunds	$	**485,789**	495,243	510,451

For the year ended June 30, 2014, grants and other financial aid, net of refunds, were $485.8 million, a 1.9% decrease from $495.2 million during 2013. For the year ended June 30, 2013, grants and other financial aid, net of refunds, were $495.2 million, a 3.0% decrease from $510.5 million during 2012.

For the years ended June 30, 2014 and 2013, the changes in grants and other financial aid, net of refunds, was mainly due the timing of funds being disbursed from the programs, since the Commonwealth funded these programs based on prior year amounts

Debt Activity and Capital Assets

Debt Activity

The below schedule contains select information from the Statements of Net Position, which relate to our debt activity.

(Dollars in thousands)

As of June 30,		**2014**	Restated 2013	Restated 2012
Deferred outflow of resources:				
Deferred loss on bond refundings	$	**2,728**	5,140	7,471
Current liabilities:				
Student loan financings and notes and bonds payable, net	$	**444,140**	165,963	120,000
Other financings, net		**3,660**	3,635	2,040
Long-term liabilities:				
Student loan financings and notes and bonds payable, net	$	**6,621,556**	7,303,247	7,375,799
Other financings, net		**39,772**	49,071	102,709
Deferred inflow of resources:				
Deferred gain on bond refundings	$	**192,404**	209,652	200,904

Our enabling legislation imposes a debt limit, which states that the aggregate principal amount of bonds, notes and similar evidences of indebtedness of the Agency ("PHEAA") shall not exceed twenty percent (20%) of the total of loans purchased, made or guaranteed by PHEAA.

As of June 30, 2014, our outstanding debt, excluding our blended component units, the deferred gain on bond refundings, premiums and discounts, amounted to $2.8 billion, which was below the 20% threshold mentioned above. The blended component units are excluded from this threshold, because their debt was not issued by PHEAA. As of June 30, 2014, the outstanding debt of our blended component units was $4.3 billion, which was related to the student loan trusts. See **Note 15 – Blended Component Units** for more details on the student loan trusts.

As of June 30, 2013, our outstanding debt, excluding our blended component units and the deferred gain on bond refundings, amounted to $4.5 billion. As of June 30, 2013, the outstanding debt of our blended component units was $3.0 billion, of which $2.7 billion was related to the student loan trusts and $319.0 million was related to the conduit financings.

The following tables show the financing (bond market and financial institutions) of our debt activity.

(Dollars in thousands)

For the years ended June 30	**2014**	Restated 2013	2012
Capital market activity			
Proceeds from issuing student loan floating rate notes	$ **2,022,952**	1,118,548	1,676,400
Repayment of student loan auction rate security bonds	**(835,500)**	(1,002,406)	(2,581,455)
Repayment of student loan floating rate notes	**(589,022)**	(502,860)	(388,255)
Student loan financing activity			
Proceeds from student loan financings	**891,266**	1,580,645	-
Repayment of student loan variable rate funding notes	**(319,006)**	(616,770)	(191,867)
Repayment of student loan financings	**(1,566,087)**	(572,576)	(15,800)
Capital financing activity			
Repayment of capital lease obligations	**(76)**	(73)	(312)
Other financing activity			
Proceeds from term and other financings	**-**	41,949	-
Repayment of term and other financings	**(4,827)**	(93,872)	(23,090)
Repayment of capital acquisition refunding bonds	**(3,635)**	-	-

2014 Debt Activity

Capital Market Activity & Student Loan Financing Activity

For the year ended June 30, 2014, the $2.0 billion in the capital market activity proceeds was due to the bond issuances on July 30, 2013, November 20, 2013, March 14, 2014 and June 17, 2014. The $1.4 billion in the capital market activity repayments was due to the purchase and cancellation of bonds from the 1997 Master Trust through the bond refundings previously mentioned and scheduled debt payments.

For the year ended June 30, 2014, the $891.3 million in the student loan financing activity proceeds was due to the execution of various borrowing notices and draws on our warehouse lines of credit. The $1.9 billion in the student loan financing activity repayments was due to the repayment of our debt obligations under the Straight-A Short-Term Note Facility (PHEAA Student Loan Company II and III) and repayments on our warehouse lines of credit.

Other Financing Activity

For the year ended June 30, 2014, the $8.5 million in other financing activity repayments was due to the required principal and interest payments of the Capital Acquisition Refunding Bonds, Series of 2012, and the early extinguishment of a note purchase agreement with a financial institution on July 30, 2013.

See **Note 9 – Notes and Bonds Payable and Other Financings** for more details on the above debt activity.

2013 Debt Activity

Capital Market Activity & Student Loan Financings

For the year ended June 30, 2013, the $1.1 billion in the capital market activity proceeds was due to the bond refundings that took place on November 14, 2012 and June 12, 2013. The $1.5 billion in the capital market activity repayments was due to purchase and cancellation of bonds from the 1997 Master Trust through various bond refundings and scheduled debt payments.

For the year ended June 30, 2013, the $1.6 billion in the student loan financing activity proceeds was due to the execution of credit and security agreements with a financial institution and draws on our line of credit to purchase and cancel bonds from the 1997 Master Trust and to purchase FFEL student loans from a nonprofit corporation. The $1.2 billion in the student loan financings repayments was due to the repayment of debt under the Straight-A Funding Short-Term Note Facility, to repay the proceeds borrowed under our credit and security agreement and scheduled debt payments.

Other Financing Activity

For the year ended June 30, 2013, the $41.9 million in other financing activity proceeds was due to the issuance of the Capital Acquisition Refunding Bonds, Series of 2012 on December 15, 2012. The $93.9 million in other financing activity repayments was due to purchase and cancellation of $45.6 million of the outstanding Capital Acquisition Refunding Bonds, Series of 2001, the $45.4 million extinguishment of notes payable and $2.8 million of scheduled debt payments.

Capital Assets

The following table shows our capital assets, net of accumulated depreciation, except for land, which is a non-depreciable asset.

(Dollars in thousands)

As of June 30,		2014	2013	2012
Land	$	**2,946**	2,946	2,946
Buildings and improvements, net		**32,811**	34,586	32,791
Software development, net		**8,400**	7,397	6,864
IT equipment, net		**7,056**	4,625	4,410
Purchased software, net		**4,441**	4,545	3,215
Other, net		**5,985**	6,469	5,480
	$	**61,639**	60,568	55,706

Net Position

The following table shows our net position and a discussion of the changes in net position follows.

(Dollars in thousands)

As of June 30,		2014	Restated 2013	Restated 2012
Net investment in capital assets	$	**61,639**	60,492	55,557
Restricted for debt service		**216,916**	249,962	157,796
Restricted for financial aid grant programs		**41,110**	36,647	52,243
Unrestricted		**709,038**	546,103	479,802
	$	**1,028,703**	893,204	745,398

Net investment in capital assets

Capital assets include land, buildings and improvements, software development, purchased software, information technology equipment, and other tangible assets that are used in our operations and that have initial useful lives extending beyond a single reporting period. These capital assets are net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

As of June 30, 2014, the net investment in capital assets was $61.6 million, a 1.8% increase from $60.5 million as of June 30, 2013. The increase was mainly due to the purchase of Information Technology equipment.

As of June 30, 2013, the net investment in capital assets was $60.5 million, an 8.8% increase from $55.6 million as of June 30, 2012. The increase was mainly due to the building improvements performed during the year.

Restricted for debt service

We have net position restricted for debt service that is held under various indentures related to financing our student loan portfolios.

As of June 30, 2014, we had net position restricted for debt service of $216.9 million, a 13.2% decrease from $250.0 million as of June 30, 2013. The decrease in net position restricted for debt service was due to $36.6 million of operating income restricted for debt service, which was offset by $69.6 million of net transfers to unrestricted net position.

As of June 30, 2013, we had net position restricted for debt service of $250.0 million, a 58.4% increase from $157.8 million as of June 30, 2012. The increase in net position restricted for debt service was due to $27.7 million of operating income restricted for debt service and $64.5 million of net transfers from unrestricted net position.

See **Note 14 – Segment Information** for more details.

Restricted for financial aid grant programs

We have net position restricted for financial aid grant programs, because of the Commonwealth of Pennsylvania grants and federal grants that relate to specific programs. This net position is restricted until we disburse program-related grants.

As of June 30, 2014, we had net position restricted for financial aid grant programs of $41.1 million, a 12.3% increase from $36.6 million as of June 30, 2013. The increase in net position restricted for financial aid grant programs was mainly due to $575.0 thousand of operating income restricted for financial aid grant programs, $399.2 million of net grant funding, and $85.0 million in transfers from the grant supplement fund (unrestricted), which were offset by $480.3 million of grant disbursements, net of refunds.

As of June 30, 2013, we had net position restricted for financial aid grant programs of $36.6 million, a 29.9% decrease from $52.2 million as of June 30, 2012. The decrease in net position restricted for financial aid grant programs was mainly due to $446.6 thousand of operating income restricted for financial aid grant programs, $399.3 million of net grant funding, and $75.0 million in transfers from the grant supplement fund (unrestricted), which were offset by $490.3 million of grant disbursements, net of refunds.

Unrestricted

Under Commonwealth law, our purpose is to increase higher education opportunities for Pennsylvania residents. Net position that we report as unrestricted are statutorily restricted to our purpose. The Higher Education Amendments of 1998 also restrict our use of net position related to FFEL guaranty activities to fulfilling our guaranty responsibilities and other student financial aid related activities selected by us. Because that restriction is consistent with our statutory purpose, we consider net position related to those activities to be unrestricted.

As of June 30, 2014, we had unrestricted net position of $709.0 million, a 29.8% increase from $546.1 million as of June 30, 2013. The increase in unrestricted net position was due to unrestricted operating income of $183.8 million and $69.6 million of net transfers from net position restricted for debt service, which was offset by $85.0 million in transfers to the Pennsylvania State Grant Program (restricted for financial aid grant programs) and $5.5 million of grant disbursements ($5.1 million, net of refunds, was from the Pennsylvania Targeted Industry Cluster Certificate Scholarship Program Supplement fund).

As of June 30, 2013, we had unrestricted net position of $546.1 million, a 13.8% increase from $479.8 million as of June 30, 2012. The increase in unrestricted net position was due to unrestricted operating income of $210.7 million, which was offset by $64.5 million of net transfers to net position restricted for debt service, $75.0 million in transfers to the Pennsylvania State Grant Program (restricted for financial aid grant programs) and $4.9 million of grant disbursements ($4.4 million, net of refunds, was from the Pennsylvania Targeted Industry Cluster Certificate Scholarship Program Supplement fund).

Federal Student Loan Reserve Fund (Federal Fund)

As a guarantor, we manage the Federal Fund solely for our activities as a guarantor under the FFEL program. We pay claims on defaulted loans out of the Federal Fund, which belongs to the federal government. The assets of the Federal Fund and the earnings on those assets are, at all times, the property of the United States government. We must exercise the level of care required of a fiduciary charged with the duty of protecting, investing, and administering the money of others.

The following table shows the changes in net position in the Federal Fund.

(Dollars in thousands)

For the years ended June 30,		**2014**	2013	2012
Additions				
Reinsurance from the U.S. Department of Education	$	**1,266,444**	1,235,105	1,282,775
Collections on defaulted loans		**764,407**	774,137	729,401
Transfers of guarantee reserves		**(95)**	3,535	-
Net appreciation in fair value of investments		**24**	24	21
Federal default fees		**-**	-	(3)
Total additions		**2,030,780**	2,012,801	2,012,194
Deductions				
Purchases of defaulted loans from lenders		**1,313,693**	1,282,000	1,331,242
Reimbursement to U.S. Department of Education for federal share of defaulted loans collections		**533,417**	545,989	512,099
Reimbursement to PHEAA for our retention of defaulted loans collections		**204,175**	207,365	197,421
Default aversion fees, net		**10,591**	11,756	15,343
Total deductions		**2,061,876**	2,047,110	2,056,105
Net decrease		**(31,096)**	(34,309)	(43,911)
Net liabilities, beginning of period		**(170,745)**	(136,436)	(92,525)
Net liabilities, end of period	$	**(201,841)**	(170,745)	(136,436)

For the years ended June 30, 2014, 2013 and 2012, purchases of defaulted loans were $1.3 billion.

The following table displays our calculation of the ratio of regulatory net position of the Federal Fund to the original principal balance of outstanding guarantees on a regulatory basis of accounting. The gain contingencies included in the following table reflect the projected future cash receipts to the Federal Fund based on current claims paid to date, which cannot be recognized under generally accepted accounting principles. The gain contingencies and adjustments displayed on the following table were agreed to in a management plan approved by ED on May 22, 2007.

(Dollars in thousands)		**As of June 30, 2014**	As of September 30, 2013
Generally accepted accounting principles – net position	$	**(201,841)**	(172,292)
Gain contingency – default aversion fee rebate payable from PHEAA to the Federal Fund		**3,548**	2,671
Gain contingency – collections complement on future default collections		**105,738**	101,225
Default aversion fees payable to PHEAA, but not transferred from the Federal Fund to PHEAA		**172,016**	162,757
Regulatory net position	$	**79,461**	94,361
Original principal outstanding	$	**35,274,795**	37,643,952
		0.23%	0.25%

Under current law, we are required to manage the Federal Fund so net position is greater than 0.25% of the original principal balance of outstanding guarantees. If this ratio continues to be less 0.25% at the end of the next federal fiscal year, we will have to submit a new management plan to ED. Historically, ED has calculated this ratio at September 30, which is the close of the federal fiscal year, based upon regulatory reports that we file with ED.

See **Note 5 – Federal Student Loan Reserve Fund (Federal Fund) and Assets Held for the U.S. Department of Education** for more details on the net position held by us for ED in the Federal Fund.

Contacting Us

If you have questions about this report, please contact our Financial Management Division at 1200 N. 7th Street, Harrisburg, PA 17102.

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September 24, 2014

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Report of Independent Auditors

Management and the Board of Directors
Pennsylvania Higher Education Assistance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Higher Education Assistance Agency (PHEAA), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise PHEAA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of PHEAA as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 4 to the financial statements, in 2014 PHEAA adopted Governmental Accounting Standards Board Statement No. 65, "*Items Previously Reported as Assets and Liabilities*." Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 2 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

McLean, Virginia
September 24, 2014

(In thousands)

		2014	Restated 2013
Operating revenues and expenses			
Interest revenue			
Student loans	$	**154,029**	142,766
Investments		**13,419**	8,615
Total interest revenue		**167,448**	151,381
Interest expense			
Student loan financings and notes and bonds payable		**53,300**	66,679
Other financings		**1,994**	1,422
Total interest expense		**55,294**	68,101
Net interest revenue		**112,154**	83,280
Provision for loan losses		**(8,064)**	(5,069)
Net interest revenue after provision for loan losses		**104,090**	78,211
Noninterest revenue			
Servicing fees		**295,537**	262,743
Retention of collections on defaulted loans, net		**207,688**	180,776
Federal fees		**22,567**	24,017
Gains on debt retirement		**9,681**	57,790
Gain on student loans sales, net		**3,099**	1,763
Other		**(2,493)**	(1,900)
Total noninterest revenue		**536,079**	525,189
Operating revenues		**640,169**	603,400
Operating expenses			
Personnel and benefits		**204,071**	176,080
Professional services		**55,552**	57,976
Information technology		**36,933**	31,880
Mail services		**35,531**	30,142
Depreciation		**9,827**	8,578
Other		**76,311**	54,747
Total operating expenses		**418,225**	359,403
Operating income		**221,944**	243,997
Non-operating gains (losses)			
Gain (loss) on sale of fixed assets		**175**	(79)
Income before grants and financial aid		**222,119**	243,918
Grants and financial aid			
Commonwealth of Pennsylvania grants		**397,293**	396,784
Federal grants		**1,876**	2,435
Grants and other financial aid, net of refunds		**(485,789)**	(495,243)
Grant funds returned to the Commonwealth		**-**	(88)
Total grants and financial aid		**(86,620)**	(96,112)
Changes in net position		**135,499**	147,806
Net position, beginning of period		**893,204**	745,398
Net position, end of period	$	**1,028,703**	893,204

See accompanying notes to financial statements.

(In thousands)

		2014	Restated 2013
Current assets:			
Cash and cash equivalents	$	**191,258**	88,702
Restricted cash and cash equivalents		**260,705**	234,972
Restricted cash and cash equivalents – due to customers		**57,132**	71,672
Investments		**478,556**	413,044
Restricted investments		**37,244**	34,026
Student loans receivable		**947,152**	1,067,929
Interest income receivable		**104,309**	117,507
Due from Federal Student Loan Reserve Fund, net		**90,768**	78,582
Federal Student Loan Reserve Fund assets held for U.S. Department of Education, net		**90,768**	78,582
Other assets		**46,898**	45,681
Total current assets		**2,304,790**	2,230,697
Long-term assets:			
Student loans receivable, net		**6,245,917**	6,573,201
Capital assets, net		**61,639**	60,568
Total long-term assets		**6,307,556**	6,633,769
Total assets		**8,612,346**	8,864,466
Deferred outflow of resources:			
Deferred loss on bond refundings		**2,728**	5,140
Total deferred outflow of resources		**2,728**	5,140
Current liabilities:			
Accounts payable and accrued expenses		**175,118**	148,187
Student loan financings and notes and bonds payable		**444,140**	165,963
Amounts related to the Federal Student Loan Reserve Fund		**90,768**	78,582
Other financings		**3,660**	3,635
Total current liabilities		**713,686**	396,367
Long-term liabilities:			
Student loan financings and notes and bonds payable, net		**6,621,556**	7,303,247
Other financings, net		**39,772**	49,071
Accrued expenses		**18,405**	17,420
Total long-term liabilities		**6,679,733**	7,369,738
Total liabilities		**7,393,419**	7,766,105
Deferred inflow of resources:			
Deferred gain on bond refundings		**192,404**	209,652
Deferred gain on sales leaseback		**548**	645
Total deferred inflow of resources		**192,952**	210,297
Net position:			
Net investment in capital assets		**61,639**	60,492
Restricted for debt service		**216,916**	249,962
Restricted for financial aid grant programs		**41,110**	36,647
Unrestricted		**709,038**	546,103
Total net position	$	**1,028,703**	893,204

See accompanying notes to financial statements.

(Dollars in thousands)

		2014	Restated 2013
Cash flows from operating activities			
Interest received on student loans	$	**67,320**	54,006
Principal received on student loans		**1,011,505**	1,051,238
Student loan purchases		**(825,128)**	(1,244,042)
Student loan sales, including net gains and losses		**357,673**	158,628
Servicing fees		**294,647**	268,843
Retention of collections on defaulted loans		**195,502**	160,823
Federal fees		**22,999**	24,478
Default aversion fee rebates		**(3,066)**	(3,387)
Other		**9,783**	57,543
Payment of operating expenses		**(347,509)**	(324,332)
Net cash provided by operating activities		**783,726**	203,798
Cash flows from noncapital financing activities			
Proceeds from the issuance of noncapital debt		**2,914,218**	2,741,142
Principal paid on noncapital debt		**(3,318,077)**	(2,788,484)
Interest paid on noncapital debt		**(81,721)**	(92,819)
Bond issuance costs		**(17,125)**	(11,165)
Commonwealth of Pennsylvania grants received		**397,293**	396,784
Federal grants received		**1,876**	2,435
Grants and financial aid paid		**(485,789)**	(495,243)
Grant funds returned to the Commonwealth		**-**	(88)
Net cash used for noncapital financing activities		**(589,325)**	(247,438)
Cash flows from capital and related financing activities			
Principal paid on capital lease obligations		**(76)**	(73)
Purchases of capital assets and development of software, net of disposals		**(10,723)**	(13,519)
Net cash used for capital and related financing activities		**(10,799)**	(13,592)
Cash flows from investing activities			
Proceeds from sales and maturities of investments		**1,615,608**	1,524,228
Purchases of investments		**(1,674,466)**	(1,509,508)
Interest received on investments		**3,545**	3,805
Net cash (used for) provided by investing activities		**(55,313)**	18,525
Net change in cash and cash equivalents (including restricted cash)		**128,289**	(38,707)
Cash and cash equivalents (including restricted cash), beginning of period		**323,674**	362,381
Cash and cash equivalents (including restricted cash), end of period	$	**451,963**	323,674

(continued)

(Dollars in thousands)

		2014	Restated 2013
Reconciliation of operating income to net cash provided by operating activities			
Operating income	$	**221,944**	243,997
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		**9,827**	8,578
Interest paid on noncapital debt		**81,721**	92,819
Investment interest		**(13,419)**	(8,615)
Bond issuance costs		**17,125**	11,165
Amortization of premium on loan purchases		**8,134**	16,979
Write-off of lender origination fees		**(82)**	(917)
Amortization of deferred gain on bond refunding		**(23,944)**	(20,092)
Amortization of deferred discount on bonds payable		**992**	231
Amortization of deferred premium on other financings		**(812)**	(350)
Changes in assets and liabilities:			
Decrease (increase) in interest income receivable		**13,200**	(11,561)
Decrease (increase) in student loans receivable		**440,009**	(125,473)
Increase in amounts due from Federal Student Loan Reserve Fund		**(12,186)**	(19,952)
(Increase) decrease in other assets		**(1,217)**	5,577
Increase in accounts payable and accrued expenses		**42,434**	11,412
Total adjustments		**561,782**	(40,199)
Net cash provided by operating activities	$	**783,726**	203,798

See accompanying notes to financial statements.

Note 1 – About PHEAA

Organization

The Pennsylvania Higher Education Assistance Agency ("PHEAA"), doing business as American Education Services ("AES") and FedLoan Servicing ("FLS"), is a public corporation and government instrumentality created by the Pennsylvania General Assembly on August 7, 1963. Our mission is to improve higher education opportunities for Pennsylvanians.

The Commonwealth of Pennsylvania ("Commonwealth") presents our financial information as a discretely presented component unit in their Combined Annual Financial Report ("CAFR"). Discretely presented component units are legally separate organizations for which the elected officials of the primary government ("Commonwealth") are financially accountable. In addition, discretely presented component units can be other organizations of which the nature and significance of their relationship with the Commonwealth is such that exclusion of these organizations from the Commonwealth's financial statements would be misleading.

We are a discretely presented component unit of the Commonwealth, because the Commonwealth appoints all twenty voting board members; a significant financial burden exists on the Commonwealth to subsidize the Pennsylvania State Grant Program; the Commonwealth must approve our notes and bonds issuances; and although, the Commonwealth is not obligated for our debt, the Commonwealth has indicated it could take certain actions to satisfy debt holders.

Blended Component Units

PHEAA Student Loan Foundation, Inc.

We formed the PHEAA Student Loan Foundation, Inc. ("Foundation") on August 6, 2002. The Foundation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Its charitable purpose is to carry out student loan securitization transactions for our benefit. The Foundation is a component unit, because we appoint a majority of the Foundation's board of directors and we can impose our will on the Foundation. The Foundation is a blended component unit of PHEAA, because it provides services entirely to us. As a blended component unit, the financial results of the Foundation are consolidated with the financial results of PHEAA.

PHEAA Student Loan Trust I

On January 15, 2003, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust I (the "Trust"), a statutory trust. The Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. The assets of the Trust generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date.

We determined that the Trust should be treated as a component unit in order to keep our financial reports from being misleading due to the material relationship of the Trust with the Foundation. In addition, the Trust is a blended component unit of the Foundation, because the Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the Trust are consolidated with the financial results of the Foundation.

PHEAA Student Loan Company II, LLC

We formed the PHEAA Student Loan Company II, LLC ("PHEAA SLC II") on November 2, 2009, in the State of Delaware for the purpose of purchasing, acquiring, owning, holding, selling, assigning, pledging and dealing in education loans to students and parents of dependent students under the FFEL program; and issuing and selling one or more series of bonds, notes or other indebtedness secured by student loans. We created the PHEAA SLC II in order to participate in the Loan Purchase Commitment Program with ED. PHEAA SLC II is considered a component unit of the Foundation, because the Foundation appointed PHEAA SLC II's governing body and the Foundation can impose its will on PHEAA SLC II. In addition, PHEAA SLC II is a blended component unit, because PHEAA SLC II provides services entirely to the Foundation. As a blended component unit of the Foundation, the financial results of PHEAA SLC II are consolidated with the financial results of the Foundation. On July 30, 2013, we repaid our outstanding debt obligation under the Straight-A Funding Short-Term Note Facility (Straight-A Program). Following the release of the related lien under the Straight-A Program, we sold the related student loans to the Foundation for subsequent sale to the PHEAA Student Loan Trust 2013-2.

PHEAA Student Loan Company III, LLC

We formed the PHEAA Student Loan Company III, LLC ("PHEAA SLC III") on November 2, 2009, in the State of Delaware for the purpose of purchasing, acquiring, owning, holding, selling, assigning, pledging and dealing in education loans to students and parents of dependent students under the FFEL program; and issuing and selling one or more series of bonds, notes or other indebtedness secured by student loans. We created the PHEAA SLC III in order to participate in the Loan Purchase Commitment Program with ED. PHEAA SLC III is considered a component unit of the Foundation, because the Foundation appointed PHEAA SLC III's governing body and the Foundation can impose its will on PHEAA SLC III. In addition, PHEAA SLC III is a blended component unit, because PHEAA SLC III provides services entirely to the Foundation. As a blended component unit of the Foundation, the financial results of PHEAA SLC III are consolidated with the financial results of the Foundation. On July 30, 2013, we repaid our outstanding debt obligation under the Straight-A Program. Following the release of the related lien under the Straight-A Program, we sold the related student loans to the Foundation for subsequent sale to the PHEAA Student Loan Trust 2013-2.

PHEAA Student Loan Trust 2011-1

On April 7, 2011, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2011-1 ("2011-1 Trust"), a statutory trust. The 2011-1 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. The assets of the 2011-1 Trust generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date. The 2011-1 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2011-1 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2011-1 Trust with the Foundation. In addition, the 2011-1 Trust is a blended component unit of the Foundation, because the 2011-1 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2011-1 Trust are consolidated with the financial results of the Foundation.

PHEAA Student Loan Trust 2012-1

On October 11, 2012, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2012-1 ("2012-1 Trust"), a statutory trust. The 2012-1 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. The assets of the 2012-1 Trust generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date. The 2012-1 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2012-1 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2012-1 Trust with the Foundation. In addition, the 2012-1 Trust is a blended component unit of the Foundation, because the 2012-1 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2012-1 Trust are consolidated with the financial results of the Foundation.

PHEAA Student Loan Trust 2013-1

On March 18, 2013, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2013-1 (“2013-1 Trust”), a statutory trust. The 2013-1 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. The assets of the 2013-1 Trust generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date. The 2013-1 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2013-1 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2013-1 Trust with the Foundation. In addition, the 2013-1 Trust is a blended component unit of the Foundation, because the 2013-1 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2013-1 Trust are consolidated with the financial results of the Foundation.

PHEAA Student Loan Trust 2013-2

On March 18, 2013, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2013-2 (“2013-2 Trust”), a statutory trust. The 2013-2 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. The assets of the 2013-2 Trust generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date. The 2013-2 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2013-2 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2013-2 Trust with the Foundation. In addition, the 2013-2 Trust is a blended component unit of the Foundation, because the 2013-2 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2013-2 Trust are consolidated with the financial results of the Foundation.

PHEAA Warehouse Facility Trust 2013-1

On April 8, 2013, the Foundation entered into a trust agreement creating the PHEAA Warehouse Facility Trust 2013-1 ("Warehouse Trust 2013-1") as a statutory trust. The Warehouse Trust 2013-1 was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and student loan related assets and to acquire student loans from the Foundation and issue a note secured by a pledge of assets. The assets of the Warehouse Trust 2013-1 generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date. The Warehouse Trust 2013-1 is legally separate and fiscally independent from the Foundation. However, we determined that the Warehouse Trust 2013-1 should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the Warehouse Trust 2013-1with the Foundation. In addition, the Warehouse Trust 2013-1 is a blended component unit of the Foundation, because the Warehouse Trust 2013-1 provides services entirely to the Foundation. As a blended component unit, the financial results of the Warehouse Trust 2013-1 are consolidated with the financial results of the Foundation.

PHEAA Student Loan Trust 2013-3

On October 3, 2013, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2013-3 ("2013-3 Trust"), a statutory trust. The 2013-3 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. The assets of the 2013-3 Trust generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date. The 2013-3 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2013-3 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2013-3 Trust with the Foundation. In addition, the 2013-3 Trust is a blended component unit of the Foundation, because the 2013-3 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2013-3 Trust are consolidated with the financial results of the Foundation.

PHEAA Student Loan Trust 2014-1

On October 3, 2013, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2013-4, a statutory trust under the laws of the State of Delaware. On January 29, 2014, the Foundation and the owner trustee entered into a "First Amendment to the Trust Agreement" ("First Amendment") to modify the legal name of the PHEAA Student Loan Trust 2013-4 to the PHEAA Student Loan Trust 2014-1 ("2014-1 Trust"). On the same date, upon execution of the First Amendment, a "Second Amended and Restated Certificate of Trust" was filed to register the new legal name of the 2014-1 Trust with the Delaware Secretary of State.

The principal purpose of the 2014-1 Trust is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. The assets of the 2014-1 Trust generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date. The 2014-1 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2014-1 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2014-1 Trust with the Foundation. In addition, the 2014-1 Trust is a blended component unit of the Foundation, because the 2014-1 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2014-1 Trust are consolidated with the financial results of the Foundation.

PHEAA Student Loan Trust 2014-2

On April 16, 2014, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2014-2 ("2014-2 Trust"), a statutory trust under the laws of the State of Delaware. The principal purpose of the 2014-2 Trust is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets. The assets of the 2014-2 Trust generally include student loans, collections and other payments on the student loans, and funds in trust accounts held by an indenture trustee. The student loans are pledged to an indenture trustee under an indenture agreement, and the student loans provide collateral for a bond issuance. The bonds are payable solely from and secured solely by the trust estate. Principal payments are generally funded from available funds and the principal payments are made to noteholders pro rata on each distribution date in an amount generally equal to the principal distribution amount for that distribution date. The 2014-2 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2014-2 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2014-2 Trust with the Foundation. In addition, the 2014-2 Trust is a blended component unit of the Foundation, because the 2014-2 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2014-2 Trust are consolidated with the financial results of the Foundation.

The Pennsylvania Higher Education Foundation, Inc.

We supported the formation of the Pennsylvania Higher Education Foundation, Inc. ("PHEF"), which is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Its charitable purposes include, but are not limited to, activities intended to improve or enhance postsecondary education opportunities for students in Pennsylvania and elsewhere. PHEF is considered a component unit of PHEAA, because PHEAA appointed a voting majority of the PHEF's governing board, and PHEAA has the ability to impose its will on PHEF. PHEF is considered a blended component unit, because PHEF no longer provided services to outside third parties in the form of grants and scholarships used to promote nursing education, but rather provided services entirely to us. As a blended component unit, the financial results of PHEF are consolidated with the financial results of PHEAA.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Accounting

We prepare our financial statements based on the governmental enterprise fund concept, which pertains to financial activities that operate similarly to a private business enterprise. We follow the economic resources measurement focus and accrual basis of accounting. We record revenues when earned and expenses at the time liabilities are incurred, regardless of when the related cash flows take place. While private business enterprises follow the accounting guidance issued by the Financial Accounting Standards Board ("FASB"), we follow the guidance issued by the Governmental Accounting Standards Board ("GASB").

Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that influence the reported assets, liabilities, revenues, and expenses during the reporting periods. Actual results could differ significantly from those estimates.

Cash Equivalents

Cash equivalents include investments in money market funds, U.S. government agency funds, and commercial paper with original maturities at acquisition of three months or less, and we report them at fair value.

Cash equivalents also include amounts invested in nonparticipating interest-earning investment contracts that provide a guaranteed return on principal over a specified time. These amounts include investments of bond proceeds that are used to purchase student loans and we report them using a cost-based measure. We report these amounts as cash equivalents, because we may deposit and withdraw cash at any time without prior notice or penalty.

Restricted Cash and Investments

Restricted cash and investments include cash received from financial institutions pending disbursement for student loans, cash received for the benefit of servicing customers, and cash and investments of bond proceeds held by a trustee and restricted by the provision of the bond indentures and financing agreements. We consider these amounts restricted and they cannot be disbursed for any other purpose.

Investments

Investments include amounts invested in the Commonwealth of Pennsylvania Treasury Department (Pools 99 and 198) and other investments outside of the Treasury Department, such as money market investments, U.S. Government Agency investments and commercial paper investments.

The Treasury Department monitors and safeguards virtually all Commonwealth agency funds, which requires the Treasury Department to collect interest and dividends, execute securities transactions and handle daily trade settlements. We report the amounts invested with the Treasury Department at fair value and net asset value based upon information provided by the Treasury Department.

The amounts invested outside of the Treasury Department are reported at fair value based on the information provided by the external financial institutions.

Student Loans Receivable, net

We report student loans in the Statements of Net Position at their unpaid principal balances net an allowance for inherent losses within our student loan portfolio. Allowances for potential losses on our student loans can result from deficient servicing, risk sharing on defaults and uninsured loans. These allowances are based upon our ongoing evaluation of the loan portfolios, past and anticipated loss experience and the amount and quality of the loans. We maintain the allowances at a level that we believe is adequate to absorb estimated incurred losses, but our evaluation is inherently subjective and the required allowances may significantly change in the future. We report expenses related to risk sharing on defaults in the provision for loan losses, and we include the expenses related to servicing deficiencies in “Other” operating expenses.

Capital Assets, net

We report capital assets at cost net of depreciation and estimated impairment, if any. We report assets held under capital leases at the present value of minimum lease payments net of amortization. We calculate depreciation based on the straight-line method over the estimated useful life of the asset. We amortize assets held under capital leases and leasehold improvements based on the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

We capitalize purchased computer software if the per unit costs, based on per license fee, is $10,000 or more. We capitalize improvements or additions to existing software that constitute a capital outlay or increase the value or life of the asset by 25% of the original cost or life as a betterment and we record it as an addition of value to the existing asset. We calculate depreciation based on the straight-line method over the estimated useful life of the purchased software.

Software development involves three phases: preliminary project phase, application development phase and post-implementation/operation phase. We expense the cost associated with the preliminary project and the post-implementation/operating phase. We capitalize internal and external costs associated with the application development phase. The capitalization of costs begins when the preliminary project phase is complete and management has implicitly authorized or commits to funding the software project with the intent it will be completed and used to perform its planned functions. Capitalization will cease no later than at the time when substantial testing is complete and the software is ready for its intended purpose or rendered into service. Upgrades and enhancements are modifications to existing internal-use software that result in additional functionality, that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may require a change to all or part of the existing software specifications. We capitalize upgrades and enhancements, as defined above. We report software development at cost net of amortization. We calculate amortization based on the straight-line method over the estimated useful life of the software developed.

We capitalize assets that cost $10,000 or more; amounts under that threshold are expensed. The following estimated useful lives are used for significant asset categories:

- Buildings and improvements 7 – 40 years
- Furniture, furnishings and equipment 5 – 10 years
- Software (purchased and development) 3 – 5 years

Deferred Gain (Loss) on Bond Refundings

In a current refunding resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of “Student loan financings and notes and bonds payable” interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Compensated Absences

Employees earn annual leave based upon years of service and may carry forward up to 45 days of unused annual leave at the end of each calendar year. We pay employees for accumulated annual leave at termination or retirement. Employees earn sick leave and may carry forward up to 300 days of unused sick leave at the end of each calendar year. We pay employees a portion of accumulated sick leave at retirement based upon a formula. We include in accrued expenses on the Statements of Net Position the estimated amounts payable upon retirement or termination under these arrangements.

Revenue Recognition

Student loan income

We recognize student loan income as it is earned including adjustments for the amortization of costs of loan originations and purchases. The U.S. Secretary of Education provides a special allowance to student loan owners participating in the FFEL program on loans first disbursed prior to June 30, 2010. The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the 3-month financial commercial paper rate or the 1-month LIBOR, to the average daily unpaid principal balance and capitalized interest of student loans held by us. We accrue the special allowance as earned or payable. For loans first disbursed prior to January 1, 2000, the 91-day Treasury Bill rate is used rather than the 3-month financial commercial paper rate or the 1-month LIBOR.

We accrue interest on student loans based upon the actual principal amount outstanding. The U.S. Secretary of Education makes quarterly interest payments on subsidized loans until the student is required, under the provisions of the Higher Education Act of 1965, as amended, to begin repayment. Repayment must begin generally within six months after the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full time academic load as determined by the participating institution.

Servicing fees

We earn servicing fee revenue by servicing student loans owned by third parties. We recognize servicing fees when we provide the contractual services and we record the unbilled amounts as accounts receivable. We categorize revenue earned from loans owned by financial institutions and secondary markets as “Commercial Servicing”; whereas we categorize revenue earned from loans owned by the Department of Education (“ED”) as “FLS Servicing”. Our Remote Servicing line of business provides our system to guarantors and other servicers to use, as well as to Not for Profit (“NFP”) servicers who were awarded servicing contracts by ED.

Retention of Collections on Defaulted Loans

As a guarantor, we facilitate the guarantee of 97% - 100% of the borrower’s outstanding loan balance depending on the disbursement date of the borrower’s loan. The federal government reimburses the Federal Fund based upon default rates of the portfolio of guaranteed loans and the disbursement date of the loan.

After a loan defaults, we continue to try to collect on the loan and we earn revenue on the collection of defaulted loans. The federal government allows us to retain up to 16% of the borrower’s payments collected as revenue and we remit the remaining amount, after reducing the amount by reinsurance complement, to the federal government. The reinsurance complement is maintained in the Federal Fund. For rehabilitation payments, we retain 18.5% of the original principal balance, 100% of the collection costs (capped at 18.5% of principal and accrued interest) and 100% of accrued interest collected as revenue.

Federal Fees

We earn account maintenance fees, which we classify as federal fees, from operating the guaranty agency. ED pays us an annual account maintenance fee that is 0.06% of the original principal amount of outstanding loans guaranteed as long as the guarantee remains in force.

Operating Revenues and Expenses

Operating revenues include net interest revenue earned on student loans and investments and fees earned from providing services. Operating expenses include the costs of providing services and operating all programs. We do not report as a component of operating income the grants we receive and the grants and financial aid we disburse.

Advertising

We incur advertising expenses to make sure Pennsylvanians are aware of postsecondary education opportunities and default prevention initiatives. As we incur advertising expenses, we expense them.

Commonwealth of Pennsylvania and Federal Grant Revenues

Commonwealth and federal grants are non-exchange transactions. We use the receipts as a source of funds to disburse grants and financial aid. Our agreements contain restrictions requiring us to spend the money in accordance with the legislation or grant agreement, but generally do not refer to specific time requirements. Accordingly, we recognize the entire amount as revenue when we receive it.

When an expense is incurred for the purposes of which both restricted and unrestricted net position are available, we first apply restricted resources and then unrestricted resources.

Elimination of Intra-Entity Activity

The PHEAA SLC II, PHEAA SLC III, Trust I, 2011-1 Trust, 2012-1 Trust, 2013-1 Trust, 2013-2 Trust, 2013-3 Trust, 2014-1 Trust, 2014-2 Trust and Warehouse Trust 2013-1 are blended component units of the Foundation, and the Foundation is a blended component unit of PHEAA. In addition, PHEF is a blended component unit of PHEAA. We consider the resource flows between PHEAA and the blended component units as intra-entity, because PHEAA is the administrator and servicer for the blended component units. We eliminate the intra-entity activity in the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

Note 3 – New Accounting Pronouncements

During 2012, the GASB issued Statement No. 67 – *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*. This Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50 – *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013 and earlier application is encouraged. This Statement does not have an impact on our financial statements, but this Statement establishes the definition of a pension plan that is described in GASB 68 below.

During 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of GASB Statement No. 27 – *Accounting for Pensions by State and Local Governmental Employers*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement and Statement No. 67 mentioned above establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014, and earlier application is encouraged. The adoption and implementation of this Statement will require us to record and report our share of the Commonwealth's unfunded pension liability. Currently, we are working with the Commonwealth in evaluating the impact of the adoption and implementation of this Statement on our financial statements; however, based on the Commonwealth of Pennsylvania State Employees' Retirement System 2013 Actuarial Report, we estimate our proportionate share of the Commonwealth's unfunded pension liability to be approximately $219.9

million. This estimate is subject to change as we are waiting for the Commonwealth to release a special valuation on the State Employees Retirement System during November 2014.

During 2013, the GASB issued Statement No. 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement is effective for reporting periods beginning after June 15, 2013. We adopted this Statement on July 1, 2013, and there was not a material impact on our financial statements.

During 2013, the GASB issued Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding the application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Note 4 – Change in Accounting Principle

On July 1, 2013, we adopted GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* (“GASB 65”). This Statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Some of these items previously reported as assets and liabilities were deferred gains on debt refundings, debt issuance costs, loan origination fees and costs, and commitment fees. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements were issued and effective. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amended the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The adoption of GASB 65 requires the accounting changes to be applied retroactively by restating the financial statements for all periods presented. In the tables that follow, we show the financial statements line items affected by the adoption and implementation of GASB 65.

(Dollars in thousands) Statement of Revenue, Expenses and Changes in Net Position		**As reported** Year ended June 30, 2013	Impact of GASB 65 on Net Position	**Restated** Year ended June 30, 2013
Interest revenue:				
Student loans	$	138,252	4,514	142,766
Interest expense:				
Student loan financings and notes and bonds payable		72,297	(5,618)	66,679
Other financings		1,534	(112)	1,422
Net interest revenue		73,036	10,244	83,280
Noninterest revenue:				
Servicing fees		261,923	820	262,743
Operating revenues		592,336	11,064	603,400
Operating expenses:				
Other		35,662	19,085	54,747
Operating income		252,018	(8,021)	243,997
Changes in net position		155,827	(8,021)	147,806
Net position, beginning of period		795,807	(50,409)	745,398
Net position, end of period	$	951,634	(58,430)	893,204

(Dollars in thousands) Statement of Net Position		As reported June 30, 2013	Impact of GASB 65 - reclassification adjustments	Impact of GASB 65 on Net Position	Restated June 30, 2013
Current assets:					
Other assets	$	55,620	-	(9,939)	45,681
Long-term assets:					
Student loans receivable, net		6,576,773	-	(3,572)	6,573,201
Deferred financing costs, net		46,721	-	(46,721)	-
Total assets		8,924,698	-	(60,232)	8,864,466
Deferred outflow of resources:					
Deferred loss on bond refundings		-	5,140	-	5,140
Current liabilities:					
Accounts payable and accrued expenses		148,832	(645)	-	148,187
Long-term liabilities:					
Student loan financings and notes and bonds payable		7,509,561	(204,512)	(1,802)	7,303,247
Total liabilities		7,973,064	(205,157)	(1,802)	7,766,105
Deferred inflow of resources:					
Deferred gain on bond refundings		-	209,652	-	209,652
Deferred gain on sales leaseback		-	645	-	645
Net position:					
Net investment in capital assets		60,492	-	-	60,492
Restricted for debt service		295,895	-	(45,933)	249,962
Restricted for financial aid grant programs		36,647	-	-	36,647
Unrestricted		558,600	-	(12,497)	546,103
Total net position	$	951,634	-	(58,430)	893,204

Note 5 – Federal Student Loan Reserve Fund (Federal Fund) and Assets Held for the U.S. Department of Education

The following table shows the detail of the net position held by us for ED in the Federal Fund.

(Dollars in thousands)

As of June 30,		2014	2013
Assets			
Cash	$	**27,465**	70,975
Receivable from the U.S. Department of Education		**73,954**	5,000
Other receivables		**850**	4,308
Total assets		**102,269**	80,283
Liabilities			
Accounts payable and accrued expenses		**11,501**	1,701
Amounts payable to PHEAA		**292,609**	249,327
Total liabilities		**304,110**	251,028
Net liabilities	$	**(201,841)**	(170,745)

Under the Higher Education Amendments of 1998, we are to act as a fiduciary in managing the assets of the Federal Fund.

Under current law, we are required to manage the Federal Fund so net position is greater than 0.25% of the original principal balance of outstanding guarantees. Historically, ED has calculated this ratio at September 30, which is the close of the federal fiscal year, based upon regulatory reports that we file with ED.

As of June 30, 2014, we have managed the cash flow of the Federal Fund in a manner to assure our customers that sufficient funds are available to continue to pay default claims by not transferring default aversion fees that are due to us. In addition to paying default claims, we pay our share of retention on defaulted loan collections from the Federal Fund.

As of June 30, 2014, we reported $90.8 million in the line item “Federal Student Loan Reserve Fund assets held for the U.S. Department of Education, net” in the Statements of Net Position, which is sum of the Federal Fund’s total assets less accounts payable and accrued expenses.

Note 6 – Cash, Cash Equivalents and Investments

The following table shows the carrying value of cash and cash equivalents (unrestricted and restricted), investments (unrestricted and restricted), and cash on deposit as of June 30, 2014 and 2013.

(Dollars in thousands)

As of June 30,		2014	2013
Cash and cash equivalents	$	**191,258**	88,702
Restricted cash and cash equivalents		**260,705**	234,972
Restricted cash and cash equivalents – due to customers		**57,132**	71,672
Investments		**478,556**	413,044
Restricted investments		**37,244**	34,026
Carrying value	$	**1,024,895**	842,416

The following table shows the fair value and maturities of our cash equivalents and investments as of June 30, 2014 and 2013.

(Dollars in thousands)

			Maturities (in years)		
As of June 30, 2014		Fair Value	Less than 1	1 to 10	More than 10
Cash equivalents					
Money market funds	$	366,261	366,261	-	-
Commercial paper		61,544	61,544	-	-
	$	427,805	427,805	-	-
Investments					
State Treasury investment pool	$	508,945	508,945	-	-
Ultra short-term bond fund		147	-	147	-
		509,092	508,945	147	-
Total cash equivalents and investments	$	936,897	936,750	147	-

(Dollars in thousands)

As of June 30, 2013		Fair Value	Maturities (in years) Less than 1	1 to 10	More than 10
Cash equivalents					
Money market funds	$	256,775	256,775	-	-
Commercial paper		67,717	67,717	-	-
	$	324,492	324,492	-	-
Investments					
State Treasury investment pool	$	437,079	437,079	-	-
Ultra short-term bond fund		147	-	147	-
		437,226	437,079	147	-
Total cash equivalents and investments	$	761,718	761,571	147	-

Overview

We manage our portfolio in such a manner that assures that funds are available as needed to meet the immediate and/or future operating requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. At maturity or liquidation, such monies shall be reinvested according to our investment guidelines and the prudent person rule described below.

Restricted cash and cash equivalents include amounts restricted under bond indentures and financing agreements, which are held by a trustee and managed under the provisions of the agreements. Restricted cash and cash equivalents also include amounts due to customers.

General Investment Objectives

The primary objectives, in priority order, of our investment activities are safety, liquidity, and yield.

Safety of principal is the foremost objective of our investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Investment transactions must be designed to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To further mitigate risk, our investment portfolio shall be diversified by the type of investment, issuer, and maturity date.

The liquidity of our portfolio shall be managed in such a manner that assures that funds are available as needed to meet the immediate and/or future operating requirements. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Also, a portion of the portfolio may be placed in money market mutual funds, which offer same-day liquidity for short-term funds.

The yield of the investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of the investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities will not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- A security swap would improve the quality, yield, or target duration in the portfolio; and
- Liquidity needs of the portfolio require that the security be sold.

Standards of Care

The board of directors authorized the investments guidelines and we govern our investments by using the "prudent person" rule under our investment policy. Generally, our investments are limited to U.S. Government securities, U.S. Government agency securities, federal instrumentalities sponsored by U.S. agencies, high-grade commercial paper, repurchase agreements collateralized by U.S. Treasury obligations, certificates of deposit, bankers' acceptances eligible for purchase by the Federal Reserve System, and other investments approved by the board of directors from time to time.

The standard of prudence used in our investment portfolio shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The prudent person rule requires the contractor to exercise: the judgment, care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

Investment Pools 99 and 198

The Commonwealth of Pennsylvania Treasury Department's Bureau of Cash Management and Investments maintain the State Treasury investment pool for the benefit of all Commonwealth funds, which is governed by the provisions of the State Treasury investment policy. The Treasury Department created two separate pools, Pools 99 and 198, within the Commonwealth Investment Program (CIP), each with its own distinctive investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and investment risk tolerance.

Pool 99 is a highly liquid vehicle consisting of short-term fixed income and cash equivalent investments and provides a high degree of liquidity and security. Pool 99 is organized similarly to a money market fund, with an expectation of a stable net asset value of $1 per share. The value of a share in Pool 99 is calculated daily, incorporating all realized and unrealized gains and losses, and any cash returned from investments. Pool 99's permitted investments include U.S. Treasury securities, federal agency securities, corporate bonds, municipal securities, certificates of deposit, commercial paper, money market funds, repurchase agreements and similar short-term fixed-income instruments. All gains and losses are distributed to participants monthly to re-set the value to $1 per share. Pool 99's performance is benchmarked to the yield on three-month U.S. Treasury bills. As of June 30, 2014, our investment in Pool 99 was $382.1 million compared to $322.5 million as of June 30, 2013.

Pool 198 is designed to provide an opportunity for funds that can sustain a slightly higher degree of volatility and risk and a somewhat lesser degree of liquidity to earn a corresponding reward by investing in a wider variety of asset classes. Pool 198 does not seek to maintain a standard value of $1 per share. Share values are allowed to fluctuate freely. Gains and losses are distributed periodically to participants in the form of reduced or increased share totals. The asset allocation for Pool 198 are 55% - 70% invested in fixed income and 30% - 45% invested in equities and alternative assets. Pool 198 is benchmarked to a blended index of the Russell 3000 and the Barclays Aggregate Fixed Income Index. For the non-cash portion of Pool 198, among the standard benchmarks to be reported will be a blend encompassing a 25% weighting towards the Russell 3000 and a 75% weighting towards the fixed income index. As of June 30, 2014, our investment in Pool 198 was $126.8 million compared to $114.6 million as of June 30, 2013.

For more information on Pools 99 and 198, see the Pennsylvania Treasury annual investing report for fiscal year ending June 30, 2013 (latest available) , which can be found at www.patreasury.gov/commonweathInvestments Reports.html.

Deposits and investments have certain risks that have the potential to result in losses, and those risks are described in the following section.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. We manage our exposure to interest rate risk by structuring our investment portfolio so that investments mature to meet cash requirements for ongoing operations and investing operating funds primarily in shorter-term investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. We minimize our credit risk by limiting investments to authorized investments that have a higher credit rating and diversifying the investment portfolio so potential losses on individual investments will be minimized. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As of June 30, 2014, all of our investments in commercial paper were rated A-1 and higher. As of June 30, 2014, all of our investments in money market funds were rated AAAm. As of June 30, 2014, we have $146.8 thousand invested in an ultra-short bond fund that was rated by Moody's. Moody's provided various ratings to the ultra-short bond fund, because of the various sectors the bond fund is invested. As of June 30, 2014, 65.0% of the ultra-short bond fund was rated Aaa; 6.3% was rated Aa; 10.1% was rated A; 14.0% of the bond fund was rated Baa; and 4.6% of the bond fund was not rated . As of June 30, 2014, $508.9 million was invested in the State Treasury investment pool, and the investment pool was not rated.

As of June 30, 2013, all of our investments in commercial paper were rated A-1 and higher. As of June 30, 2013, all of our investments in money market funds were rated AAAm. As of June 30, 2013, we have $146.8 thousand invested in an ultra-short bond fund that was rated by Moody's. Moody's provided various ratings to the ultra-short bond fund, because of the various sectors the bond fund is invested. As of June 30, 2013, 62.4% of the ultra-short bond fund was rated Aaa; 7.0% was rated Aa; 16.4% was rated A; 10.2% of the bond fund was rated Baa; and 3.9% of the bond fund was not rated . As of June 30, 2013, $437.1 million was invested in the State Treasury investment pool, and the investment pool was not rated.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, we would not be able to recover deposits or collateral securities that are in the possession of an outside party.

As of June 30, 2014, we had $110.7 million of cash deposits with financial institutions of which $110.4 million was in excess of the federal depository insurance limits.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of our investment in a single issuer. Our investment policy does not contain requirements that limit the amount that can be invested in any one issuer.

As of June 30, 2014, we did not have investments in any one issuer that represented 5% or more of our total investments.

Note 7 – Student Loans Receivable, net

The following table shows our student loan holdings.

(Dollars in thousands)

As of June 30,		2014	Restated 2013
FFEL:			
Consolidation	$	**5,654,677**	6,049,068
Stafford		**1,325,199**	1,337,929
PLUS		**145,295**	163,219
Supplemental Loans for Students		**1,092**	819
		7,126,263	7,551,035
HEAL		**50,785**	66,965
Uninsured loans		**38,482**	42,856
Unamortized discount on student loan purchases		**(2,749)**	(2,642)
		7,212,781	7,658,214
Allowance for loan losses		**(19,712)**	(17,084)
Student loans receivable, net	$	**7,193,069**	7,641,130

Allowance for loan losses

We estimated and established an allowance for loan losses based upon our continuing evaluation of our student loan portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. We maintain the allowances for loan losses at a level that is adequate to absorb estimated incurred losses, but our evaluation is inherently subjective and the required allowances may significantly change in the future.

When a student loan defaults, the guarantor reimburses the lender based on the disbursement date of the student loan. We record a charge-off for the difference between the ending balance of the student loan and the reinsurance rate. In the following table, we report the “provision for losses – FFEL program loans” and the “provision for losses - other program loans (Non-FFEL)” as the “provision for loan losses” in the Statements of Revenues, Expenses and Changes in Net Position.

We present an analysis of our allowance for loan losses related to student loans in the following table.

(Dollars in thousands)

As of June 30,		2014	2013
Balance at beginning of period	$	**17,084**	16,170
Provision for losses – FFEL program loans		**7,384**	5,035
Provision for losses – other program loans (Non-FFEL)		**680**	34
Charge-offs		**(5,436)**	(4,155)
Balance at end of period	$	**19,712**	17,084

Note 8 – Capital Assets, net

We present an analysis of the capital asset activity as of and for the years ended June 30, 2014 and 2013 below:

(Dollars in thousands)

As of and for the year ended June 30, 2014		Beginning Balance	Additions	Retirements	Ending Balance
Land	$	**2,946**	**-**	**-**	**2,946**
Buildings and improvements		**71,924**	**94**	**(25)**	**71,993**
Information technology equipment		**14,212**	**4,079**	**(1,338)**	**16,953**
Software development		**15,476**	**4,229**	**(2,900)**	**16,805**
Purchased software		**13,312**	**1,360**	**(94)**	**14,578**
Other equipment		**13,590**	**1,135**	**(62)**	**14,663**
		131,460	**10,897**	**(4,419)**	**137,938**
Less accumulated depreciation for:					
Buildings and improvements		**(37,338)**	**(1,869)**	**25**	**(39,182)**
Information technology equipment		**(9,587)**	**(1,648)**	**1,338**	**(9,897)**
Software development		**(8,079)**	**(3,226)**	**2,900**	**(8,405)**
Purchased software		**(8,767)**	**(1,466)**	**94**	**(10,139)**
Other equipment		**(7,121)**	**(1,617)**	**62**	**(8,676)**
		(70,892)	**(9,826)**	**4,419**	**(76,299)**
	$	**60,568**	**1,071**	**-**	**61,639**

(Dollars in thousands)

As of and for the year ended June 30, 2013		Beginning Balance	Additions	Retirements	Ending Balance
Land	$	2,946	-	-	2,946
Buildings and improvements		68,356	3,568	-	71,924
Information technology equipment		15,451	1,496	(2,735)	14,212
Software development		15,188	3,593	(3,305)	15,476
Purchased software		12,011	2,418	(1,117)	13,312
Other equipment		11,758	2,551	(719)	13,590
		125,710	13,626	(7,876)	131,460
Less accumulated depreciation for:					
Buildings and improvements		(35,565)	(1,773)	-	(37,338)
Information technology equipment		(11,041)	(1,278)	2,732	(9,587)
Software development		(8,324)	(3,060)	3,305	(8,079)
Purchased software		(8,796)	(1,019)	1,048	(8,767)
Other equipment		(6,278)	(1,445)	602	(7,121)
		(70,004)	(8,575)	7,687	(70,892)
	$	55,706	5,051	(189)	60,568

Depreciation expense for the years ended June 30, 2014 and 2013 was $9.8 million and $8.6 million, respectively.

Note 9 – Notes and Bonds Payable and Other Financings

Activity for notes and bonds payable and other financings as of and for the year ended June 30, 2014, was as follows:

(Dollars in thousands)

As of and for the year ended June 30, 2014		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Student loan auction rate bonds, floating rate notes, variable rate notes and financings:						
Student loan floating rate notes, due 2018 - 2046, at weighted-average rates of 0.76% as of June 30, 2014 and 0.92% as of June 30, 2013.	$	3,507,238	2,034,800	(589,023)	4,953,015	-
Deferred gain on bond refunding of student loan floating rate notes.		205,437	8,452	(24,214)	189,675	-
Discount on student loan floating rate Notes		(1,802)	(11,848)	992	(12,658)	-
Student loan auction rate security bonds, due 2037 - 2047, at weighted-average rates of 1.19% as of June 30, 2014 and 1.07% as of June 30, 2013.		2,516,700	-	(835,500)	1,681,200	-
Student loan financing warehouse facilities, due 2015, at weighted-average rates of 1.13% as of June 30, 2014 and 0.21% as of June 30, 2013.		966,769	852,566	(1,575,195)	244,140	244,140
Deferred gain on bond refunding of student loan financing warehouse facilities.		-	9,108	(9,108)	-	-
Student loan financings, due on demand, at weighted-average rates of 0.90% as of June 30, 2014 and 0.94% as of June 30, 2013.		161,300	38,700	-	200,000	200,000
Student loan variable rate funding notes.		319,006	-	(319,006)	-	-
Deferred loss on bond refundings of student loan variable rate funding notes.		(926)	-	926	-	-
	$	7,673,722	2,931,778	(3,350,128)	7,255,372	444,140

(Dollars in thousands) As of and for the year ended June 30, 2014		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Other financings:						
Capital acquisition refunding bonds, Series of 2012, due 2015 – 2023, at weighted- average rates of 4.15% as of June 30, 2014 and 3.68% as of June 30, 2013.	$	37,235	-	(3,635)	33,600	3,660
Unamortized premium on capital acquisition refunding bonds		4,364	-	(812)	3,552	-
Term financings, due 2029, at zero percent interest as of June 30, 2014 and 2013.		11,107	-	(4,827)	6,280	-
		52,706	-	(9,274)	43,432	3,660
	$	7,726,428	2,931,778	(3,359,402)	7,298,804	447,800

The note and bond indentures, among other things, require us to comply with various covenants, such as parity ratio requirements and annual financial statement, servicing and administration audits. Student loans and investments collateralize all student loan auction rate notes, floating and variable rate notes, and financings. As of June 30, 2014, $7.3 billion of student loan principal and related interest receivable and $253.9 million of cash equivalents collateralized the $7.1 billion of student loan financings and notes and bonds payable.

As of June 30, 2014, the student loan auction rate security bonds, floating rate notes, financing warehouse facilities and other term financings are non-recourse obligations to our unrestricted net position and to the Commonwealth, except for the $200.0 million of student loan financings and $33.6 million of Capital Acquisition Refunding Bonds, Series of 2012, which are recourse obligations to us.

Student loan auction rate bonds, floating rate notes, variable rate notes and financings

For the year ended June 30, 2014, the student loan auction rate bonds, floating rate notes, variable rate notes and financings had a net decrease of $418.4 million. The $418.4 million net decrease was mainly due to the bond refundings that took place on July 30, 2013, November 20, 2013, March 14, 2014 and June 17, 2014; the execution of various borrowing notices with a financial institution; and scheduled debt payments.

Bond Refundings

PHEAA Student Loan Trust 2013-2

On March 18, 2013, the Foundation entered into a trust agreement creating the PHEAA Student Loan Trust 2013-2 (“2013-2 Trust”) as a statutory trust under the Delaware Statutory Trust Act, 12 *Del. C.* Section 3801. The principal purpose of the 2013-2 Trust is to securitize student loans and student loan related assets and to acquire student loans from the Foundation and issue one or more classes of securities secured by a pledge of assets.

On July 30, 2013, the 2013-2 Trust issued $331.3 million of original principal amount of student loan asset backed notes at a discount. The student loan asset backed notes had a price to public of 99.88374%, which resulted in a discount of $385 thousand. The student loan asset backed notes were issued with an interest rate of 1-month LIBOR plus 0.55% and a final maturity date of April 25, 2030. The proceeds from the sale of these notes, together with a

$10.9 million of a capital contribution received indirectly through the Foundation from PHEAA, were used to purchase $341.0 million (principal and interest) of student loans, pay related costs of issuance and to fund an initial deposit to a reserve account created under the indenture.

On that same day, the PHEAA SLC II transferred $217.1 million of proceeds and the PHEAA SLC III transferred $97.8 million of proceeds from the above loan sale to repay our outstanding debt obligation under the Straight-A Funding Short-Term Note Facility ("Straight-A Program"). Following the release of the related liens under the Straight-A Program, we sold $317.4 million (principal and interest) of student loans to the Foundation for subsequent sale to the 2013-2 Trust.

PHEAA Student Loan Trust 2013-3

On October 3, 2013, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2013-3 ("2013-3 Trust"), a statutory trust. The 2013-3 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets.

On November 20, 2013, the 2013-3 Trust issued $503.0 million of original principal amount of student loan asset backed notes, Class A ("Class A Notes"), and $14.9 million of original principal amount of student loan asset backed notes, Class B ("Class B Notes"), at a discount. The Class A Notes had a price to public of 98.91577%, which resulted in a discount of $5.4 million. The Class A Notes were issued with an interest rate of 1-month LIBOR plus 0.75% and a final maturity date of November 25, 2042. The Class B Notes had a price to public of 78.73948%, which resulted in a discount of $3.2 million. The Class B Notes were issued with an interest rate of 1-month LIBOR plus 1.50% and a final maturity date of October 25, 2046. The proceeds from the Class A and Class B Notes, together with a $2.6 million capital contribution received indirectly through the Foundation from PHEAA, were used to purchase $509.6 million (principal and interest) of student loans, pay related costs of issuance and to fund an initial deposit to a capitalized interest fund and a reserve account created under the indenture.

On that same day, we used the proceeds from the above student loan sale to pay down a student loan financing warehouse facility.

PHEAA Student Loan Trust 2014-1

On October 3, 2013, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2013-4, a statutory trust. On January 29, 2014, the Foundation and the owner trustee entered into a "First Amendment to the Trust Agreement" ("First Amendment") to modify the legal name of the PHEAA Student Loan Trust 2013-4 to the PHEAA Student Loan Trust 2014-1 ("2014-1 Trust"). On the same date, upon execution of the First Amendment, a "Second Amended and Restated Certificate of Trust" was filed to register the new legal name of the 2014-1 Trust with the Delaware Secretary of State. The 2014-1 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets.

On March 14, 2014, the 2014-1 Trust issued $559.2 million of original principal amount of student loan asset backed notes, Class A ("Class A Notes"), at par, and $14.6 million of original principal amount of student loan asset backed notes, Class B ("Class B Notes"), at a discount. The Class A Notes were issued with an interest rate of 1-month LIBOR plus 0.70% and a final maturity date of December 26, 2041. The Class B Notes had a price to public of 89.53929%, which resulted in a discount of $1.5 million. The Class B Notes were issued with an interest rate of 1-month LIBOR plus 1.50% and a final maturity date of August 25, 2043.

The 2014-1 Trust used the proceeds from the Class A Notes and Class B Notes to purchase $567.1 million of financed student loans indirectly through the Foundation from PHEAA, pay cost of issuance fees and deposit amounts into a reserve account.

On that same day, PHEAA used the proceeds from the student loan sale to pay down various student loan financing warehouse facilities.

PHEAA Student Loan Trust 2014-2

On April 16, 2014, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2014-2 (“2014-2 Trust”), a statutory trust. The 2014-2 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets.

On June 17, 2014, the 2014-2 Trust issued $597.0 million of original principal amount of student loan asset backed notes, Class A (“Class A Notes”), at par, and $14.9 million of original principal amount of student loan asset backed notes, Class B (“Class B Notes”), at a discount. The Class A Notes were issued with an interest rate of 1-month LIBOR plus 0.57% and a final maturity date of February 25, 2043. The Class B Notes had a price to public of 91.07813%, which resulted in a discount of $1.3 million. The Class B Notes were issued with an interest rate of 1-month LIBOR plus 1.50% and a final maturity date of May 25, 2043.

The 2014-2 Trust used the proceeds from the Class A Notes and Class B Notes and the cash portion of the capital contribution to purchase $611.3 million of financed student loans indirectly through the Foundation from PHEAA, pay cost of issuance fees and deposit amounts into various funds established under the indenture of trust.

On that same day, PHEAA used the proceeds from the above student loan sale to pay down and pay-off the student loan financing warehouse facilities.

Subsequent Event

PHEAA Student Loan Trust 2014-3

On August 8, 2014, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2014-3 (“2014-3 Trust”), a statutory trust. The 2014-3 Trust was formed under the laws of the State of Delaware and its principal purpose is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets.

On September 18, 2014, the 2014-3 Trust issued $631.1 million of original principal amount of student loan asset backed notes, Class A (“Class A Notes”), at par, and $15.6 million of original principal amount of student loan asset backed notes, Class B (“Class B Notes”), at a discount. The Class A Notes were issued with an interest rate of 1-month LIBOR plus 0.59% and a final maturity date of August 25, 2040. The Class B Notes had a price to public of 89.75%, which resulted in a discount of $1.6 million. The Class B Notes were issued with an interest rate of 1-month LIBOR plus 1.50% and a final maturity date of June 25, 2043.

The 2014-3 Trust used the proceeds from the Class A Notes and Class B Notes and the cash portion of the capital contribution to purchase approximately $638.4 million of financed student loans indirectly through the Foundation from PHEAA, pay cost of issuance fees and deposit amounts into various funds established under the indenture of trust.

On that same day, PHEAA used the proceeds from the above student loan sale to pay down student loan financing warehouse facilities and release prior liens on financed student loans from various trusts.

Executed Borrowing Notices

On April 8, 2013, the Foundation entered into a trust agreement creating the PHEAA Warehouse Facility Trust 2013-1 as a statutory trust under the Delaware Statutory Trust Act, 12 *Del. C*. Section 3801. The principal purpose of the PHEAA Warehouse Facility Trust 2013-1 is to securitize student loans and student loan related assets and to acquire student loans from the Foundation and issue a note secured by a pledge of assets.

On July 12, 2013, the PHEAA Warehouse Facility Trust 2013-1 executed a borrowing notice with a financial institution for $36.8 million. On July 12, 2013, PHEAA sold $38.7 million of student loans to the Foundation for subsequent sale to the PHEAA Warehouse Facility Trust 2013-1. The proceeds from the sale of student loans to the Foundation were used to purchase and cancel $40.6 million of par value bonds from the 1997 Master Trust for $39.0 million, which resulted in a $1.6 million deferred gain.

On September 3, 2013, the PHEAA Warehouse Facility Trust 2013-1 executed a borrowing notice through a financial institution for $345.3 million, which requested a September 6, 2013 borrowing date. On September 6, 2013, a portion of the proceeds from the executed borrowing notice were used to purchase and cancel $127.9 million of par value bonds from the 1997 Master Trust for $125.6 million, which resulted in a $2.3 million deferred gain. On September 10, 2013, the remaining proceeds from the executed borrowing notice were used to purchase and cancel $234.4 million of par value bonds from the 1997 Master Trust for $230.3 million, which resulted in a $4.1 million deferred gain.

On March 25, 2014, the PHEAA Warehouse Facility Trust 2013-1 executed a borrowing notice through a financial institution, which requested a March 28, 2014 borrowing date. On March 28, 2014, the PHEAA Warehouse Facility Trust 2013-1 requested a borrowing of $112.4 million. The proceeds from the borrowing along with contributions from PHEAA were used to purchase $116.9 million of par value bonds from the 1997 Master Trust for $115.6 million, which resulted in a $1.3 million deferred gain.

On April 14, 2014, the PHEAA Warehouse Facility Trust 2013-1 executed a borrowing notice through a financial institution, which requested a borrowing of $55.4 million and a requested borrowing date on April 17, 2014. The proceeds from the borrowing notice and a contribution from PHEAA were used to purchase at par $57.4 million of student loans from the 1997 Master Trust.

On April 30, 2014, PHEAA executed a borrowing request through a student loan financial warehouse facility, which requested a borrowing of $76.6 million with a May 8, 2014 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $85.4 million of par value student loans pledged by PHEAA to a loan facility under the Pennsylvania Department of Treasury.

On June 18, 2014, PHEAA executed a borrowing request through a student loan financial warehouse facility, which requested a borrowing of $227.5 million with a June 24, 2014 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $244.8 million of par value FFELP student loans from a financial institution for $250.7 million, which resulted in a $5.9 million premium.

Purchase of Bonds from the 1997 Master Trust and Scheduled Debt Payments

For the year ended June 30, 2014, we purchased and cancelled $313.4 million of par value bonds from the 1997 Master Trust for $307.0 million that resulted in a $6.4 million gain on the early retirement of bonds. The $6.4 million gain was classified in the “Statements of Revenues, Expenses and Changes in Net Position” as “Gains on Debt Retirement”.

For the year ended June 30, 2014, we had $698.5 million of scheduled debt payments.

Asset Backed Commercial Paper Conduit Program Overview

During January 2009, ED together with the Treasury Department and Office of Management and Budget ("OMB"), established the first federally guaranteed student loan Asset-Backed Commercial Paper ("ABCP") Conduit Program. The ABCP Conduit Program was supported first by a liquidity facility provided by The Federal Financing Bank (a government corporation, under the general supervision of the Secretary of the Treasury) and second by a Put Agreement with ED to purchase eligible financed student loans.

Straight-A Funding, LLC ("Conduit Lender") was a newly created Delaware LLC owned by Global Securitization Services, LLC. The Conduit Lender purchased funding notes from Funding Note Issuers at 97% of the balance of eligible loans (Subsidized and Unsubsidized Stafford, and PLUS loans) pledged and then issued Student Loan Short-Term Notes ("SLST Notes") to investors in order to fund purchases of, or increases in, funding notes or repay existing SLST Notes.

The Conduit Lender used a multi-seller conduit approach whereby Sellers, such as PHEAA, receive a common cost of funds but retain the excess cash flow and control over their own pool of Financed Student Loans. Each Seller (PHEAA) established a Funding Note Issuer in the form of a bankruptcy-remote special purpose vehicle (PHEAA Student Loan Company ("PHEAA SLC"), PHEAA Student Loan Company II ("PHEAA SLC II") and PHEAA Student Loan Company III ("PHEAA SLC III")). The Seller receives an advance rate of 97% less upfront reserves and closing costs. The funding notes bear a variable interest rate, which is a mechanism for allocating the Conduit Lender's all-in cost of funds pro rata across the Funding Note Issuers.

The Federal Financing Bank ("FFB") is a federal government entity providing a 5-year $60 billion liquidity facility that was established under a Liquidity Loan Agreement with the Conduit Lender for the SLST Notes. The liquidity facility matures on the Put expiration date.

We classified the notes associated with ABCP Conduit Program as "student loan variable rate funding notes".

ABCP Conduit Program Transactions

PHEAA Student Loan Company II (PHEAA SLC II)

On December 10, 2009, PHEAA SLC II entered into a FNPA with a Conduit Lender in which the Conduit Lender purchased the above variable rate funding note at 97% of the collateral value. On December 11, 2009, PHEAA received $436.4 million, which the collateral value of the notes was $449.9 million. The FNPA states that the Funding Note Issuer ("PHEAA SLC I") shall repay in full the funding note balance and all accrued ratable financing costs on the final maturity date (December 5, 2013). On July 30, 2013, we repaid our outstanding debt obligation under the Straight-A Program. See the above section titled "*Bond Refunding*" for more details on the bond refunding that took place on July 30, 2013.

PHEAA Student Loan Company III (PHEAA SLC III)

On December 16, 2009, PHEAA SLC III entered into a FNPA with a Conduit Lender in which the Conduit Lender purchased the above variable rate funding note at 97% of the collateral value. On January 19, 2010, PHEAA received $182.9 million, which the collateral value of the notes was $188.6 million. The FNPA states that the Funding Note Issuer ("PHEAA SLC III") shall repay in full the funding note balance and all accrued ratable financing costs on the final maturity date (December 5, 2013). On July 30, 2013, we repaid our outstanding debt obligation under the Straight-A Program. See the above section titled "*Bond Refunding*" for more details on the bond refunding that took place on July 30, 2013.

Other financings

For the year ended June 30, 2014, the other financings had a decrease of $9.3 million, which was due to a $4.8 million early extinguishment of debt that took place on July 30, 2013, and a $3.6 million principal payment on the Capital Acquisition Refunding Bonds, Series of 2012.

On July 30, 2013, we extinguished $4.8 million note purchase agreements with financial institutions for $1.5 million, which resulted in a $3.3 million gain on the early extinguishment of debt.

Debt service requirements

The following table displays the debt service requirements based on estimated interest rates for the variable rate debt and the stated maturities for the student loan auction rate bonds, floating rate notes, variable rate notes and financings, and other financings.

(Dollars in thousands)	Student Loan Auction Rate Bonds, Floating Rate Notes, and Variable Rate Notes and Financings			Other Financings		
Year of Maturity		**Principal**	**Interest**		**Principal**	**Interest**
2015	$	444,140	65,096	$	3,660	2,032
2016		-	62,493		3,745	1,157
2017		-	62,191		3,895	998
2018		8,600	62,179		4,055	833
2019		14,849	62,142		4,230	661
2020-2024		47,072	309,653		14,015	880
2025-2029		542,068	301,033		-	-
2030-2034		370,790	275,312		6,280	-
2035-2039		2,426,060	242,559		-	-
2040-2044		2,244,851	133,593		-	-
2045-2049		979,925	22,345		-	-
	$	7,078,355	1,598,596	$	39,880	6,561

As of June 30, 2014, the student loan auction rate bonds, floating rate notes and variable rate notes and financings were variable-rate debt, which have interest rates that reset on various dates. Interest rates on $13.8 million reset based on auctions every 7 days, $1.6 billion reset based upon auctions every 28 days, $104.8 million reset based upon auctions every 35 days, $5.2 billion is indexed to the 1-month or 3-month LIBOR, and $244.1 million is indexed to the asset-backed commercial paper rate.

Notes and bonds payable, as well as all other debt, are limited obligations payable only from the pledged assets. We have no taxing power, and the Commonwealth is not obligated to pay the principal, redemption price, if any, or interest on any of our debt.

Note 10 – Other Long-Term Liabilities

Compensated Absences

Other long-term liabilities consist of compensated absences. In the table below, we present the changes in compensated absences as of and for the years ended June 30, 2014 and 2013:

(Dollars in thousands)

As of and for the years ended June 30,		2014	2013
Beginning balance	$	**18,253**	16,707
Increases during the year		**2,266**	2,379
Decreases during the year		**(1,057)**	(833)
Ending balance	$	**19,462**	18,253
Current portion	$	**1,057**	833
Long-term portion		**18,405**	17,420
Total compensated absences	$	**19,462**	18,253

Note 11 – Leases

Operating Lease

We lease office space, information technology and other equipment under operating leases expiring during the next six years. In most cases, we expect the leases to be renewed or replaced by other leases in the normal course of business. For the years ended June 30, 2014 and 2013, total operating lease expense was $7.0 million and $6.2 million, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2014 are:

(Dollars in thousands)		
2015	$	7,217
2016		6,558
2017		6,234
2018		5,731
2019 and thereafter		3,391
Total minimum lease payments	$	29,131

Note 12 – Retirement and Other Postemployment Benefits

Retirement Plan

Plan Description

We contribute to the Commonwealth of Pennsylvania State Employees' Retirement System ("SERS"). SERS was established under the provisions of Public Law 858, No. 331. SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement plan established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies. SERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund.

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly.

Employees who retire at age 60 with three years of service or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Most members of SERS, and all state employees hired after June 30, 2001 and prior to January 1, 2011, are Class AA members. The multiplier for Class AA is 1.25, which translates into an annual benefit of 2.5% of the member's highest three-year average salary times years of service. Most members vest with five years of credited service.

On November 23, 2010, the Governor signed H.B. 2497 into law as PA Act 120. This legislation preserved the benefits in place for all members prior to January 1, 2011, but mandated a number of benefit reductions for members that join SERS on or after January 1, 2011. Below is a listing of some of the benefit reductions that are included in Act 120:

- Creates a new A-3 and an optional A-4 Class of Service for future non-judicial employees (Class A-3 members will contribute 6.25% of their pay toward their benefit, and they will accrue benefits at 2% of their final average salary for each year of credited service. Class A-4 members will contribute 9.3% of their pay toward their benefit, and they will accrue benefits at 2.5% of their final average salary for each year of credited service);
- Increases the vesting period for Class A-3 and A-4 members to 10 years;
- Increases normal retirement age for Class A-3 and A-4 members from 60 to 65;
- Gradually increases funding through the use of collars that cap employer contribution rate increases;
- Implements a shared risk provision that introduces the possibility of higher or lower member contribution rates for future members; and
- Re-amortizes the SERS existing liabilities over 30 years through an actuarial "Fresh Start".

As a pension trust fund of the Commonwealth, SERS issues an audited comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information. The SERS CAFR is available on-line at www.sers.state.pa.us, select "Publications" and select "CAFR – Comprehensive Annual Financial Reports". Written requests for the SERS CAFR should be directed to the following address: State Employees' Retirement System, 30 North Third Street, Suite 150, Harrisburg, Pennsylvania 17101-1716.

Funding Policy

The board of directors of SERS establishes our contribution requirements. Members are required to contribute to the plan and most member contribution rates are set at 6.25% of annual covered salary. As an employer, we are required to contribute at an actuarially determined rate. As noted above, the Governor signed Act 120 into law on November 23, 2010, which gradually increases funding with collars (limits) that cap employer contribution rate increases.

For the year ended June 30, 2014, the employer contribution rate was 12.10% for the "A" Class of Service employees, 15.12% for the "AA" Class of Service employees and 10.46% for the "A-3" and "A-4" Class of Service employees. The majority of our employees are within the AA class of service. For the year ended June 30, 2013, the employer contribution rate was 8.43% for the “A” Class of Service employees, 10.51% for the “AA” Class of Service employees and 7.29% for the “A-3” and “A-4” Class of Service employees. On July 1, 2014, the employer contribution rate will be 15.94% for the “A” Class of Service employees, 19.92% for the “AA” Class of Service employees and 13.77% for the “A-3” and “A-4” Class of Service employees.

According to the Commonwealth of Pennsylvania SERS 2013 actuarial report, Schedule K, page 2 (Projection of Expected Contributions and Benefits – Reflecting Act 120 Collars), the blended fiscal projections indicate the employer’s rate will increase to 22.8% in calendar year 2015, increase to 29.7% by calendar year 2017, and remain above 25% through calendar year 2024. For the years ended June 30, 2014, 2013 and 2012, our contributions were $18.7 million, $12.0 million and $7.6 million, respectively, and these contributions were equal to the required contributions set by SERS.

Other Postemployment Benefits

Plan Description

The Commonwealth of Pennsylvania (Commonwealth) sponsors the Retired Employees’ Health Program (REHP). We participate in the Commonwealth’s REHP, a single-employer defined benefit postemployment healthcare plan administered by the Pennsylvania Employees’ Benefit Trust Fund (PEBTF), acting as a third-party administrator on behalf of the Commonwealth’s Office of Administration. The REHP provides health care and prescription drug plan benefits to eligible Commonwealth retirees, and their eligible dependents. The REHP’s benefit provisions are established and may be amended by the Commonwealth of Pennsylvania’s Office of Administration.

While the Commonwealth accounts for the REHP as a single employer plan, we account for our participation in the plan as a cost-sharing employer, because the plan is administered like a cost-sharing plan with a single actuarial valuation and the Commonwealth allocates annual OPEB costs to Commonwealth funds and component units, consistent with a pooling arrangement. Additionally, the Commonwealth structured the REHP so that employer contributions are irrevocable, plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and plan assets are legally protected from creditors of the employer(s) or plan administrator.

The REHP does not issue stand-alone financial statements, however the REHP note disclosures will be included in the Commonwealth’s CAFR for the year ended June 30, 2014. For additional information on the REHP including the Commonwealth’s total Other Post Employment Benefit (OPEB) expenses, funded status, funding progress, actuarial accrued liability, and the actuarial assumptions used to determine these amounts for the Commonwealth’s REHP, a complete actuarial report is available for review at .www.budget.state.pa.us (select Financial Reports and under the heading “Special Reports” select “Actuarial Valuation of the Commonwealth’s Post-Retirement Medical Plan (August 21, 2013)).

Funding Policy

The Office of Administration and the Governor’s Budget Office establish REHP contribution requirements. All employing agencies and certain plan members of the Commonwealth must contribute specified amounts to the REHP.

REHP plan members with a retirement date between July 1, 2005 and June 30, 2007, must contribute 1.0% of their final annual gross salary toward the cost of REHP coverage. REHP plan members with a retirement date on or after July 1, 2007, must contribute a percentage of their final annual gross salary toward the cost of REHP coverage. The contribution rate shall be equal to the active employee contribution rate in effect at the date of retirement, which is a percentage of the employee’s final annual gross salary. The contribution rate shall change thereafter in accordance with the active employee contribution.

For the years ended June 30, 2014, 2013 and 2012, our annual contribution rate was $3.6 million, $3.5 million and $3.3 million, respectively, and we have made all required contributions to the REHP as determined by the Office of Administration.

The monthly contribution rate was based on a projected per retiree cost for the related fiscal years times the estimated number of PHEAA retirees enrolled in the REHP. Effective July 1, 2014, our contribution rate will be $327 thousand per month or $3.9 million annually. This current level of funding generally represents an amount needed to fund ongoing annuitant health care costs for the current year with a smaller portion representing advance funding.

The Statements of Funded Status and Funding Progress are disclosed in the Commonwealth's CAFR, Note I – Pension and Other Postretirement Benefits for the year ended June 30, 2013. The June 30, 2013, Commonwealth's CAFR can be accessed on-line at www.budget.state.pa.us, select "Financial Reports" and select "Comprehensive Annual Financial Reports".

Note 13 – Servicing Fees

As a servicer, we are responsible for servicing, maintaining custody of, and making collections on student loans. We earn servicing fee revenue by servicing student loans owned by third parties. We categorize revenue earned from loans owned by financial institutions and secondary markets as "Commercial Servicing"; whereas, we categorize revenue earned from loans owned by ED as "FLS Servicing". We categorize revenue earned from providing our system to guarantors and other servicers to use, as well as, not-for-profit servicers who were awarded servicing contracts by ED, as "Remote Servicing".

For the years ended June 30, 2014 and 2013 (restated), total servicing revenues were $295.5 million and $262.7 million, respectively. For the years ended June 30, 2014 and 2013, we were servicing on average $216.5 billion and $154.0 billion, respectively, of loans for third party customers. For the years ended June 30, 2014 and 2013, customers using our servicing systems serviced on average $49.6 billion and $41.5 billion, respectively, of loans.

Our servicing agreements, some of which expired during the fiscal year ended June 30, 2014, have contractual terms at inception ranging from three years to life of loan. Under our servicing agreements, we generally agree to reimburse customers for any claims, losses, liabilities, or expenses that arise out of or relate to our acts or omissions with respect to services provided under such agreements. We record a provision for estimated claims under the agreements as "other" operating expenses in the financial statements.

For the year ended June 30, 2014, ED provided $141.1 million of servicing revenue, which represents 47.7% of the total servicing revenue. Three additional loan-servicing customers provided $58.6 million of servicing revenue, which represents 19.8% of the total servicing revenue.

For the year ended June 30, 2013, ED provided $101.3 million of servicing revenue, which represents 38.6% of the total servicing revenue. Three additional loan-servicing customers provided $62.9 million of servicing revenue, which represents 23.9% of the total servicing revenue.

Note 14 – Segment Information

We generally finance student loan portfolios by issuing notes, bonds, and other financings and we pledge the earnings to support the debt. Because we pledge the revenue stream of the student loan portfolios to support the debt, we are reporting condensed financial information about this segment. The notes, bonds, and other financings related to this segment are limited obligations payable only from the pledged assets.

Statements of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

For the years ended June 30,		2014	Restated 2013
Interest revenue	$	**154,281**	147,146
Interest expense		**(53,300)**	(66,680)
Net interest revenue		**100,981**	80,466
Provision for loan losses		**(7,149)**	(4,397)
Net interest revenue after provision for loan losses		**93,832**	76,069
Total noninterest revenue		**3,170**	2,039
Total operating revenues		**97,002**	78,108
Operating expenses		**(60,400)**	(50,446)
Operating income		**36,602**	27,662
Financial aid		**(1)**	(3)
Income before transfers		**36,601**	27,659
Transfers from unrestricted net position		**(69,647)**	64,507
Changes in net position		**(33,046)**	92,166
Net position, beginning of period		**249,962**	157,796
Net position, end of period	$	**216,916**	249,962

Statements of Net Position

(Dollars in thousands)

As of June 30,		2014	Restated 2013
Current assets:			
Restricted cash and cash equivalents	$	**253,922**	229,620
Student loans receivable		**936,917**	1,064,946
Interest income receivable		**99,819**	113,760
Other assets		**42**	762
Total current assets		**1,290,700**	1,409,088
Long-term assets:			
Student loans receivable, net		**6,204,943**	6,541,229
Total long-term assets		**6,204,943**	6,541,229
Total assets		**7,495,643**	7,950,317
Deferred outflow of resources:			
Deferred loss on bond refundings		**2,728**	5,140
Total deferred outflow of resources		**2,728**	5,140
Current liabilities:			
Accounts payable and accrued expenses		**23,355**	26,633
Student loan financings and notes and bonds payable		**444,140**	165,963
Total current liabilities		**467,495**	192,596
Long-term liabilities:			
Student loan financings and notes and bonds payable, net		**6,621,556**	7,303,247
Total long-term liabilities		**6,621,556**	7,303,247
Total liabilities		**7,089,051**	7,495,843
Deferred inflow of resources:			
Deferred gain on bond refundings		**192,404**	209,652
Total deferred inflow of resources		**192,404**	209,652
Net position:			
Restricted for debt service		**216,916**	249,962
Total net position	$	**216,916**	249,962

Statements of Cash Flows

(Dollars in thousands)

For the years ended June 30,		2014	Restated 2013
Cash flows from operating activities			
Interest received on student loans	$	**67,722**	54,027
Principal received on student loans		**999,458**	1,048,628
Student loan purchases		**(794,753)**	(1,232,598)
Student loan sales, including net gains and losses		**356,732**	156,023
Other		**(1)**	386
Payment of operating expenses		**(43,732)**	(37,504)
Net cash provided by (used for) operating activities		**585,426**	(11,038)
Cash flows from noncapital financing activities			
Proceeds from the issuance of noncapital debt		**2,914,218**	2,699,193
Principal paid on noncapital debt		**(3,309,615)**	(2,694,611)
Interest paid on noncapital debt		**(79,001)**	(90,409)
Bond issuance costs		**(17,119)**	(10,367)
Other		**(69,648)**	64,504
Net cash used for noncapital financing activities		**(561,165)**	(31,690)
Cash flows from investing activities			
Interest received on investments		**41**	62
Net cash provided by investing activities		**41**	62
Net change in restricted cash and cash equivalents		**24,302**	(42,666)
Restricted cash and cash equivalents, beginning of period		**229,620**	272,286
Restricted cash and cash equivalents, end of period	$	**253,922**	229,620

There are seventeen separate trusts with parity ratios, a ratio of assets to liabilities. As of June 30, 2014, the trusts had parity ratios ranging from 1.010 to 1.169, and 8.315. Two of the seventeen trusts have minimum parity ratio requirements and as of June 30, 2014, the trusts complied with the minimum parity ratio requirements.

As of June 30, 2014, the 1997 Master Trust that issued auction rate securities held $1.4 billion and the parity ratio for this trust was 1.067. This trust does not have a parity ratio requirement.

Note 15 – Blended Component Units

We consider the PHEAA Student Loan Trust I ("Trust"), the PHEAA Student Loan Trust 2011-1 ("2011-1 Trust"), the PHEAA Student Loan Trust 2012-1 ("2012-1 Trust"), the PHEAA Student Loan Trust 2013-1 ("2013-1 Trust"), the PHEAA Student Loan Trust 2013-2 ("2013-2 Trust"), the PHEAA Student Loan Trust 2013-3 ("2013-3 Trust"), the PHEAA Student Loan Trust 2014-1 ("2014-1 Trust"), the PHEAA Student Loan Trust 2014-2 ("2014-2 Trust), the PHEAA Warehouse Facility Trust 2013-1 ("Warehouse Trust 2013-1"), the PHEAA Student Loan Company I ("PHEAA SLC"), the PHEAA Student Loan Company II ("PHEAA SLC II") and the PHEAA Student Loan Company III ("PHEAA SLC III") blended component units ("BCUs") of the PHEAA Student Loan Foundation ("Foundation"), and the Pennsylvania Higher Education Foundation ("PHEF") a BCU of PHEAA.

The Trust, 2011-1 Trust, 2012-1 Trust, 2013-1 Trust, 2013-2 Trust, 2013-3 Trust, 2014-1 Trust, 2014-2 Trust and the Warehouse Trust 2013-1, collectively "PHEAA SLTs", are legally separate entities and we consider them component units of the Foundation, because of their material relationship with the Foundation. The PHEAA SLTs are BCUs of the Foundation, because they provide services entirely to the Foundation.

During the year ended June 30, 2014, the Foundation entered into trust agreements with a financial institution that created the 2013-2 Trust, 2013-3 Trust, 2014-1 Trust and 2014-2 Trust. These PHEAA SLTs are statutory trusts formed under the laws of the State of Delaware. The principal purpose of these PHEAA SLTs is to securitize student loans and related assets and to acquire student loans from the Foundation and issue promissory notes secured by a pledge of such assets.

The PHEAA SLC, PHEAA SLC II and PHEAA SLC III, collectively "PHEAA SLCs", are legally separate entities and we consider them component units of the Foundation, because the Foundation appointed the PHEAA SLCs governing body and the Foundation could impose its will on the PHEAA SLCs. The PHEAA SLCs are BCUs of the Foundation, because they provide services entirely to the Foundation. On November 14, 2012, and July 30, 2013, we entered into bond refundings with the 2012-1 Trust and the 2013-2 Trust and repaid our outstanding debt obligations under the Straight-A Program. Once the outstanding debt obligations were satisfied, the PHEAA SLCs ceased operations. See **Note 9 – Notes and Bonds Payable and Other Financings** for more details.

The PHEF is a component unit of PHEAA, because PHEAA appointed a voting majority of the PHEF's governing board, and PHEAA has the ability to impose its will on PHEF. We consider PHEF a blended component unit of PHEAA, because PHEF no longer provided services to outside third parties in the form of grants and scholarships used to promote nursing education, but rather provided services entirely to us.

As legally separate entities, the student loan financings and notes and bonds payable, net of the BCUs are non-recourse obligations to our unrestricted net position and to the Commonwealth.

In the statements that follow, we present condensed combining information for the BCUs mentioned above.

Statements of Revenues, Expenses and Changes in Net Position

(Dollars in thousands) For the year ended June 30, 2014		PHEAA SLCs	PHEAA SLTs	Foundation (Total PHEAA SLCs and SLTs)	PHEF	Total BCUs
Interest revenue	$	**543**	**80,898**	**81,441**	**2**	**81,443**
Interest expense		**(892)**	**(15,773)**	**(16,665)**	**-**	**(16,665)**
Net interest revenue (expense)		**(349)**	**65,125**	**64,776**	**2**	**64,778**
Provision for loan losses		**-**	**(4,515)**	**(4,515)**	**-**	**(4,515)**
Net interest revenue (expense) after provision for loan losses		**(349)**	**60,610**	**60,261**	**2**	**60,263**
Total noninterest revenue		**(81)**	**-**	**(81)**	**-**	**(81)**
Total operating revenues		**(430)**	**60,610**	**60,180**	**2**	**60,182**
Operating expenses		**(198)**	**(40,564)**	**(40,762)**	**(14)**	**(40,776)**
Operating income (loss)		**(628)**	**20,046**	**19,418**	**(12)**	**19,406**
Total transfers and financial aid		**(14,204)**	**39,722**	**25,518**	**(10)**	**25,508**
Changes in net position		**(14,832)**	**59,768**	**44,936**	**(22)**	**44,914**
Net position, beginning of period		**14,832**	**(43,128)**	**(28,296)**	**1,061**	**(27,235)**
Net position, end of period	$	**-**	**16,640**	**16,640**	**1,039**	**17,679**

(Dollars in thousands) For the year ended June 30, 2013 **Restated**		PHEAA SLCs	PHEAA SLTs	Foundation (Total PHEAA SLCs and SLTs)	PHEF	Total BCUs
Interest revenue	$	11,984	50,204	62,188	2	62,190
Interest expense		(6,018)	(7,728)	(13,746)	-	(13,746)
Net interest revenue		5,966	42,476	48,442	2	48,444
Provision for loan losses		-	(3,158)	(3,158)	-	(3,158)
Net interest revenue after provision for loan losses		5,966	39,318	45,284	2	45,286
Total noninterest revenue		(917)	38	(879)	-	(879)
Total operating revenues		5,049	39,356	44,405	2	44,407
Operating expenses		(4,088)	(22,887)	(26,975)	(4)	(26,979)
Operating income (loss)		961	16,469	17,430	(2)	17,428
Total transfers and financial aid		(29,393)	15,193	(14,200)	(152)	(14,352)
Changes in net position		(28,432)	31,662	3,230	(154)	3,076
Net position, beginning of period		43,264	(76,771)	(33,507)	1,215	(32,292)
Net position, end of period	$	14,832	(45,109)	(30,277)	1,061	(29,216)

Statements of Net Position

(Dollars in thousands)

As of June 30, 2014		PHEAA SLCs	PHEAA SLTs	Foundation (Total PHEAA SLCs and SLTs)	PHEF	Total BCUs
Current assets:						
Restricted cash and cash equivalents	$	-	118,476	118,476	765	119,241
Restricted investments		-	-	-	274	274
Student loans receivable		-	840,344	840,344	-	840,344
Interest income receivable		-	64,480	64,480	-	64,480
Other assets		-	16	16	-	16
Total current assets		-	1,023,316	1,023,316	1,039	1,024,355
Long-term assets:						
Student loans receivable, net		-	3,470,272	3,470,272	-	3,470,272
Total long-term assets		-	3,470,272	3,470,272	-	3,470,272
Total assets		-	4,493,588	4,493,588	1,039	4,494,627
Total deferred outflow of resources		-	764	764	-	764
Current liabilities:						
Accounts payable and accrued expenses		-	15,382	15,382	-	15,382
Total current liabilities		-	15,382	15,382	-	15,382
Long-term liabilities:						
Student loan financings and notes and bonds payable, net		-	4,269,926	4,269,926	-	4,269,926
Total long-term liabilities		-	4,269,926	4,269,926	-	4,269,926
Total liabilities		-	4,285,308	4,285,308	-	4,285,308
Total deferred inflow of resources		-	192,404	192,404	-	192,404
Net position:						
Restricted for debt service		-	16,640	16,640	-	16,640
Restricted for financial aid grant programs		-	-	-	1,039	1,039
Total net position	$	-	16,640	16,640	1,039	17,679

(Dollars in thousands) As of June 30, 2013 **Restated**		**PHEAA SLCs**	**PHEAA SLTs**	**Foundation (Total PHEAA SLCs and SLTs)**	**PHEF**	**Total BCUs**
Current assets:						
Restricted cash and cash equivalents	$	9,675	65,299	74,974	765	75,739
Restricted investments		-	-	-	296	296
Student loans receivable, net		38,379	447,295	485,674	-	485,674
Interest income receivable		4,181	40,065	44,246	-	44,246
Other assets		-	7	7	-	7
Total current assets		52,235	552,666	604,901	1,061	605,962
Long-term assets:						
Student loans receivable, net		280,914	2,333,117	2,614,031	-	2,614,031
Total long-term assets		280,914	2,333,117	2,614,031	-	2,614,031
Total assets		333,149	2,885,783	3,218,932	1,061	3,219,993
Total deferred outflow of resources		925	925	1,850	-	1,850
Current liabilities:						
Accounts payable and accrued expenses		236	13,478	13,714	-	13,714
Student loan financing and notes and bonds payable		4,663	-	4,663	-	4,663
Total current liabilities		4,899	13,478	18,377	-	18,377
Long-term liabilities:						
Student loan financings and notes and bonds payable, net		314,343	2,918,339	3,232,682	-	3,232,682
Total long-term liabilities		314,343	2,918,339	3,232,682	-	3,232,682
Total liabilities		319,242	2,931,817	3,251,059	-	3,251,059
Total deferred inflow of resources		-	-	-	-	-
Net position:						
Restricted for debt service		14,832	(45,109)	(30,277)	-	(30,277)
Restricted for financial aid grant programs		-	-	-	1,061	1,061
Total net position	$	14,832	(45,109)	(30,277)	1,061	(29,216)

Statements of Cash Flows

(Dollars in thousands) For the year ended June 30, 2014		PHEAA SLCs	PHEAA SLTs	Foundation (Total PHEAA SLCs and SLTs)	PHEF	Total BCUs
Net cash provided by (used for) operating activities	$	**323,541**	**(1,515,156)**	**(1,191,615)**	**(14)**	**(1,191,629)**
Net cash (used for) provided by noncapital financing activities		**(333,216)**	**1,568,322**	**1,235,106**	**(10)**	**1,235,096**
Net cash provided by investing activities		**-**	**11**	**11**	**24**	**35**
Net change in restricted cash and cash equivalents		**(9,675)**	**53,177**	**43,502**	**-**	**43,502**
Restricted cash and cash equivalents, beginning of period equivalents		**9,675**	**65,299**	**74,974**	**765**	**75,739**
Restricted cash and cash equivalents, end of period equivalents	$	**-**	**118,476**	**118,476**	**765**	**119,241**

(Dollars in thousands) For the year ended June 30, 2013 **Restated**		PHEAA SLCs	PHEAA SLTs	Foundation (Total PHEAA SLCs and SLTs)	PHEF	Total BCUs
Net cash provided by (used for) operating activities	$	619,804	(800,580)	(180,776)	(12)	(180,788)
Net cash (used for) provided by noncapital financing activities		(650,666)	791,708	141,042	(152)	140,890
Net cash provided by investing activities		-	30	30	6	36
Net change in restricted cash and cash equivalents		(30,862)	(8,842)	(39,704)	(158)	(39,862)
Restricted cash and cash equivalents, beginning of period equivalents		40,537	74,141	114,678	923	115,601
Restricted cash and cash equivalents, end of period equivalents	$	9,675	65,299	74,974	765	75,739

Note 16 – Net Position

Under Commonwealth law, our purpose is to increase higher education opportunities for Pennsylvania residents. Net position that we report as unrestricted are statutorily restricted to our purpose. The Higher Education Amendments of 1998 also restricts our use of net position related to FFEL guaranty activities to fulfilling our guaranty responsibilities and other student financial aid related activities selected by us. Because that restriction is consistent with our statutory purpose, we consider net position related to those activities to be unrestricted. As of June 30, 2014, unrestricted net position amounted to $709.0 million of which net position related to the guaranty activities was $186.0 million. As of June 30, 2014, the Board of Directors committed $91.0 million of unrestricted net position to fund the Pennsylvania State Grant, Pennsylvania Targeted Industry Cluster Certificate Scholarship and Distance Education programs. As of June 30, 2013 (restated), unrestricted net position amounted to $546.1 million of which net position related to the guaranty activities was $157.5 million. As of June 30, 2013, the Board of Directors committed $90.0 million of unrestricted net position to fund the Pennsylvania State Grant and Pennsylvania Targeted Industry Cluster Certificate Scholarship programs.

We have net position that is restricted for debt service that is held under various indentures related to financing our student loan portfolios. As of June 30, 2014, net position restricted for debt service amounted to $216.9 million. As of June 30, 2013 (restated), net position restricted for debt service amounted to $250.0 million.

We have net position that is restricted for financial aid grant programs, because of the Commonwealth of Pennsylvania grants and federal grants that relate to specific programs. The net position is restricted until we disburse program-related grants. As of June 30, 2014, net position restricted for financial aid grant programs amounted to $41.1 million. As of June 30, 2013, net position restricted for financial aid grant programs amounted to $36.6 million.

Note 17 – Risk Management, Contingencies, and Legal Proceedings

Risk Management and Contingencies

The current heightened regulatory environment for student and consumer lenders and servicers has resulted in significant additional governmental scrutiny, and we may be adversely impacted by the results of such additional scrutiny. The regulatory environment with respect to the student loan industry is evolving, and governmental or regulatory officials may exercise broad discretion in deciding how to interpret and apply applicable laws, rules, regulations and standards. From time to time and in the past, we have received formal and informal inquiries, subpoenas, civil investigative demands from various government regulatory and investigatory authorities' about the loans we service or own, our operations, borrowers or our compliance with laws, rules, regulations or standards. We expect to continue to receive similar demands from time to time in the future and an adverse outcome in one or more of these matters could be material to our operations, financial condition, cash flows and/or reputation. Any determination that our operations or activities or the activities of our employees are not in compliance with existing laws, rules, regulations or standards, could result in payment delays, the imposition of substantial fines, a requirement of restitution, interruptions of our respective operations, the reduction or loss of supplier, vendor or other third party relationships, termination of necessary licenses or permits, or similar results, all of which could potentially harm our respective operations, financial condition, cash flows and/or reputation. Even if any reviews, inquiries or investigations do not result in these types of determinations, such reviews, inquiries and investigations could cause us to incur substantial costs, require us to change our operating or servicing practices, or create negative publicity, which could also harm our respective operations, financial condition, business relationships or reputation. To date, there has been no material supervisory or enforcement actions or findings.

Federal programs in which we participate are subject to audit in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The provisions of this circular do not limit the authority of ED or other federal audit officials to perform, or contract for, audits and evaluations of federal financial assistance programs. Therefore, our operations in current and prior years are subject to audit. We believe we are in substantial compliance with applicable federal regulations and that any adjustment because of future audits will not be material.

Legal Proceedings

PHEAA was named as a defendant in a qui tam action brought by Jon Oberg, a former Department of Education employee (Oberg v. Nelnet, Inc., et al., United States District Court, Eastern District of Virginia, Alexandria Division, No. 1:07-CV-960) alleging that the PHEAA and other named defendants violated the Federal False Claims Act in connection with the 9.5% Special Allowance Payment billings. PHEAA filed a motion to dismiss the suit and that motion was granted on December 1, 2009. Certain other additional defendants settled and on November 18, 2010, a Final Order was entered in this matter, which, among other things, placed the previously dismissed claim against PHEAA among the ended causes. The plaintiff filed an appeal on November 22, 2010. The singular issue on appeal was whether PHEAA is a "person" subject to suit under the Federal False Claims Act as an agency of and on behalf of the Commonwealth. On June 18, 2012, the Fourth Circuit Court of Appeals remanded the case to the District Court instructing the District Court to make a determination of that issue applying the Fourth Circuit's "Arm of the State" standard, a four factor test used to determine whether a person is an arm of the state. On December 5, 2012, the District Court made that determination and again dismissed the complaint against PHEAA. Mr. Oberg appealed that second dismissal to the Court of Appeals for the Fourth Circuit. On March 13, 2014, the Fourth Circuit Court of Appeals vacated the judgment of the District Court as to PHEAA and remanded to the District Court to permit limited discovery on the Fourth Circuit’s “Arm of the State” standard. If PHEAA is ultimately deemed to be a “person” under the Federal False Claims Act, then the case would proceed on the merits. As of June 30, 2014, and through the date of this report, we believe it is remote that a loss contingency exists, and we will continue to contest this matter vigorously.

Lastly, we are involved in various legal matters in the normal course of business. We have considered the available information on these legal matters, and the criteria for a loss contingency, as defined by GASB, does not exist as of June 30, 2014 and through the date of this report.