Annual Financial Report
June 30, 2015 and 2014

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

The Management's Discussion and Analysis ("MD&A") of the Pennsylvania Higher Education Assistance Agency ("PHEAA") is presented as 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 Basic Financial Statements that follow this discussion.

Change in Accounting Principle

On July 1, 2014, we adopted and implemented GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* ("GASB 68") and GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* ("GASB 71").

GASB 68 replaces the requirements of GASB Statement No. 27 – *Accounting for Pensions by State and Local Governmental Employers* ("GASB 27"), as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB 68 requires cost-sharing employers to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

GASB 71 addresses an issue regarding the application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement requires 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 but before the start of the government's fiscal year. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB 68.

We could not restate our prior period financial statements, and as an alternative under GASB 68, we applied the "cumulative effect" method by restating beginning unrestricted net position. As of June 30, 2015, the cumulative effect of adopting GASB 68 and GASB 71 was a $270.0 million net reduction to beginning unrestricted net position. 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.

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 Federal Family Education Loan ("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,		**2015**	2014	2013
Self-funded				
Pennsylvania State Grant Program Supplement	$	**75,000**	75,000	75,000
Costs of operating state and federal governmental programs		**15,399**	13,482	13,552
Pennsylvania Distance Education Program Supplement, net of refunds		**7,313**	5,750	-
Pennsylvania Targeted Industry Cluster Certificate Scholarship Program Supplement, net of refunds		**4,373**	5,146	4,434
Other public service activities and outreach		**2,684**	2,690	3,587
		104,769	102,068	96,573
Financial support funded by our business partners				
Keystone loan program origination fees and benefits paid on behalf of borrowers		**9**	16	24
	$	**104,778**	102,084	96,597

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

- On March 3, 2015, the Governor of Pennsylvania ("Governor") released his proposed budget for fiscal year 2015-16. The Governor proposed the following funding levels for fiscal year 2015-16:
  - Pennsylvania State Grant Program - $344.9 million;
  - Institutional Assistance Grant Program - $29.4 million;
  - Pennsylvania Ready to Succeed Scholarship Program - $15.0 million;
  - Matching Funds Grant Program - $12.5 million;
  - Higher Education for the Disadvantaged Program - $2.2 million;
  - Cheyney University Keystone Academy Program - $2.0 million;
  - Horace Mann Bond-Leslie Pickney Hill Scholarship for outreach and recruitment activities at Lincoln and Cheyney Universities Program - $1.0 million; and
  - Higher Education of Blind or Deaf Program - $47.0 thousand.

- In addition to the proposed funding levels for fiscal year 2015-16, the Governor proposed the following additional supplements from PHEAA:
  - Pennsylvania State Grant Program Supplement - $75.0 million;
  - Pennsylvania Distance Education Program Supplement - $10.0 million;
  - Dual Enrollment Grant Programs - $9.0 million;
  - Primary Healthcare Program - $8.5 million;
  - STEM Scholarships Program - $7.5 million; and
  - Pennsylvania Targeted Industry Cluster Certificate Scholarship Program Supplement - $7.0 million.

- On June 18, 2015, the Board of Directors approved the following allocations for fiscal year 2015-16:
  - 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.

- For fiscal year 2014-15, the Board of Directors approved the following allocations from PHEAA:
  - 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.

- The Pennsylvania State Grant Program is the largest of the Commonwealth supported student aid programs with approximately 174 thousand recipients and the maximum award is $4,011 for the 2014-2015 award year. As of June 30, 2015, we transferred $75.0 million to the Pennsylvania State Grant Program Supplement fund and disbursed $75.0 million to the Pennsylvania State Grant Program. As of June 30, 2015, we transferred $10.0 million to the Pennsylvania Distance Education Program and disbursed $7.3 million, net of refunds, from the fund. As of June 30, 2015, we transferred $6.0 million to the Pennsylvania Targeted Industry Cluster Certificate Scholarship Program fund, and disbursed $4.4 million, net of refunds, from the fund.

  During the 2013-2014 award year, the Pennsylvania State Grant Program supported approximately 179 thousand recipients and the maximum award was $4,363. During the 2013-2014 award year, the Board of Directors approved and PHEAA supplemented a $75.0 million allocation to the Pennsylvania State Grant Program Supplement, a $10.0 million allocation to the Pennsylvania Distance Education Program and a $5.0 million allocation to the Pennsylvania Targeted Industry Cluster Certificate Scholarship Program.

  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 supplement 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,		**2015**	2014	2013
Commercial Servicing:				
Client-owned student loans	$	**45,013,515**	46,283,711	51,520,958
PHEAA-owned student loans		**6,944,630**	7,223,471	7,669,402
Total commercial servicing		**51,958,145**	53,507,182	59,190,360
Federal Servicing		**226,418,604**	185,212,708	140,867,651
Remote Servicing:				
Federal Servicing		**34,117,746**	37,949,856	33,139,128
Commercial Servicing		**10,893,034**	10,370,374	10,564,333
Total remote servicing		**45,010,780**	48,320,230	43,703,461
Total servicing		**323,387,529**	287,040,120	243,761,472
Guaranty:				
Original principal outstanding		**31,898,600**	35,274,795	38,329,414
Inventory of defaulted loans		**5,023,164**	4,862,600	4,718,417
Total guaranty		**36,921,764**	40,137,395	43,047,831
Total assets managed	$	**360,309,293**	327,177,515	286,809,303

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 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 eligible 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.

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 the United States Department of Education ("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 primary 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 ensure that student loan servicers under its jurisdiction comply with federal consumer financial laws to the extent that those authorities apply to both federal and private student loans, from origination through servicing and debt collection. We are unable to predict the ultimate effect supervision or required examinations could have on our operations. 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. 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 FFEL program 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% 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%. 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% on a monthly basis or 0.62% 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 claims to 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.

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. 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 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:

- For any student loan that was rehabilitated on or after August 14, 2008, the borrower cannot rehabilitate the student loan again if the student loan returns to default status following the rehabilitation;
- 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.

Cohort Default Rate

On October 28, 2009, 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 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, 2015, the average original principal balance outstanding of student loans guaranteed was $33.6 billion compared to $36.9 billion in 2014 and $39.4 billion in 2013.

Retention of Collections on Defaulted Loans, net

The Bipartisan Budget Act of 2013 (the "2013 Budget"), Section 501, reduced the amount that PHEAA and other guaranty agencies are permitted to retain on rehabilitated defaulted student loans. 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 with respect to the loan). 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. Under previous rules, guaranty agencies were required to repay ED 81.5% of the amount of the principal balance outstanding at the time of sale (multiplied by the reinsurance percentage in effect when payment under the guaranty agreement was made with respect to the loan). In addition, the guaranty agency could charge to the borrower an amount not to exceed 18.5% of the outstanding principal balance and interest at the time of loan sale in order to defray collection costs. See the discussion on "**Retention of Collection on Defaulted Loans, net**" on pages 26 and 27.

Description of the Basic Financial Statements

We follow the accounting and financial reporting guidance issued by the Governmental Accounting Standards Board ("GASB"). The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position are prepared using the economic resources measurement focus and accrual basis of accounting.

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, deferred inflows of resources and net position. 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.

Condensed Financial Information

Statements of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

For the years ended June 30,		**2015**	2014	2013
Student loan interest revenue	$	**154,985**	154,029	142,766
Investment interest revenue		**5,679**	13,419	8,615
Interest expense on student loan financings		**(42,058)**	(53,300)	(66,679)
Interest expense on other financings		**(580)**	(1,994)	(1,422)
Net interest revenue		**118,026**	112,154	83,280
Provision for loan losses		**(7,152)**	(8,064)	(5,069)
Net interest revenue after provision for loan losses		**110,874**	104,090	78,211
Total noninterest revenue		**458,337**	536,079	525,189
Operating revenues		**569,211**	640,169	603,400
Total operating expenses		**(458,286)**	(418,225)	(359,403)
Operating income		**110,925**	221,944	243,997
Non-operating (loss) gains		**(232)**	175	(79)
Income before grants and financial aid		**110,693**	222,119	243,918
Total grants and financial aid		**(65,345)**	(86,620)	(96,112)
Change in net position		**45,348**	135,499	147,806
Net position, beginning of period (**restated**) See **Note 4**		**758,672**	893,204	745,398
Net position, end of period	$	**804,020**	1,028,703	893,204

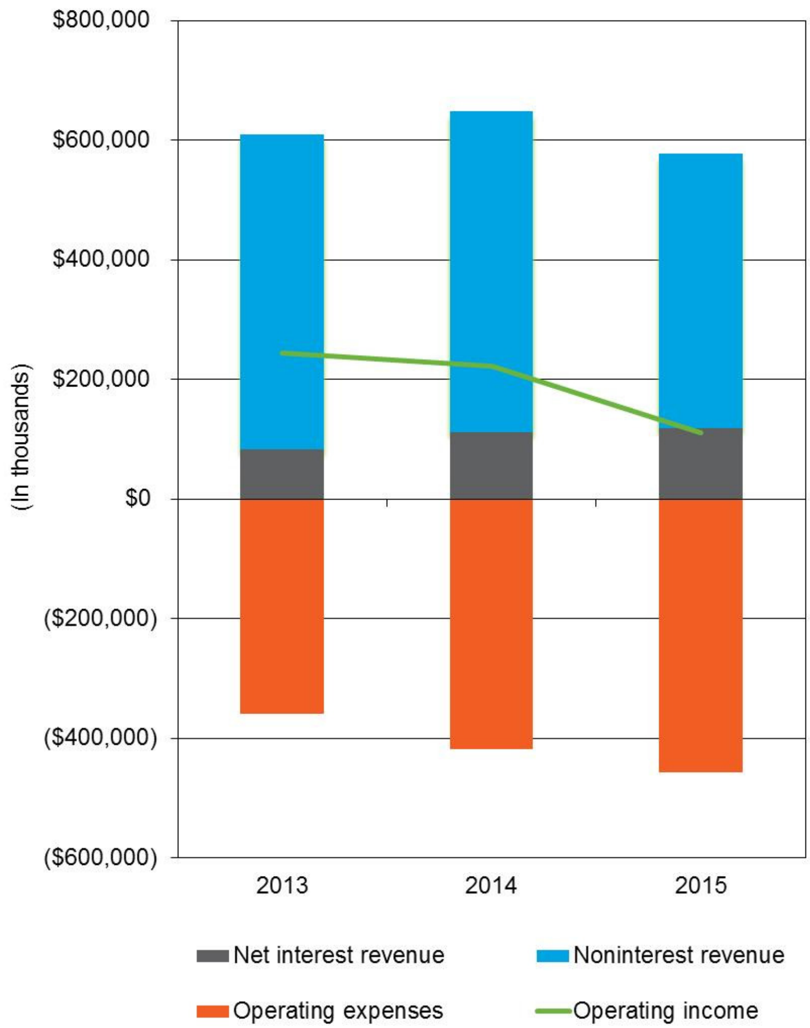
Statements of Net Position

(Dollars in thousands)

As of June 30,		**2015**	2014	2013
Current assets:				
Cash, cash equivalents, and investments (restricted and unrestricted)	$	**1,014,822**	1,024,895	842,416
Student loans receivable		**1,095,033**	947,152	1,067,929
Other assets		**280,832**	332,743	320,352
Total current assets		**2,390,687**	2,304,790	2,230,697
Long-term assets:				
Student loans receivable, net		**5,819,102**	6,245,917	6,573,201
Capital assets, net		**75,959**	61,639	60,568
Total long-term assets		**5,895,061**	6,307,556	6,633,769
Total assets		**8,285,748**	8,612,346	8,864,466
Total deferred outflow of resources		**41,961**	2,728	5,140
Current liabilities:				
Student loan financings		**903,779**	444,140	165,963
Other liabilities		**217,216**	269,546	230,404
Total current liabilities		**1,120,995**	713,686	396,367
Long-term liabilities:				
Student loan financings, net		**5,852,233**	6,621,556	7,303,247
Net pension liability		**323,866**	-	-
Other liabilities, net		**56,297**	58,177	66,491
Total long-term liabilities		**6,232,396**	6,679,733	7,369,738
Total liabilities		**7,353,391**	7,393,419	7,766,105
Total deferred inflow of resources		**170,298**	192,952	210,297
Net position:				
Net investment in capital assets		**75,959**	61,639	60,492
Restricted for debt service		**263,381**	216,916	249,962
Restricted for financial aid grant programs		**61,478**	41,110	36,647
Unrestricted		**403,202**	709,038	546,103
Total net position	$	**804,020**	1,028,703	893,204

Results of Operations

Years ended June 30

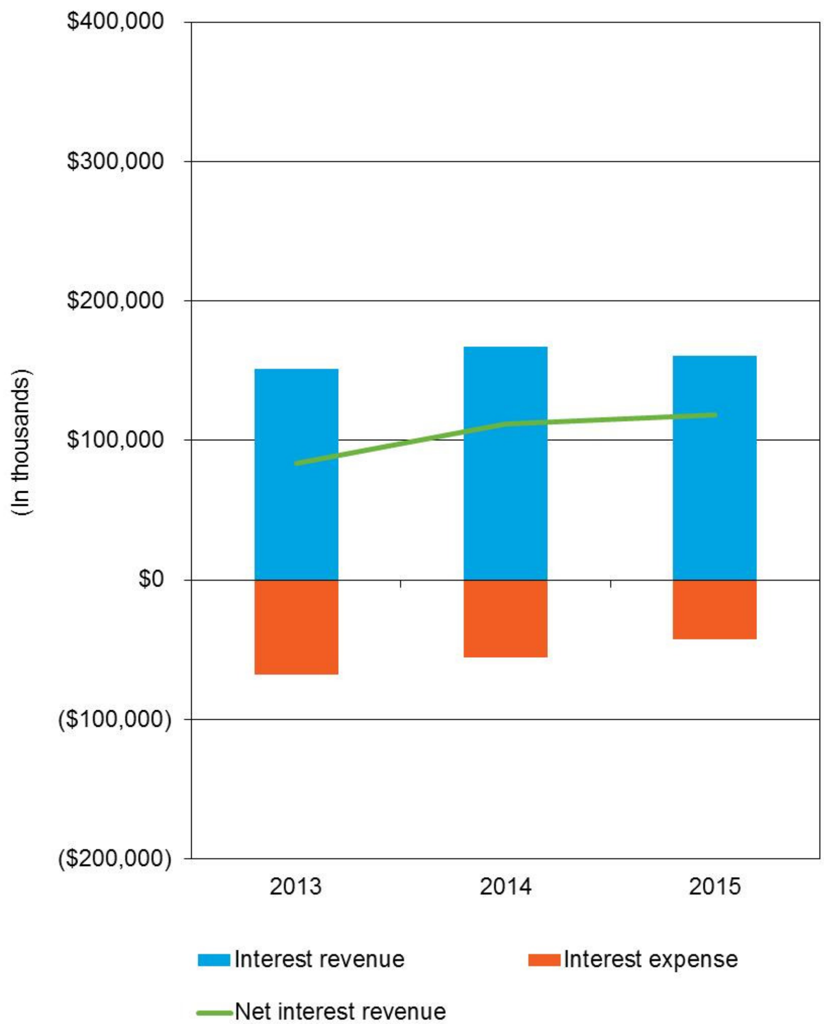


Operating income for the year ended June 30, 2015, was $110.9 million, a 50.0% decrease from $221.9 million in 2014. Operating revenues were $569.2 million in 2015, an 11.1% decrease from $640.2 million in 2014. Net interest revenue was $118.0 million in 2015, a 5.2% increase from $112.2 million in 2014. Noninterest revenue was $458.3 million in 2015, a 14.5% decrease from $536.1 million in 2014. Operating expenses were $458.3 million in 2015, a 9.6% increase from $418.2 million in 2014.

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.

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, 2015, net interest revenue was $118.0 million, a 5.2% increase from $112.2 million in 2014. The increase in net interest revenue was due to decreases in interest expense on student loan and other financings, which was offset by a decrease in investment income.

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.

A more detailed explanation of the changes in net interest revenue follows.

Average Interest Bearing Assets and Liabilities

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 the years ended June 30,	**2015**		2014		2013	
(Dollars in thousands)	**Balances**	**Rate**	Balances	Rate	Balances	Rate
Average interest earning assets						
Student loans receivable, net	$ **7,045,827**	**2.20%**	$ 7,272,233	2.12%	$ 7,105,871	2.01%
Investments	**1,024,795**	**0.55%**	853,370	1.57%	852,220	1.01%
	$ **8,070,622**	**1.99%**	$ 8,125,603	2.06%	$ 7,958,091	1.90%
Average interest bearing liabilities						
Student loan financings, net	$ **6,955,888**	**0.60%**	$ 7,293,033	0.73%	$ 7,193,339	0.93%
Other financings, net	**41,089**	**1.41%**	45,877	4.35%	72,783	1.95%
	$ **6,996,977**	**0.61%**	$ 7,338,910	0.75%	$ 7,266,122	0.94%
Net interest margin		**1.38%**		1.31%		0.96%

2015 Balances and Rates

For the year ended June 30, 2015, the decrease in the average balance of our student loans receivable, net, was due to payments made by borrowers on our student loan portfolio. The increase in the rate of the average balance of student loan receivable, net, was mainly due to a decrease in the payment of consolidation loan rebate fees and the decrease in the purchase premium amortization. See the section that follows titled "Net Interest Margin" for a more detailed breakdown of the rate. The increase in the average balance of our investments was due to the timing of funds transferred into our investments at the Commonwealth of Pennsylvania Treasury. The decrease in the rate of the average balance of investments was due to a decrease in the returns earned on our investments at the Commonwealth of Pennsylvania Treasury.

For the year ended June 30, 2015, the decrease in the average balance and rate of our student loan financings, net, was primarily due to the refunding of our auction rate security bonds with floating rate notes issued by the PHEAA Student Loan Trusts. The decrease in the average balance and rate of other financings, net, was due to required principal payments and the amortization of bond premium on the Capital Acquisition Refunding Bonds, Series of 2012.

2014 Balances and Rates

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, 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.

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

Net Interest Margin

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

For the years ended June 30,	**2015**	2014	2013
Student loan yields	**3.08%**	3.08%	3.05%
Consolidation loan rebate fees	**(0.83)**	(0.85)	(0.80)
Premium amortization	**(0.05)**	(0.11)	(0.24)
Student loan interest revenue	**2.20%**	2.12%	2.01%
Student loan financings interest expense	**(0.60)**	(0.73)	(0.93)
Net interest margin on student loans	**1.60%**	1.39%	1.08%

For the years ended June 30, 2015 and 2014, the increase in the rate on student loan interest revenue was mainly due to a decrease in the payment of consolidation loan rebate fees and the decrease in the amortization of purchased premium. The payment of consolidation loan rebate fees and the amortization of purchase premium are reductions to student loan interest income. The decrease in the rate on student loan financings interest expense was due to the refunding of auction rate security bonds with floating rate notes issued by the PHEAA Student Loan Trusts.

Rate and Volume Analysis

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, 2015, 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 10% of the student loan portfolio, and the 1-month LIBOR was used to calculate special allowance for 87% of the student loan portfolio.

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.

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)		**2015 vs. 2014 Increase (decrease) attributable to change in**				2014 vs. 2013 Increase (decrease) attributable to change in		
For the years ended June 30		**Increase (decrease)**	**Rate**	**Volume**		Increase (decrease)	Rate	Volume
Student loan interest revenue	$	**956**	**5,751**	**(4,795)**	$	11,263	7,921	3,342
Investment interest revenue		**(7,740)**	**(10,436)**	**2,696**		4,804	4,792	12
		(6,784)	**(4,685)**	**(2,099)**		16,067	12,713	3,354
Student loan financings interest expense		**(11,242)**	**(8,778)**	**(2,464)**		(13,379)	(14,368)	989
Other financings interest expense		**(1,414)**	**(1,206)**	**(208)**		572	1,235	(663)
		(12,656)	**(9,984)**	**(2,672)**		(12,807)	(13,133)	326
Net interest revenue	$	**5,872**	**5,299**	**573**	$	28,874	25,846	3,028

2015 vs. 2014 – Changes in Rate and Volume

For the year ended June 30, 2015, the increase in the rate of our student loan interest revenue was due to a decrease in the payment of consolidation loan rebate fees and the decrease in the amortization of student loan purchase premium. The decrease in the volume of our student loan interest revenue was due to a decreasing student loan portfolio resulting from borrower payments.

For the year ended June 30, 2015, the decrease in the rate of our investment interest revenue was due to the decrease in the returns earned on our investments at the Commonwealth of Pennsylvania Treasury. The increase in the volume of our investment interest revenue was due to the timing of funds transferred into investments at the Commonwealth of Pennsylvania Treasury.

For the year ended June 30, 2015, the decrease in the rate of our student loan financings interest expense was due to the refunding of auction rate security bonds with floating rate notes issued by the PHEAA Student Loan Trusts.

2014 vs. 2013 – Changes in Rate and Volume

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.

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 variable-rate and fixed-rate assets, but 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. 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, deferred outflows of resources, liabilities and deferred inflows of resources related to our student loan financings. As of June 30, 2015, we had $761.5 million of cash, cash equivalents and investments and $49.5 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.

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, 2015, and is not necessarily reflective of positions that existed throughout the period.

(Dollars in thousands)	Interest rate sensitivity period					
As of June 30, 2015	**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	$ **253,339**	**-**	**-**	**-**	**-**	**-**
Student loans, net	**6,712,820**	**36,838**	**114,839**	**14**	**29**	**140**
Other assets	**86,090**	**1,426**	**667**	**380**	**584**	**-**
Total assets	**7,052,249**	**38,264**	**115,506**	**394**	**613**	**140**
Deferred outflow of resources						
Deferred loss on bond refundings	**2,013**	**-**	**-**	**-**	**-**	**-**
Liabilities						
Student loan financings, net	**6,556,011**	**200,000**	**-**	**-**	**-**	**-**
Other liabilities	**21,008**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**6,577,019**	**200,000**	**-**	**-**	**-**	**-**
Deferred inflow of resources						
Deferred gain on bond refundings	**168,779**	**-**	**-**	**-**	**-**	**-**
Net position						
Restricted for debt service	**-**	**-**	**-**	**-**	**-**	**263,381**
Period gap	**308,464**	**(161,736)**	**115,506**	**394**	**613**	**(263,241)**
Cumulative gap	$ **308,464**	**146,728**	**262,234**	**262,628**	**263,241**	**-**
Ratio of interest-sensitive assets to interest-sensitive liabilities and net position	**107.2 %**	**19.1 %**	**- %**	**-%**	**-%**	**0.1 %**
Ratio of cumulative gap to total assets	**4.3 %**	**2.0 %**	**3.6 %**	**3.6 %**	**3.7 %**	**-%**

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 table that follows along with the allowance for loan losses-other program loans (Non-FFEL) in "Student loans receivable, net" in the Statements of Net Position. The provision for loan losses on FFEL student loans in the table that follows along with the provision for loan losses on non-FFEL program loans 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,		**2015**	2014	2013
Balance at beginning of period	$	**14,557**	12,621	11,770
Provision for losses		**6,536**	7,384	5,035
Charge-offs		**(5,993)**	(5,448)	(4,184)
Balance at end of period	$	**15,100**	14,557	12,621
Ending balance of FFEL student loans	$	**6,865,200**	7,126,263	7,551,035
Allowance as a percentage of ending balance of FFEL student loans		**0.22%**	0.20%	0.17%

As of June 30, 2015, 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 payment status is no longer current (payments are more than 60 days past due) and/or non-performing. The loans formerly guaranteed by The Education Resource Institute, Inc. (TERI) are included with the private loans. 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 table that follows along with the allowance for loan losses-FFEL program loans within "Student loans receivable, net" within the Statements of Net Position. The provision for loan losses on non-FFEL student loans in the table that follows along with the provision for loan losses on FFEL program loans 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,		**2015**	2014	2013
Balance at beginning of period	$	**5,155**	4,463	4,400
Provision for losses		**616**	680	34
Recoveries		**-**	12	29
Balance at end of period	$	**5,771**	5,155	4,463
Ending balance of non-FFEL student loans	$	**72,045**	89,267	109,821
Allowance as a percentage of ending balance of non-FFEL student loans		**8.01%**	5.77%	4.06%

As of June 30, 2015, the increase in the allowance as a percentage of ending balance of non-FFEL student loans was due to an increase of the student loans with a repayment delinquency of 271 days or greater. As of June 30, 2015, 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, 2015 table below presents our student loan delinquency trends on FFEL and non-FFEL student loans, but does not include $8.9 million of student loans categorized as non-performing, $9.9 million of student loans categorized as uninsured and $139 thousand of student loans with credit balances.

(Dollars in thousands)

As of June 30, 2015	FFEL		Non-FFEL		Total	
Loans in-school/in-grace	$ 14,484		$ 117		$ 14,601	
Loans in deferment and forbearance:						
Deferment	569,441		1,870		571,311	
Forbearance	727,397		553		727,950	
Total loans in-school/in-grace, and deferment and forbearance	$ 1,311,322		$ 2,540		$ 1,313,862	
Loans in repayment:						
Current	$ 4,802,280	86.6%	$ 60,748	92.3%	$ 4,863,028	86.7%
31 – 60 days	232,167	4.2%	1,064	1.6%	233,231	4.2%
61 – 90 days	126,067	2.3%	242	0.4%	126,309	2.3%
91 – 120 days	74,596	1.3%	278	0.4%	74,874	1.3%
121 – 180 days	128,978	2.3%	219	0.3%	129,197	2.3%
181 – 270 days	115,456	2.1%	83	0.1%	115,539	2.1%
271 days or greater	45,317	0.8%	674	1.0%	45,991	0.8%
Claims filed not paid	21,533	0.4%	2,474	3.9%	24,007	0.3%
Total loans in repayment	$ 5,546,394	100.0%	$ 65,782	100.0%	$ 5,612,176	100.0%

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 non-performing, $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%

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 the requirements of applicable 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, and 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,	**2015**	2014	2013
Balance at beginning of period	$ **5,363**	3,716	4,349
Provision for losses	**1,113**	2,340	1,180
Charge-offs	**(713)**	(693)	(1,813)
Balance at end of period	$ **5,763**	5,363	3,716

As of June 30, 2015, 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.

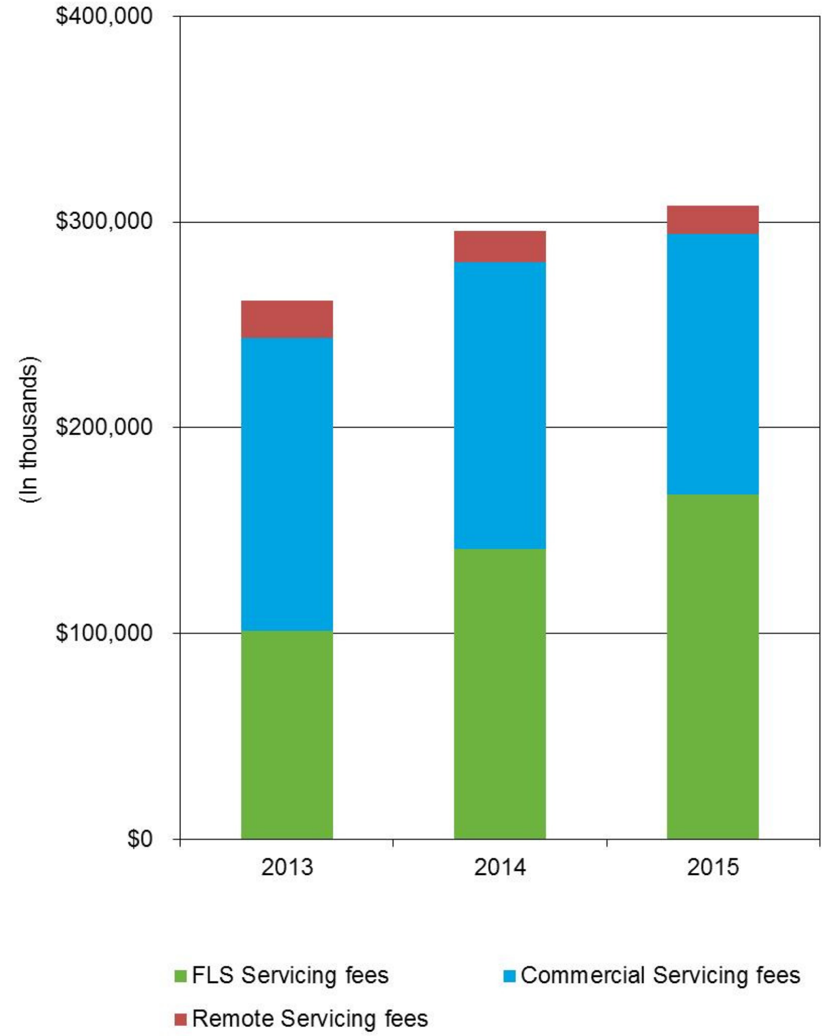
(Dollars in thousands)

For the years ended June 30,		**2015**	2014	2013
Servicing fees	$	**307,922**	295,537	262,743
Retention of collections on defaulted loans, net		**130,975**	207,688	180,776
Federal fees		**20,634**	22,567	24,017
Gains on debt retirement		**129**	9,681	57,790
(Loss) gain on student loan sales, net		**(752)**	3,099	1,763
Other		**(571)**	(2,493)	(1,900)
Total noninterest revenue	$	**458,337**	536,079	525,189

For the year ended June 30, 2015, total noninterest revenue was $458.3 million, a 14.5% decrease from $536.1 million in 2014. For the year ended June 30, 2014, total noninterest revenue was $536.1 million, a 2.1% increase from $525.2 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, 2015, total servicing fees were $307.9 million, a 4.2% increase from $295.5 million in 2014. During 2015, 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, 2015, the average third party loans serviced on our systems were $298.7 billion, a 12.3% increase from $266.1 billion in 2014.

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.

In the sections that follow, we discuss the changes in total servicing fees.

FLS Servicing Fees

For the year ended June 30, 2015, FLS Servicing fees were $167.6 million, an 18.8% increase from $141.1 million in 2014. For the year ended June 30, 2015, the average FLS servicing portfolio of loans was $207.8 billion, a 24.2% increase from $167.3 billion in 2014.

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 years ended June 30, 2015 and 2014, the increase in FLS Servicing fees was due to an increase in the portfolio of loans serviced by us for ED.

Commercial Servicing Fees

For the year ended June 30, 2015, Commercial Servicing fees were $126.3 million, a 9.2% decrease from $139.1 million in 2014. For the year ended June 30, 2015, the average Commercial Servicing portfolio of loans (excluding PHEAA owned loans) was $44.6 billion, a 9.3% decrease from $49.2 billion in 2014.

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 (excluding PHEAA owned loans) was $49.2 billion, a 3.0% decrease from $50.7 billion in 2013.

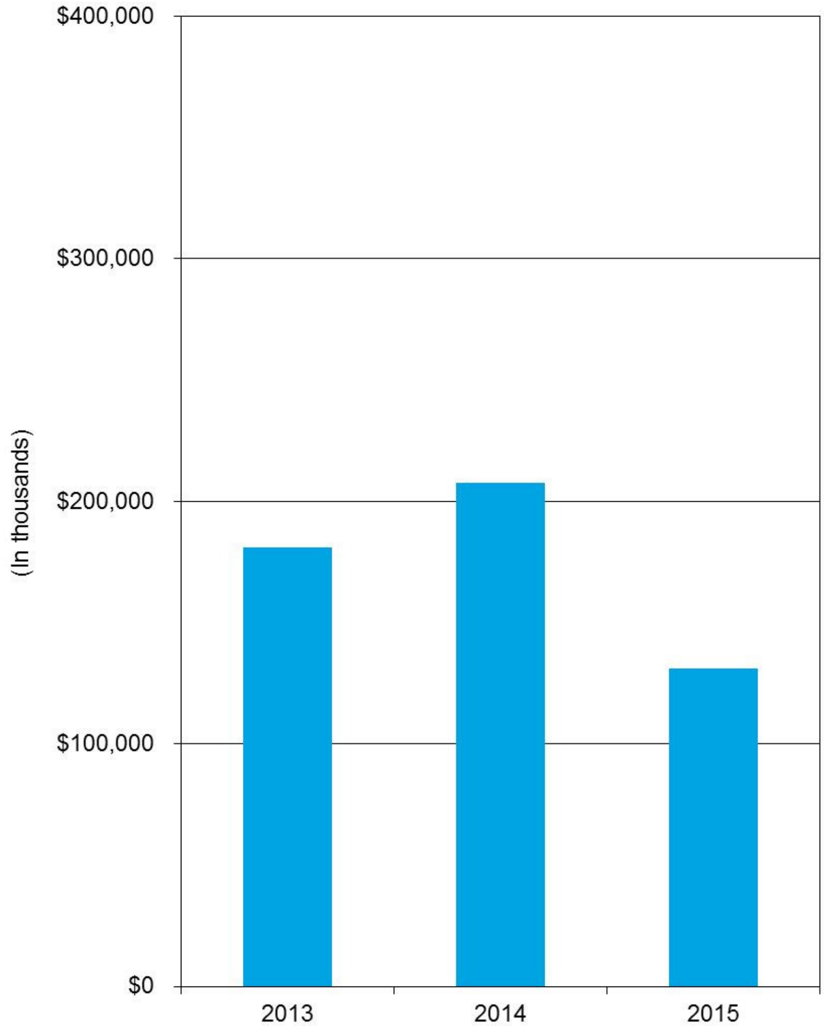
For the years ended June 30, 2015 and 2014, the decrease in Commercial Servicing fees was primarily due to a decrease in the Commercial Servicing loan portfolio.

Remote Servicing Fees

For the year ended June 30, 2015, Remote Servicing fees were $14.0 million, an 8.5% decrease from $15.3 million in 2014. For the year ended June 30, 2015 the average Remote Servicing portfolio of loans, excluding the NFP Servicers, was $10.5 billion, a 1.0% increase from $10.4 billion in 2014. For the year ended June 30, 2015, the average portfolio of loans related to the NFP Servicers was $35.8 billion, an 8.9 % decrease from $39.3 billion for the same period ended 2014. The decrease in Remote Servicing fees was mainly due a decrease in the portfolio of loans held on our system for NFP Servicers.

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 $39.3 billion, a 47.7% 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.

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 2013 Budget, Section 501, reduced the amount that PHEAA and other guaranty agencies are permitted to retain on rehabilitated defaulted student loans. For rehabilitated loan sales on and after July 1, 2014, the 2013 Budget requires that we 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 with respect to the loan). In addition, we can retain collection costs and accrued interest. Collection costs charged to the borrower may not exceed 16% of the outstanding principal and interest at the time of the loan sale. Previously, guaranty agencies were required to repay ED 81.5% of the amount of the principal balance outstanding at the time of sale (multiplied by the reinsurance percentage in effect when payment under the guaranty agreement was made with respect to the loan) and could retain the other 18.5% of principal and interest. In addition, guaranty agencies retained collection costs, but the collection costs charged to the borrower could not exceed 18.5% of the principal balance and accrued interest at the time of loan sale.

For the year ended June 30, 2015, the retention of collections on defaulted loans, net, was $131.0 million, a 36.9% decrease from $207.7 million in 2014. The decrease in the collections on defaulted loans, net, was due to the change in the retention of collections pricing under the 2013 Budget, a decrease in the total collections on direct consolidation loans and an increase in the discount offered to eligible lenders for purchasing rehabilitation loans.

We estimate that had the 2013 Budget been in effect during the year ended June 30, 2014 and all other variables affecting revenues and income had remained constant, retention of collections, net, would have been $65.0 million compared to $96.2 million in 2015. For the year ended June 30, 2015, total collections on rehabilitation loans were $512.5 million, a 6.4% increase from $481.5 million in 2014.

For the year ended June 30, 2015, total collections on direct consolidation loans were $248.9 million, a 35.0% decrease from $382.7 million in 2014.

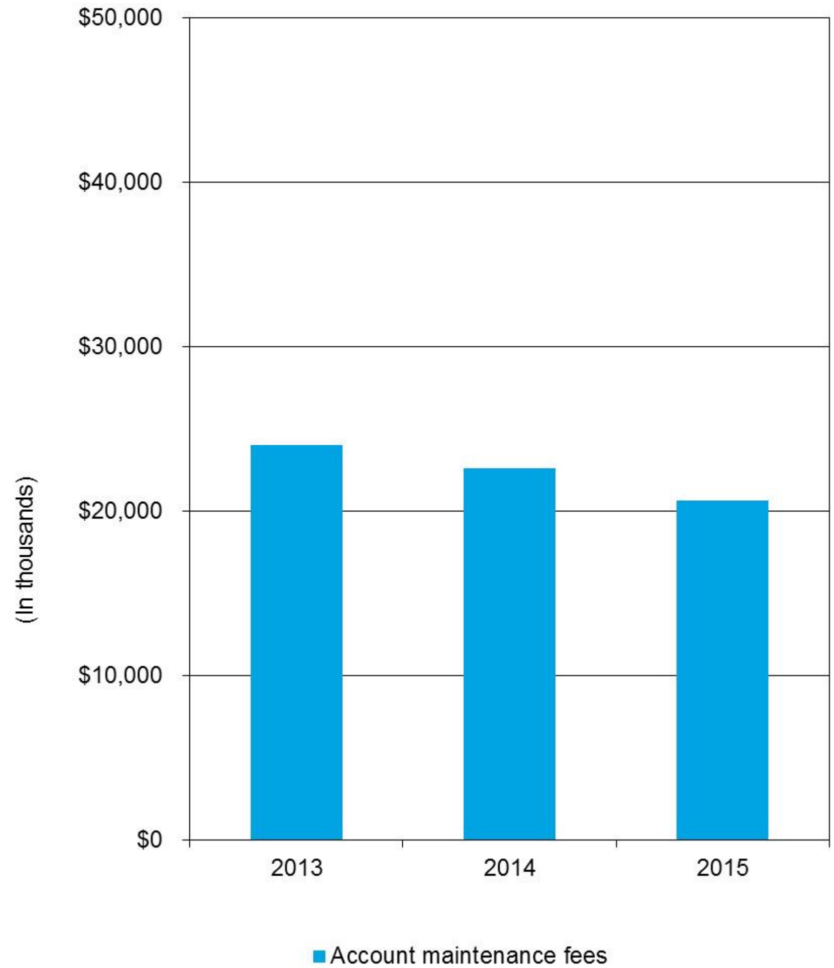
For the year ended June 30, 2015, the discount offered to eligible lenders for purchasing rehabilitation loans was $6.0 million, an increase from $2.5 million in 2014. The increase in the discount offered to eligible lenders for purchasing rehabilitation loans was due to an increase in the volume of rehabilitation loans sold at a discount. For the year ended June 30, 2015, the volume of rehabilitation loans sold at a discount was $193.6 million, a 63.9% increase from $118.1 million in 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. The increase in the collections on defaulted loans, net, was mainly due to an increase in the volume of total collections on rehabilitation loans and a decrease in the discount offered to eligible lenders for purchasing rehabilitation loans.

For the year ended June 30, 2014, total collections on rehabilitation loans were $481.5 million, a 2.1% decrease from $471.6 million in 2013.

For the year ended June 30, 2014, the discount offered to eligible lenders for purchasing rehabilitation loans was $2.5 million, a decrease from $26.6 million in 2013. The decrease in the discount offered to eligible lenders for purchasing rehabilitation loans was due to a decrease in volume of rehabilitation loans sold at a discount. For the year ended June 30, 2014, the volume of rehabilitation loans sold at a discount was $118.1 million, a decrease from $471.6 million in 2013.

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, 2015, federal fees were $20.6 million, an 8.8% decrease from $22.6 million in 2014. For the year ended June 30, 2015, the average original principal balance of outstanding loans guaranteed was $33.6 billion, an 8.9% decrease from $36.9 billion in 2014.

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 years ended June 30, 2015 and 2014, the decrease in federal fees was mainly due to a decrease in the average original principal balance of outstanding loans guaranteed.

Operating Expenses

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

(Dollars in thousands)

For years ended June 30	**2015**		2014		2013	
Personnel and benefits	$ **257,450**	**56.2%**	$ 204,071	48.8%	$ 176,080	49.0%
Professional services	**58,698**	**12.8%**	55,552	13.3%	57,976	16.1%
Information technology	**43,930**	**9.6%**	36,933	8.9%	31,880	8.9%
Mail services	**35,148**	**7.7%**	35,531	8.5%	30,142	8.4%
Depreciation	**11,789**	**2.5%**	9,827	2.3%	8,578	2.4%
Other	**51,271**	**11.2%**	76,311	18.2%	54,747	15.2%
Total operating expenses	$ **458,286**	**100.0%**	$ 418,225	100.0%	$ 359,403	100.0%

For the year ended June 30, 2015, operating expenses were $458.3 million, a 9.6% increase from $418.2 million in 2014. For the year ended June 30, 2014, operating expenses were $418.2 million, a 16.4% increase from $359.4 million in 2013. In the sections that follow, we discuss changes in personnel and benefits, professional services, information technology and other expenses.

Personnel and Benefits

The following table displays personnel and benefits expenses:

(Dollars in thousands)

For years ended June 30,	**2015**		2014		2013	
Personnel and Benefits						
Compensation	$ **156,024**	**60.6%**	$ 138,419	67.8%	$ 124,646	70.8%
Pension expense	**41,662**	**16.2%**	18,709	9.2%	12,028	6.8%
Health care benefits for employees and retirees	**35,933**	**14.0%**	27,992	13.7%	24,566	13.9%
Independent contractor fees	**15,849**	**6.2%**	11,663	5.7%	8,099	4.6%
Employer's share of Social Security	**11,296**	**4.4%**	10,152	5.0%	9,090	5.2%
Capitalized software development costs	**(4,551)**	**(1.8%)**	(4,229)	(2.1%)	(3,593)	(2.0%)
Other	**1,237**	**0.4%**	1,365	0.7%	1,244	0.7%
Total personnel and benefits	$ **257,450**	**100.0%**	$ 204,071	100.0%	$ 176,080	100.0%

For the year ended June 30, 2015, personnel and benefits costs were $257.5 million, a 26.2% increase from $204.1 million in 2014. 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. A discussion on the changes in personnel and benefit costs follows.

Compensation

For the year ended June 30, 2015, compensation costs were $156.0 million, a 12.7% increase from $138.4 million in 2014. For the year ended June 30, 2015, our average full-time employee (FTE) count was 3,335, a 12.1% increase from 2,975 in 2014.

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 FTE count was 2,975, a 9.7% increase from 2,711 in 2013.

For the years ended June 30, 2015 and 2014, the increase in compensation costs was due to an increase in personnel and management and union pay increases.

Pension expense

For the year ended June 30, 2015, pension expense was $41.6 million, an increase from $18.7 million in 2014. The increase in pension expense was due to an increase in our statutorily required contributions and the adoption and implementation of GASB 68 on July 1, 2014. GASB 68 replaced the requirements of GASB 27 and now requires cost-sharing employers to record their proportionate share of collective pension expense. Prior to July 1, 2014, GASB 27 required cost-sharing employers to record only their statutorily required contributions.

In the sections that follow is a more detailed discussion on our statutorily required contributions and our proportionate share of collective pension expense.

Statutorily required contributions:

For the year ended June 30, 2015, our statutorily required contributions to SERS were $26.7 million, a 42.8% increase from $18.7 million in 2014. The increase in our statutorily required contributions was due to an increase in the employer's contribution rate and an increase in personnel, as discussed above under "*Compensation*". For the year ended June 30, 2015, the employer's contribution rate for the "AA" Class of Service employees was 19.92%, a 31.7% increase from 15.12% in 2014. The majority of our employees fall under the "AA" Class of Service.

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

Proportionate share of collective pension expense:

For the year ended June 30, 2015, our proportionate share of collective pension expense was $41.6 million compared to zero in 2014. The increase in our proportionate share of collective pension expense was due to the adoption and implementation of GASB 68. On June 24, 2015, SERS released the Hay Group's GASB 68 valuation, which included our proportionate share of pension plan costs (net pension liability, deferred outflow of resources, deferred inflow of resources and pension expense). PHEAA's proportionate share of collective pension expense was $41.6 million, which was $14.9 million more than our statutorily required contributions to SERS of $26.7 million. See **Note 4 – Change in Accounting Principle** and **Note 10 – Retirement and Other Postemployment Benefits** for more details.

Healthcare Benefits for Employees and Retirees

For the year ended June 30, 2015, healthcare benefits for employees and retirees were $35.9 million, a 28.2% increase from $28.0 million in 2014. 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 permanent full-time and wage employees. For the year ended June 30, 2015, the employer's share of healthcare costs for permanent full-time employees was $455 per full-time employee per pay period, a 7.1% increase from $425 per full-time employee per pay period in 2014. In order to comply with the Affordable Healthcare Act ("ACA"), effective, January 1, 2015, we began to offer healthcare benefits to wage employees. Our share of healthcare costs for wage employees was $266 per wage employee per pay period.

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 was $425 per employee per pay period, a 9.0% increase from $390 per employee per pay period.

Independent Contractors Fees

For the year ended June 30, 2015, independent contractor fees were $15.8 million, a 35.0% increase from $11.7 million in 2014. The increase in independent contractor fees was due to an increase in information technology and internal audit contractors. For the year ended June 30, 2015, our average FTE count for independent contractors was 91, a 24.7% increase from 73 in 2014.

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 FTE count for independent contractors was 73, a 23.7% increase from 59 in 2013.

Professional Services

The following table displays professional services expenses:

(Dollars in thousands)

For the years ended June 30,		**2015**			2014			2013	
Professional Services									
Collection agency fees	$	**33,601**	**57.2%**	$	39,248	70.6%	$	41,592	71.7%
Legal fees		**14,106**	**24.0%**		7,045	12.7%		7,647	13.2%
Default aversion outsourcing fees		**3,667**	**6.2%**		3,755	6.7%		3,611	6.2%
Audit fees		**2,438**	**4.2%**		2,090	3.8%		1,678	2.9%
Consulting fees		**2,011**	**3.5%**		1,604	2.9%		706	1.2%
Other professional services		**2,875**	**4.9%**		1,810	3.3%		2,742	4.8%
Total professional services	$	**58,698**	**100.0%**	$	55,552	100.0%	$	57,976	100.0%

For the year ended June 30, 2015, professional services were $58.7 million, a 5.6% increase from $55.6 million in 2014. The increase in professional services was mainly due to a decrease in collection agency fees, which was offset by increases in legal fees. The decrease in collection agency fees was due to a decrease in total volume collected by third party vendors. The increase in legal fees was due to the preparation of legal documents in connection with the September 18, 2014 and the April 22, 2015 bond refundings, the execution of various borrowing requests on our warehouse lines of credit and on-going legal matters.

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.

Information Technology

The following table displays information technology expenses:

(Dollars in thousands)

For the year ended June 30,	**2015**		2014		2013	
Information Technology						
PC software, licenses and rentals	**$ 21,329**	**48.6%**	$ 15,857	42.9%	$ 13,399	42.0%
Equipment purchases, rentals and maintenance	**16,169**	**36.8%**	15,094	40.9%	13,458	42.2%
Other information technology	**6,432**	**14.6%**	5,982	16.2%	5,023	15.8%
Total information technology	**$ 43,930**	**100.0%**	$ 36,933	100.0%	$ 31,880	100.0%

For the year ended June 30, 2015, information technology was $43.9 million, a 19.0% increase from $36.9 million in 2014. For the year ended June 30, 2014, information technology was $36.9 million, a 15.7% increase from $31.9 million in 2013.

For the years ended June 30, 2015 and 2014, the increase in information technology was due to an increase in equipment purchases, software licenses and rentals.

Other

The following table displays other expenses:

(Dollars in thousands)

For the year ended June 30,	**2015**		2014		2013	
Other expenses						
Net realizable value adjustment in amounts due from the Federal Fund	**$ 14,289**	**27.9%**	$ 24,202	31.7%	$ 11,623	21.2%
Bond issuance costs and bank fees	**12,916**	**25.2%**	22,747	29.8%	15,210	27.8%
Buildings and grounds	**7,093**	**13.8%**	6,333	8.3%	5,116	9.3%
Telephone	**6,506**	**12.7%**	5,908	7.7%	4,683	8.6%
Servicing liability	**1,113**	**2.2%**	2,340	3.1%	1,180	2.2%
Other G&A	**9,354**	**18.2%**	14,781	19.4%	16,935	30.9%
Total other expenses	**$ 51,271**	**100.0%**	$ 76,311	100.0%	$ 54,747	100.0%

For the year ended June 30, 2015, other expenses were $51.3 million, a 32.8% decrease from $76.3 million in 2014. For the year ended June 30, 2014, other expenses were $76.3 million, a 39.5% increase from $54.7 million in 2013.

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, 2015, the net realizable value ("NRV") adjustment in amounts due from the Federal Fund was $14.3 million, a 40.9% decrease from $24.2 million in 2014. The decrease in the NRV adjustment in amounts due from the Federal Fund was due to a change in the amounts due to PHEAA from the Federal Fund compared to the adjusted net position (total assets less accounts payable and accrued expenses) of the Federal Fund.

For the year ended June 30, 2014, the 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 adjusted net position of the Federal Fund. As of June 30, 2014, the adjusted net position of the Federal Fund was $90.8 million and the amounts due to PHEAA were $120.6 million. Therefore, a $29.8 million adjustment was necessary to reduce the amounts due to PHEAA to their NRV. Additionally, we wrote-off $6.0 million of our receivable that was determined to be not collectible.

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, 2015, bond issuance costs and bank fees were $12.9 million, a 43.2% decrease from $22.7 million in 2014. The decrease in bond issuance and bank fees was mainly due to a decrease in bond issuance fees. For the year ended June 30, 2015, we expensed $9.1 million of bond issuance fees associated with bond refundings that took place on September 18, 2014 and April 22, 2015. For the year ended June 30, 2014, we expensed $17.1 million of bond issuance fees associated with 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, 2014, bond issuance costs and bank fees were $22.7 million, a 49.3% increase from $15.2 million in 2013. The increase in bond issuance costs and bank fees 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.

Changes in Net Position

The following table shows the changes in net position:

(Dollars in thousands)

For the years ended June 30,		2015	2014	2013
Income before grants and financial aid	$	**110,693**	222,119	243,918
Commonwealth of Pennsylvania grants		**403,616**	397,293	396,784
Federal grants		**1,572**	1,876	2,435
Grants and other financial aid, net of refunds		**(470,533)**	(485,789)	(495,243)
Grant funds returned to the Commonwealth		**-**	-	(88)
Total grants and financial aid		**(65,345)**	(86,620)	(96,112)
Changes in net position	$	**45,348**	135,499	147,806

Commonwealth of Pennsylvania Grants

For the year ended June 30, 2015, Commonwealth of Pennsylvania grants were $403.6 million, a 1.6% increase from $397.3 million in 2014. 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.

For the years ended June 30, 2015 and 2014, the increase was due to the timing of funds received from the Commonwealth.

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,		**2015**	2014	2013
Pennsylvania State Grant Program, net of refunds	$	**401,339**	424,612	435,505
Institutional Assistance Grant Program, net of refunds		**24,643**	24,332	24,204
Matching Funds Grant Program, net of refunds		**11,914**	11,241	14,165
Pennsylvania National Guard Education Assistance Program, net of refunds		**11,828**	10,779	10,427
Pennsylvania Distance Education Program, net of refunds		**7,313**	5,750	-
Pennsylvania Ready to Succeed Scholarship Program, net of refunds		**4,806**	-	-
Pennsylvania Targeted Industry Cluster Certificate Scholarship Program, net of refunds		**4,373**	5,146	4,434
Higher Education for the Disadvantaged Program, net of refunds		**2,537**	2,002	2,456
Other Programs, net of refunds		**1,780**	1,927	4,052
Total grants and other financial aid, net of refunds	$	**470,533**	485,789	495,243

For the year ended June 30, 2015, grants and other financial aid, net of refunds, were $470.5 million, a 3.1% decrease from $485.8 million during 2014. For the year ended June 30, 2015, the change in grants and other financial aid, net of refunds, was mainly due to the timing of funds disbursed from various programs, since a majority of the programs were level funded based on prior year amounts. The increase in the Pennsylvania Ready to Succeed Scholarship Program was due to this program being introduced during the current fiscal year by the Commonwealth.

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, 2014, the changes in grants and other financial aid, net of refunds, was due to the timing of funds being disbursed from the various programs, since the Commonwealth level funded these programs based on prior year amounts.

Debt Activity and Capital Assets

Debt Activity

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

(Dollars in thousands)

As of June 30,		**2015**	2014	2013
Deferred outflow of resources:				
Deferred loss on bond refundings	$	**2,013**	2,728	5,140
Current liabilities:				
Student loan financings	$	**903,779**	444,140	165,963
Other financings		**3,745**	3,660	3,635
Long-term liabilities:				
Student loan financings, net	$	**5,852,233**	6,621,556	7,303,247
Other financings, net		**35,290**	39,772	49,071
Deferred inflow of resources:				
Deferred gain on bond refundings	$	**168,779**	192,404	209,652

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, 2015, our outstanding debt, excluding our blended component units, the deferred gain and loss on bond refundings, premiums and discounts on bonds, amounted to $1.4 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, 2015, the outstanding debt of our blended component units was $5.5 billion, which was related to the student loan trusts. See **Note 13 – Blended Component Units** for more details on the student loan trusts.

As of June 30, 2014, our outstanding debt, excluding our blended component units, the deferred gain on bond refundings, premiums and discounts on bonds, 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.

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

(Dollars in thousands)

For the years ended June 30		**2015**	2014	2013
Capital market activity				
Proceeds from issuing student loan floating rate notes	$	**1,279,519**	2,022,952	1,118,548
Repayment of student loan auction rate security bonds		**(1,412,800)**	(835,500)	(1,002,405)
Repayment of student loan floating rate notes		**(838,030)**	(589,022)	(502,860)
Student loan financing activity				
Proceeds from student loan financings		**1,649,158**	891,266	1,580,645
Repayment of student loan financings		**(989,519)**	(1,566,087)	(572,576)
Repayment of student loan variable rate funding notes		**-**	(319,006)	(616,770)
Capital financing activity				
Repayment of capital lease obligations		**-**	(76)	(73)
Other financing activity				
Proceeds from issuing capital acquisition refunding bonds		**-**	-	41,949
Repayment of term and other financings		**-**	(4,827)	(93,872)
Repayment of capital acquisition refunding bonds		**(3,660)**	(3,635)	-

2015 Debt Activity

Capital Market Activity & Student Loan Financing Activity

For the year ended June 30, 2015, the $1.3 billion in the capital market activity proceeds was due to the PHEAA Student Loan Trust 2014-3 bond issuance on September 18, 2014 and the PHEAA Student Loan Trust 2015-1 bond issuance on April 22, 2015. The $2.3 billion in the capital market activity repayments was due to the refunding of the 1997 Master Trust and scheduled debt payments.

For the year ended June 30, 2015, the $1.6 billion in the student loan financing activity proceeds was due to the execution of various borrowing notices through our warehouse lines of credit. The funds from the warehouse lines of credit were used in the bond refunding of the 1997 Master Trust. The $989.5 million in the student loan financing activity repayments was due to the repayment of funds on our warehouse lines of credit and scheduled debt payments.

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

Other Financing Activity

For the year ended June 30, 2015, the $3.7 million in other financing activity repayments was due to required principal and interest payments on the Capital Acquisition Refunding Bonds, Series of 2012.

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.

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,		**2015**	2014	2013
Land	$	**8,038**	2,946	2,946
Buildings and improvements, net		**33,371**	32,811	34,586
Software development, net		**9,305**	8,400	7,397
Purchased software, net		**8,806**	4,441	4,545
IT equipment, net		**8,663**	7,056	4,625
Other, net		**7,776**	5,985	6,469
	$	**75,959**	61,639	60,568

As of June 30, 2015, capital assets, net of accumulated depreciation, were $76.0 million, a 23.4% increase from $61.6 million as of June 30, 2014. The increase in capital assets, net of accumulated depreciation, was mainly due to the purchase of land, software and IT equipment. The land purchase will be used for the future site of a parking lot at our headquarters site.

As of June 30, 2014, capital assets, net of accumulated depreciation, were $61.6 million, a 1.7% increase from $60.6 million as of June 30, 2013. The increase in capital assets, net of accumulated depreciation, was mainly due to the purchase of IT equipment and software development.

Net Position

The following table shows our net position (restricted and unrestricted).

(Dollars in thousands)

As of June 30,		2015	2014	2013
Net investment in capital assets	$	**75,959**	61,639	60,492
Restricted for debt service		**263,381**	216,916	249,962
Restricted for financial aid grant programs		**61,478**	41,110	36,647
Unrestricted		**403,202**	709,038	546,103
	$	**804,020**	1,028,703	893,204

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, 2015, the net investment in capital assets was $76.0 million, a 23.4% increase from $61.6 million as of June 30, 2014. The increase in net investment in capital assets was mainly due to the purchase of land, software and IT equipment.

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 IT equipment and software development.

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, 2015, we had net position restricted for debt service of $263.4 million, a 21.4% increase from $216.9 million as of June 30, 2014. The increase in net position restricted for debt service was due to $55.7 million of operating income restricted for debt service, which was offset by $9.2 million of transfers to unrestricted net position. See **Note 12 - Segment Information** for more details.

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.

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, 2015, we had net position restricted for financial aid grant programs of $61.5 million, a 49.6% increase from $41.1 million as of June 30, 2014. The increase in net position restricted for financial aid grant programs was mainly due to $632.7 thousand of operating income restricted for financial aid grant programs, $405.2

million of grant funding, and $75.0 million in transfers from the Pennsylvania State Grant Program Supplement fund (unrestricted), which were offset by $458.7 million of grant disbursements, net of refunds, $1.0 million of transfers to the Pennsylvania Distance Education Program Supplement fund (unrestricted) and $771 thousand of transfers from the Pennsylvania Higher Education Foundation (restricted for financial aid grant programs) to the PHEAA Discretionary Fund (unrestricted).

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.

Unrestricted

Under Commonwealth law, our statutory purpose is to increase higher education opportunities for Pennsylvania residents. Net position that we report as unrestricted is statutorily restricted to our purpose. The Higher Education Act 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, 2015, we had unrestricted net position of $403.2 million, a 43.1% decrease from $709.0 million as of June 30, 2014. The decrease in unrestricted net position was due to unrestricted operating income of $54.3 million, $9.2 million of funds transferred from net position restricted for debt service, $1.0 million of funds transferred from the Pennsylvania State Grant Program (restricted for financial aid grant programs) to the Pennsylvania Distance Education Supplement Fund (unrestricted), $771 thousand of funds transferred from the Pennsylvania Higher Education Foundation (restricted for financial aid grant programs) to the PHEAA Discretionary Fund (unrestricted), which was offset by the $270.0 million cumulative effect of changing to a new accounting principle with the adoption and implementation of GASB 68 and GASB 71, $75.0 million of transfers to the Pennsylvania State Grant Program (restricted for financial aid grant programs), $14.3 million of funds transferred to net investments in capital assets and $11.8 million of net grant disbursements,.

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).

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,		2015	2014	2013
Additions				
Reinsurance from the U.S. Department of Education	$	**1,139,315**	1,266,444	1,235,105
Collections on defaulted loans		**765,731**	764,407	774,137
Transfers of guarantee reserves		**(3)**	(95)	3,535
Net appreciation in fair value of investments		**36**	24	24
Total additions		**1,905,079**	2,030,780	2,012,801
Deductions				
Purchases of defaulted loans from lenders		**1,181,082**	1,313,693	1,282,000
Reimbursement to U.S. Department of Education for federal share of defaulted loans collections		**603,212**	533,417	545,989
Reimbursement to PHEAA for our retention of defaulted loans collections		**96,456**	204,175	207,365
Default aversion fees, net		**9,306**	10,591	11,756
Total deductions		**1,890,056**	2,061,876	2,047,110
Net increase (decrease)		**15,023**	(31,096)	(34,309)
Net liabilities, beginning of period		**(201,841)**	(170,745)	(136,436)
Net liabilities, end of period	$	**(186,818)**	(201,841)	(170,745)

For the year ended June 30, 2015, purchases of defaulted loans were $1.2 billion, a 7.7% decrease from $1.3 billion in 2014. For the years ended June 30, 2014 and 2013, purchases of defaulted loans were $1.3 billion.

Under the Higher Education Act of 1965, as amended, Section 428(c)(9)(A), we are required to maintain a current minimum reserve level of at least 0.25% of the total attributable amount of all outstanding loans guaranteed. 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.

On December 10, 2014, Federal Student Aid, an office of ED, issued a letter informing Guaranty Agencies of the changes ED is making to certain reporting requirements for federal fiscal year 2015. One of the changes was to the methodology for calculating the minimum Federal Reserve Ratio, because the previous methodology did not meet statutory goals. Beginning with federal fiscal year 2015, the minimum Federal Reserve Ratio is calculated without adding allowances and other non-cash charges back to the Federal Fund. The minimum Federal Reserve Ratio is calculated as follows: Federal Fund Balance (Form 2000 AR26) divided by Original Principal Outstanding.

The table that follows displays our calculation of the Federal Reserve Ratio. 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 in the following table were agreed to in a management plan approved by ED on May 22, 2007.

(Dollars in thousands)		**As of June 30, 2015**	As of September 30, 2014
Generally accepted accounting principles – net position	$	**(186,818)**	(170,686)
Gain contingency – default aversion fee rebate payable from PHEAA to the Federal Fund		**3,135**	3,675
Gain contingency – collections complement on future default collections		**120,745**	107,838
Default aversion fees payable to PHEAA, but not transferred from the Federal Fund to PHEAA		**183,204**	175,382
Loan loss provision		**(24,629)**	-
Federal Fund balance	$	**95,636**	116,209
Original principal outstanding	$	**31,898,600**	34,408,523
Federal reserve ratio		**0.30%**	0.34%

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.

Phone – (717) 720-7890
Fax – (717) 720-3923
Email – finmgt@pheaa.org

September 23, 2015

Ernst & Young LLP
621 East Pratt Street
Baltimore, MD 21202

Building a better working world

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, 2015 and 2014, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PHEAA as of June 30, 2015 and 2014, and the changes in its financial position and its 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, as of July 1, 2014 PHEAA adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions*" and GASB Statement No. 71, "*Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*" 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, the required schedules of PHEAA's proportionate share of the net pension liability and PHEAA's contributions on pages 2 through 41 and 89 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

Baltimore, Maryland
September 23, 2015

(Dollars in thousands)

		2015	2014
Operating revenues and expenses			
Interest revenue			
Student loans	$	**154,985**	154,029
Investments		**5,679**	13,419
Total interest revenue		**160,664**	167,448
Interest expense			
Student loan financings		**42,058**	53,300
Other financings		**580**	1,994
Total interest expense		**42,638**	55,294
Net interest revenue		**118,026**	112,154
Provision for loan losses		**(7,152)**	(8,064)
Net interest revenue after provision for loan losses		**110,874**	104,090
Noninterest revenue			
Servicing fees		**307,922**	295,537
Retention of collections on defaulted loans, net		**130,975**	207,688
Federal fees		**20,634**	22,567
Gains on debt retirement		**129**	9,681
(Loss) gain on student loans sales, net		**(752)**	3,099
Other		**(571)**	(2,493)
Total noninterest revenue		**458,337**	536,079
Operating revenues		**569,211**	640,169
Operating expenses			
Personnel and benefits		**257,450**	204,071
Professional services		**58,698**	55,552
Information technology		**43,930**	36,933
Mail services		**35,148**	35,531
Depreciation		**11,789**	9,827
Other		**51,271**	76,311
Total operating expenses		**458,286**	418,225
Operating income		**110,925**	221,944
Non-operating gains			
(Loss) gain on sale of capital assets		**(232)**	175
Income before grants and financial aid		**110,693**	222,119
Grants and financial aid			
Commonwealth of Pennsylvania grants		**403,616**	397,293
Federal grants		**1,572**	1,876
Grants and other financial aid, net of refunds		**(470,533)**	(485,789)
Total grants and financial aid		**(65,345)**	(86,620)
Changes in net position		**45,348**	135,499
Net position, beginning of period **(restated)**		**758,672**	893,204
Net position, end of period	$	**804,020**	1,028,703

See accompanying notes to financial statements.

Statements of Net Position
As of June 30,
(Dollars in thousands)

		2015	2014
Current assets:			
Cash and cash equivalents	$	**70,238**	191,258
Restricted cash and cash equivalents		**257,751**	260,705
Restricted cash and cash equivalents – due to customers		**64,470**	57,132
Investments		**562,145**	478,556
Restricted investments		**60,218**	37,244
Student loans receivable		**1,095,033**	947,152
Interest income receivable		**94,657**	104,309
Due from Federal Student Loan Reserve Fund, net		**69,349**	90,768
Federal Student Loan Reserve Fund assets held for U.S. Department of Education, net		**69,349**	90,768
Other assets		**47,477**	46,898
Total current assets		**2,390,687**	2,304,790
Long-term assets:			
Student loans receivable, net		**5,819,102**	6,245,917
Capital assets, net		**75,959**	61,639
Total long-term assets		**5,895,061**	6,307,556
Total assets		**8,285,748**	8,612,346
Deferred outflow of resources:			
Deferred outflows of resources related to pensions		**39,948**	**-**
Deferred loss on bond refundings		**2,013**	2,728
Total deferred outflow of resources		**41,961**	2,728
Current liabilities:			
Accounts payable and accrued expenses		**144,122**	175,118
Student loan financings		**903,779**	444,140
Amounts related to the Federal Student Loan Reserve Fund		**69,349**	90,768
Other financings		**3,745**	3,660
Total current liabilities		**1,120,995**	713,686
Long-term liabilities:			
Student loan financings, net		**5,852,233**	6,621,556
Net pension liability		**323,866**	-
Other financings, net		**35,290**	39,772
Accrued expenses		**21,007**	18,405
Total long-term liabilities		**6,232,396**	6,679,733
Total liabilities		**7,353,391**	7,393,419
Deferred inflow of resources:			
Deferred gain on bond refundings		**168,779**	192,404
Deferred inflows of resources related to pensions		**1,068**	-
Deferred gain on sales leaseback		**451**	548
Total deferred inflow of resources		**170,298**	192,952
Net position:			
Net investment in capital assets		**75,959**	61,639
Restricted for debt service		**263,381**	216,916
Restricted for financial aid grant programs		**61,478**	41,110
Unrestricted		**403,202**	709,038
Total net position	$	**804,020**	1,028,703

See accompanying notes to financial statements.

(Dollars in thousands)

		2015	2014
Cash flows from operating activities			
Interest received on student loans	$	**62,104**	67,320
Principal received on student loans		**1,138,959**	1,011,505
Student loan purchases		**(955,589)**	(825,128)
Student loan sales, including net gains and losses		**191,621**	357,673
Servicing fees		**306,941**	294,647
Retention of collections on defaulted loans		**152,393**	195,502
Federal fees		**21,166**	22,999
Default aversion fee rebates		**(4,865)**	(3,066)
Other		**1,187**	9,783
Payment of operating expenses		**(453,805)**	(347,509)
Net cash provided by operating activities		**460,112**	783,726
Cash flows from noncapital financing activities			
Proceeds from the issuance of noncapital debt		**2,928,677**	2,914,218
Principal paid on noncapital debt		**(3,244,009)**	(3,318,077)
Interest paid on noncapital debt		**(66,948)**	(81,721)
Bond issuance costs		**(9,141)**	(17,125)
Commonwealth of Pennsylvania grants received		**403,616**	397,293
Federal grants received		**1,572**	1,876
Grants and financial aid paid		**(470,533)**	(485,789)
Net cash used for noncapital financing activities		**(456,766)**	(589,325)
Cash flows from capital and related financing activities			
Purchases of capital assets and development of software, net of disposals		**(26,438)**	(10,723)
Principal paid on capital lease obligations		**-**	(76)
Net cash used for capital and related financing activities		**(26,438)**	(10,799)
Cash flows from investing activities			
Proceeds from sales and maturities of investments		**853,293**	1,615,608
Purchases of investments		**(958,169)**	(1,674,466)
Interest received on investments		**3,994**	3,545
Net cash used for investing activities		**(100,882)**	(55,313)
Net change in cash and cash equivalents (including restricted cash)		**(123,974)**	128,289
Cash and cash equivalents (including restricted cash), beginning of period		**451,963**	323,674
Cash and cash equivalents (including restricted cash), end of period	$	**327,989**	451,963

(continued)

(Dollars in thousands)

		2015	2014
Reconciliation of operating income to net cash provided by operating activities			
Operating income	$	**110,925**	221,944
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		**11,789**	9,827
Interest paid on noncapital debt		**66,948**	81,721
Investment interest		**(5,679)**	(13,419)
Bond issuance costs		**9,141**	17,125
Pension expense in excess of contributions		**14,956**	-
Amortization of premium on loan purchases		**3,310**	8,134
Amortization of deferred gain on bond refunding		**(22,910)**	(23,944)
Amortization of deferred discount on bonds payable		**1,987**	992
Amortization of deferred premium on other financings		**(737)**	(812)
Amortization of loan origination costs		**-**	(82)
Changes in assets and liabilities:			
Decrease in interest income receivable		**9,651**	13,200
Decrease in student loans receivable		**275,624**	440,009
Decrease (increase) in amounts due from Federal Student Loan Reserve Fund		**21,419**	(12,186)
Increase in other assets		**(579)**	(1,217)
(Decrease) increase in accounts payable and accrued expenses		**(35,733)**	42,434
Total adjustments		**349,187**	561,782
Net cash provided by operating activities	$	**460,112**	783,726

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 Comprehensive 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 Governor of Pennsylvania must approve our debt 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.

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 under the laws of the State of Delaware. The principal purpose of the 2014-3 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 2014-3 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 2014-3 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2014-3 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2014-3 Trust with the Foundation. In addition, the 2014-3 Trust is a blended component unit of the Foundation, because the 2014-3 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2014-3 Trust are consolidated with the financial results of the Foundation.

PHEAA Student Loan Trust 2015-1

On January 15, 2015, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2015-1 (“2015-1 Trust”), a statutory trust under the laws of the State of Delaware. The principal purpose of the 2015-1 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 2015-1 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 2015-1 Trust is legally separate and fiscally independent from the Foundation. However, we determined that the 2015-1 Trust should be a component unit in order to keep our financial reports from being misleading due to the material relationship of the 2015-1 Trust with the Foundation. In addition, the 2015-1 Trust is a blended component unit of the Foundation, because the 2015-1 Trust provides services entirely to the Foundation. As a blended component unit, the financial results of the 2015-1 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.

On March 18, 2015, the Board of Directors authorized the dissolution of PHEF. As part of the dissolution of PHEF, all of the PHEF assets and all funds in its possession that have not been paid or set aside for PHEF's obligations are to be paid to the PHEAA, for its public purposes. On June 8, 2015, PHEF entered into an "Assignment of Rights Incident to Dissolution Agreement" with PHEAA.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Accounting

We follow the accounting guidance issued by the Governmental Accounting Standards Board ("GASB"). We prepare our financial statements based on the governmental proprietary fund (enterprise fund) reporting concept, which follows the economic resources measurement focus and accrual basis of accounting. The proprietary fund financial reporting concept focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows.

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, deferred outflow of resources, liabilities, deferred inflow of resources, net position, 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 of 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, net of consolidation rebate fees, government interest, special allowance interest, amortization of student loan purchase premiums and discounts, and write offs and recoveries.

We are required to pay the United States Department of Education ("ED") a monthly Consolidation Loan Rebate Fee as a holder of Federal Consolidation loans. The Consolidation Loan Rebate Fee is equal to 0.0875% 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%. 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% on a monthly basis or 0.62% on an annual basis. We record the payment of Consolidation Loan Rebate Fees as an offset to student loan income.

We earn interest subsidies and special allowance payments on certain FFEL program 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 income.

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 income.

The premium or discount on student loans purchases are calculated based on the difference between carrying value and the purchase price of the student loans at the time of purchase. The premium or discount of student loans is amortized over the estimated life of the student loan portfolio. We record the amortization of the student loan purchase premium or discount as student loan income.

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 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. Retention of collections on defaulted loan rates are based upon the Higher Education Act, as amended, and revenue is earned when collected.

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 Trust I, 2011-1 Trust, 2012-1 Trust, 2013-1 Trust, 2013-2 Trust, 2013-3 Trust, 2014-1 Trust, 2014-2 Trust, 2014-3 Trust, 2015-1 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 – Recently Issued GASB Pronouncements

During 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application* ("GASB 72"). This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for periods beginning after June 15, 2015. Currently, we are evaluating the impact of this Statement on our financial statements.

During 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). This Statement replaces the requirements of GASB Statements No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017, and earlier application is encouraged. Currently, we are evaluating the impact of this Statement on our financial statements.

During 2015, the GASB issued Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes GASB Statement No. 55 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted. Currently, we are evaluating the impact of this Statement on our financial statements.

Note 4 – Change in Accounting Principle

On July 1, 2014, we adopted GASB 68 and GASB 71. GASB 68 requires cost-sharing employers to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. GASB 68 states that in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods and financial statements presented for the period affected should be restated. GASB 68 further states that when adopting this Statement it may not be practical for some governments to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions at the beginning of the period. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. If restatement of all prior periods presented is not practical, the “cumulative effect” of applying this Statement should be reported as a restatement of beginning net position for the earliest period restated.

We contribute to the Commonwealth’s State Employees Retirement System (“SERS”). SERS is a component unit organization of the Commonwealth and is the administrator of a cost-sharing multiple employer defined benefit retirement plan that was established to provide pension benefits for Commonwealth employees and certain other organizations. On December 10, 2014, SERS released a “special valuation” on the cost-sharing multiple-employer defined benefit pension plan for calendar year ended December 31, 2013, and our proportionate share of the Commonwealth’s net pension liability was $279.2 million. SERS stated that the information contained within the special valuation should be considered “informational” and the only amount intended for use in creating a journal entry was the net pension liability. In addition, SERS stated they did not have a practical way to provide each of the cost-sharing employers with all of the information needed to fully restate their prior period financial statements, and as an alternative, the net pension liability should be used in applying the cumulative effect method as discussed in GASB 68. Therefore, we applied the “cumulative effect” method by restating beginning net position for the earliest period restated.

The objective of GASB 71 is to address an issue regarding the application of the transition provisions of GASB 68. The issue in GASB 68 relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement requires 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 but before the start of the government’s fiscal year. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB 68. We recorded a $9.2 million deferred outflow of resources for our pension contributions made subsequent to the December 31, 2013 measurement date of the beginning net pension liability.

As of July 1, 2014, the cumulative effect of adopting GASB 68 and GASB 71 was a $270.0 million net reduction to beginning unrestricted net position. In the following table, we show the impact of the “cumulative effect” method of adopting and implementing GASB 68 and GASB 71 on beginning net position.

(Dollars in thousands)

Statement of Revenue, Expenses and Changes in Net Position		
Net position, beginning of period, July 1, 2014	$	1,028,703
Cumulative effect of adopting GASB 68 and 71		(270,031)
Net position, beginning of period, July 1, 2014 (**as restated**)	$	758,672

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,		2015	2014
Assets			
Cash	$	**24,506**	27,465
Receivable from the U.S. Department of Education		**52,544**	73,954
Other receivables		**134**	850
Total assets		**77,184**	102,269
Liabilities			
Accounts payable and accrued expenses		**7,835**	11,501
Amounts payable to PHEAA		**256,167**	292,609
Total liabilities		**264,002**	304,110
Net liabilities	$	**(186,818)**	(201,841)

Under the Higher Education Act of 1965, as amended, (HEA) we are to act as a fiduciary in managing the assets of the Federal Fund. Under HEA, Section 428(c)(9)(A), we are required to maintain a current minimum reserve level of at least 0.25% of the total attributable amount of all outstanding loans guaranteed. 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, 2015, 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, 2015, we reported $69.3 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 the difference between the Federal Fund’s total assets and accounts payable and accrued expenses, excluding amounts payable to PHEAA.

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.

(Dollars in thousands)

As of June 30,		2015	2014
Cash and cash equivalents	$	**70,238**	191,258
Restricted cash and cash equivalents		**257,751**	260,705
Restricted cash and cash equivalents – due to customers		**64,470**	57,132
Investments		**562,145**	478,556
Restricted investments		**60,218**	37,244
Carrying value	$	**1,014,822**	1,024,895

The following table shows the fair value and maturities of our cash equivalents and investments.

(Dollars in thousands)

			Maturities (in years)		
As of June 30, 2015		Fair Value	Less than 1	1 to 10	More than 10
Cash equivalents					
Money market funds	$	318,485	318,485	-	-
Federal agency discount notes		61,251	61,251		
Commercial paper		21,694	21,694	-	-
	$	401,430	401,430	-	-
Investments					
State Treasury investment pool	$	622,363	622,363	-	-
		622,363	622,363	-	-
Total cash equivalents and investments	$	1,023,793	1,023,793	-	-

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, 2015, our investment in Pool 99 was $491.1 million, a 28.5% increase from $382.1 million in 2014.

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, 2015, our investment in Pool 198 was $131.2 million, a 3.5% increase from $126.8 million in 2014.

For more information on Pools 99 and 198, see the Pennsylvania Treasury "Annual Investment Report for Fiscal Year Ended June 30, 2014" (latest available), which can be found at www.patreasury.gov/reports/investments.html.

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

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, 2015, all of our investments in commercial paper were rated A-1 and higher. As of June 30, 2015, all of our investments in money market funds were rated AAAm. As of June 30, 2015, $622.4 million was invested in the State Treasury investment pool, and the investment pool was not rated.

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 had $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.

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, 2015, we had $19.9 million of cash deposits with financial institutions of which $19.6 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, 2015, our investment in federal agency discount notes (FHLB) represented 6.0% of our total cash equivalents and investments. 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,		2015	2014
FFEL:			
Consolidation	$	**5,396,113**	5,654,677
Stafford		**1,325,486**	1,325,199
PLUS		**142,308**	145,295
Supplemental Loans for Students		**1,293**	1,092
		6,865,200	7,126,263
HEAL		**37,689**	50,785
Uninsured loans		**34,355**	38,482
Unamortized premium on student loan purchases		**10,434**	8,304
Unamortized discount on student loan purchases		**(12,672)**	(11,053)
		6,935,006	7,212,781
Allowance for loan losses		**(20,871)**	(19,712)
Student loans receivable, net	$	**6,914,135**	7,193,069

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 table that follows, 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,		2015	2014
Balance at beginning of period	$	**19,712**	17,084
Provision for losses – FFEL program loans		**6,536**	7,384
Provision for losses – other program loans (Non-FFEL)		**616**	680
Charge-offs		**(5,993)**	(5,436)
Balance at end of period	$	**20,871**	19,712

Note 8 – Capital Assets, net

The following tables show an analysis of the capital asset activity.

(Dollars in thousands)

As of and for the year ended June 30, 2015		Beginning Balance	Additions	Retirements	Ending Balance
Land	$	**2,946**	**5,092**	**-**	**8,038**
Buildings and improvements		**71,993**	**2,808**	**(1,039)**	**73,762**
Software development		**16,805**	**4,551**	**(2,533)**	**18,823**
Purchased software		**14,578**	**6,705**	**(2,568)**	**18,715**
Information technology equipment		**16,953**	**3,789**	**(3,419)**	**17,323**
Other equipment		**14,663**	**3,552**	**(1,302)**	**16,913**
		137,938	**26,497**	**(10,861)**	**153,574**
Less accumulated depreciation for:					
Buildings and improvements		**(39,182)**	**(1,899)**	**690**	**(40,391)**
Software development		**(8,405)**	**(3,647)**	**2,534**	**(9,518)**
Purchased software		**(10,139)**	**(2,340)**	**2,570**	**(9,909)**
Information technology equipment		**(9,897)**	**(2,143)**	**3,380**	**(8,660)**
Other equipment		**(8,676)**	**(1,762)**	**1,301**	**(9,137)**
		(76,299)	**(11,791)**	**10,475**	**(77,615)**
	$	**61,639**	**14,706**	**(386)**	**75,959**

(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
Software development		15,476	4,229	(2,900)	16,805
Purchased software		13,312	1,360	(94)	14,578
Information technology equipment		14,212	4,079	(1,338)	16,953
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)
Software development		(8,079)	(3,226)	2,900	(8,405)
Purchased software		(8,767)	(1,466)	94	(10,139)
Information technology equipment		(9,587)	(1,648)	1,338	(9,897)
Other equipment		(7,121)	(1,617)	62	(8,676)
		(70,892)	(9,826)	4,419	(76,299)
	$	60,568	1,071	-	61,639

Depreciation expense for the years ended June 30, 2015 and 2014 was $11.8 million and $9.8 million, respectively.

Note 9 – Notes and Bonds Payable and Other Financings

The following tables show the activity of our student loan and other financings.

(Dollars in thousands) As of and for the year ended June 30, 2015		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Student loan financings:						
Student loan floating rate notes, due 2020 - 2046, at weighted-average rates of 0.87% as of June 30, 2015 and 0.76% as of June 30, 2014.	$	4,953,015	1,283,600	(838,030)	5,398,585	-
Deferred gain on bond refunding of student loan floating rate notes.		192,404	-	(23,625)	168,779	-
Deferred loss on bond refunding of student loan floating rate notes.		(2,728)	-	715	(2,013)	-
Discount on student loan floating rate notes.		(12,658)	(4,081)	1,987	(14,752)	-
Student loan auction rate security bonds, due 2042 - 2045, at weighted-average rates of 1.45% as of June 30, 2015 and 1.19% as of June 30, 2014.		1,681,200	-	(1,412,800)	268,400	-
Student loan financing warehouse facilities, due 2016, at weighted-average rates of 1.01% as of June 30, 2015 and 1.13% as of June 30, 2014.		244,140	1,649,158	(989,519)	903,779	903,779
Student loan financings, due 2017, at weighted-average rates of 0.94% as of June 30, 2015 and 0.90% as of June 30, 2014.		200,000	-	-	200,000	-
Total student loan financings	$	7,255,373	2,928,677	(3,261,272)	6,922,778	903,779

(Dollars in thousands) As of and for the year ended June 30, 2015		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Other financings:						
Capital acquisition refunding bonds, Series of 2012, due 2015 – 2022, at weighted- average rates of 4.15% as of June 30, 2015 and 2014.	$	33,600	-	(3,660)	29,940	3,745
Unamortized premium on capital acquisition refunding bonds		3,552	-	(737)	2,815	-
Term financings, due 2029, at zero percent interest as of June 30, 2015 and 2014.		6,280	-	-	6,280	-
Total other financings		43,432	-	(4,397)	39,035	3,745
Total student loan and other financings	$	7,298,805	2,928,677	(3,265,669)	6,961,813	907,524

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 financings. As of June 30, 2015, $7.0 billion of student loan principal and related interest receivable and $253.3 million of cash equivalents collateralized the $6.8 billion of student loan financings.

As of June 30, 2015, the student loan financings and other 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 $29.9 million of Capital Acquisition Refunding Bonds, Series of 2012, which are recourse obligations to us.

Student loan financings

For the year ended June 30, 2015, the student loan financings had a $2.9 billion increase due to a $645.1 million bond refunding that took place on September 18, 2014, a $634.4 million bond refunding that took place on April 22, 2015 and the execution of $1.6 billion of borrowing requests through our warehouse lines of credit. The student loan financings had a $3.3 billion decrease due to the purchase of par value bonds from the 1997 Master Trust, the repayment of funds borrowed through a warehouse line of credit and scheduled debt payments. See "PHEAA Student Loan Trust 2014-3 and "PHEAA Student Loan Trust 2015-1" under "Bond Refunding" and "Executed Borrowing Request" below.

Bond Refundings

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 a student loan financing warehouse facility and release prior liens on financed student loans from various trusts.

PHEAA Student Loan Trust 2015-1

On January 15, 2015, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2015-1 ("2015-1 Trust"), a statutory trust. The 2015-1 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 April 22, 2015, the 2015-1 Trust issued $621.5 million of original principal amount of student loan asset backed notes, Class A ("Class A Notes"), at a discount, and $15.4 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 99.94%, which resulted in a discount of $380 thousand. The Class A Notes were issued with an interest rate of 1-month LIBOR plus 0.60% and a final maturity date of October 25, 2041. The Class B Notes had a price to public of 86.35%, which resulted in a discount of $2.1 million. The Class B Notes were issued with an interest rate of 1-month LIBOR plus 1.50% and a final maturity date of April 25, 2045.

The 2015-1 Trust used the proceeds from the Class A Notes and Class B Notes and the cash portion of the capital contribution to purchase approximately $640.6 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.

Executed Borrowing Notices

On June 23, 2014, PHEAA executed a borrowing notice through a financial institution, which requested a borrowing of $73.0 million with a July 8, 2014 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $81.1 million (principal and interest) of par value student loans pledged by PHEAA to a loan facility under the Pennsylvania Department of Treasury.

On October 7, 2014, PHEAA executed a borrowing notice through a financial institution, which requested a borrowing of $90.0 million with an October 22, 2014 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $95.4 million (principal and interest) of par value student loans pledged by PHEAA to a loan facility under the Pennsylvania Department of Treasury.

On October 31, 2014, PHEAA, through the PHEAA Warehouse Facility Trust 2013-1, executed a borrowing notice with a financial institution, which requested a borrowing of $954.8 million with a November 6, 2014 borrowing date. The proceeds from the borrowing notice along with proceeds from a student loan financing and contributions from PHEAA were used to purchase at par $1.0 billion (principal and interest) of student loans from the 1997 Master Trust.

On December 4, 2014, PHEAA executed a borrowing notice through a financial institution, which requested a borrowing of $61.5 million with a December 18, 2014 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $70.7 million (principal and interest) of par value student loans pledged by PHEAA to a loan facility under the Pennsylvania Department of Treasury.

On December 16, 2014, PHEAA executed a borrowing notice with a financial institution, which requested a borrowing of $165.0 million with a December 23, 2014 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $173.9 million (principal and interest) of student loans from a financial institution for $175.6 million, which resulted in a $1.7 million premium on purchase.

On February 10, 2015, PHEAA executed a borrowing notice through a financial institution, which requested a borrowing of $63.5 million with a February 19, 2015 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $78.6 million (principal and interest) of par value student loans pledged by PHEAA to a loan facility under the Pennsylvania Department of Treasury.

On March 25, 2015, PHEAA, through the PHEAA Warehouse Facility Trust 2013-1, executed a borrowing notice with a financial institution, which requested a borrowing of $167.2 million with a March 27, 2015 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $192.8 million (principal and interest) of student loans from a financial institution for $196.6 million, which resulted in a $3.8 million premium on purchase.

On April 23, 2015, PHEAA executed a borrowing notice through a financial institution, which requested a borrowing of $77.0 million with an April 23, 2015 borrowing date. The proceeds from the borrowing request and a contribution from PHEAA were used to purchase $76.6 million (principal and interest) of par value student loans pledged by PHEAA to a loan facility under the Pennsylvania Department of Treasury.

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 and other financings.

(Dollars in thousands) Fiscal Year of Maturity	Student Loan Financings		Other Financings	
	Principal	**Interest**	**Principal**	**Interest**
2016	$ 903,779	60,805	$ 3,745	2,050
2017	-	53,027	3,895	998
2018	200,000	51,193	4,055	833
2019	-	51,039	4,230	661
2020	-	51,039	4,415	482
2021-2025	24,966	255,073	9,600	398
2026-2030	700,806	243,512	6,280	-
2031-2035	-	224,742	-	-
2036-2040	2,058,885	176,946	-	-
2041-2045	2,867,478	50,477	-	-
2046-2050	14,850	330	-	-
	$ 6,770,764	1,218,183	$ 36,220	5,422

The student loan financings are variable-rate debt, which have interest rates that reset on various dates. As of June 30, 2015, interest rates on $268.4 million reset based upon auctions every 28 days, $5.6 billion is indexed to the 1-month or 3-month LIBOR, and $903.8 million is indexed to the asset-backed commercial paper rate.

Note 10 – Retirement and Other Postemployment Benefits

Retirement Plan

Plan Description

We contribute to the Commonwealth of Pennsylvania State Employees' Retirement System ("SERS"), which the Commonwealth established under the provisions of Public Law 858, No. 331. SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement plan 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 comprehensive annual financial report (CAFR) as a pension trust fund. As a pension trust fund, SERS issues a CAFR that includes financial statements and required supplementary information. The SERS CAFR is available on-line at www.sers.state.pa.gov, select "Newsroom", select "SERS Facts" and the CAFRs are listed by year under the section titled "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.

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SERS and additions to/deductions from SERS fiduciary net position have been determined on the same basis as they are reported by SERS.

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investment purchases and sales are recorded on a trade-date basis, and reported at fair value.

Retirement 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. 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 PA 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".

Prior to PA Act 120, 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.

Funding Policy

The State Employees Retirement Code (SERC), section 5507, requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS board of directors certifies the employer contribution rates on an annual basis, typically in April of each year to become effective the following fiscal year beginning in July. The employer rates are determined based on an independent actuarial valuation of the pension fund. The actuarial valuation assesses the pension system's current funds and determines its future expected liabilities. The employer contribution rate is set so that it can fund all retirement benefits earned by employees working during the year and pay toward any unfunded liability that may exist. In some cases, the actuarially calculated employer contribution rate has been set or adjusted by Pennsylvania law. Lastly, according to the SERC, all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

PA Act 120 gradually increases funding with collars (limits) that cap employer contribution rate increases. For the year ended June 30, 2015, the employer contribution rate was 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. 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. On July 1, 2015, the employer contribution rates will be 19.89% for the "A" Class of Service employees, 24.86% for the "AA" Class of Service employees and 17.18% for the "A-3" and "A-4" Class of Service employees.

According to the Commonwealth of Pennsylvania SERS 2014 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 27.3% in calendar year 2016, increase to 30.0% by calendar year 2017, and remain above 25% through calendar year 2025.

For the years ended June 30, 2015, 2014 and 2013, our statutorily required contributions were $26.7 million, $18.7 million and $12.0 million, respectively, and these contributions were equal to the required contributions set by SERS.

SERS GASB 68 Valuation

On June 24, 2015, SERS released the "GASB 68 Valuation", which had a valuation date of December 31, 2014 (**measurement date**), to the cost-sharing employers of the multiple-employer defined benefit retirement plan.

The information that follows on "Assumptions and Other Inputs" and the "GASB 68 Employer Schedules" were provided by SERS in the GASB 68 Valuation mentioned above. In some cases, SERS provided us total plan-level information in which we applied our proportionate share percentage in order to calculate the required schedules under GASB 68. As stated previously in the "Plan Description", separately issued financial statements for SERS can be obtained from SERS management at www.sers.state.pa.gov.

Assumptions and Other Inputs

Actuarial Methods and Assumptions

The following methods and assumptions were used in the December 31, 2014 and 2013 actuarial valuations. These methods and assumptions were applied to all periods included in the measurement:

- Actuarial cost method – entry age
- Amortization method – straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that provided benefits
- Investment rate of return – 7.50% net of expenses including inflation
- Projected salary increases – average of 6.10% with a range of 4.30% to 11.05% including inflation.
- Asset valuation method – fair market value
- Inflation – 2.75%
- Mortality rate – projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement
- Cost of living adjustment (COLA) – ad hoc

Some of the methods and assumptions mentioned in the above section were based on the 17th Investigation of Actuarial Experience, which was published in January 2011, and analyzed experience from 2006 through 2010. The Hay Group (actuary for SERS) made recommendations with respect to the actuarial assumptions and methods based on their analysis. The next experience study will cover the years 2011 through 2015 and is expected to be released in early 2016.

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Alternative Investments	15.00%	8.50%
Global Public Equity	40.00%	5.40%
Real Assets	17.00%	4.95%
Diversifying Assets	10.00%	5.00%
Fixed Income	15.00%	1.50%
Liquidity Reserve	3.00%	- %
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of PHEAA's Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents our proportionate share of the collective net pension liability of SERS, as of December 31, 2014 and 2013, calculated using the discount rate of 7.50% as well as the impact on the net pension liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

(Dollars in thousands)		**2014**	2013
1% decrease of the discount rate - 6.50%	$	414,540	362,473
Current discount rate - 7.50%	$	323,866	279,273
1% increase of the discount rate - 8.50%	$	245,900	207,754

GASB 68 Employer Schedules

As stated in **Note 4 – Change in Accounting Principle**, SERS indicated they did not have a practical way to provide each of the cost-sharing employers with all of the information needed to fully restate their prior period financial statements, and as an alternative, the net pension liability should be used in applying the cumulative effect method as discussed in GASB 68. Based on guidance from SERS and GASB 68, we applied the cumulative effect method by restating net position as of July 1, 2014; therefore, comparative balances for the prior year-end could not be presented in the "Employer Schedules" that follow.

PHEAA's Allocation Percentage Methodology

The allocation percentage assigned to PHEAA was based on a projected-contribution method. This methodology applies the most recently calculated contribution rates for the Commonwealth's 2015-2016 fiscal year, from the December 31, 2014 funding valuation, to the expected funding payroll for the allocation of the calendar year 2014 amounts, and the contribution rates for the 2014-2015 fiscal year from the December 31, 2013 funding valuation to the expected funding payroll for the allocation of the 2013 net pension liability.

The amounts assigned to us were our proportionate share of the net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources (the collective pension amounts) determined in accordance with GASB 68.

The following tables present our allocations as of and for the years ended December 31, 2014 and 2013 (measurement date), and the PHEAA's proportionate share percentage was rounded to the nearest hundredth of a percent.

(Dollars in thousands)		**2014**
Projected contributions, July 1, 2015 through June 30, 2016	**$**	**32,720**
Total projected contributions, July 1, 2015 through June 30, 2016	**$**	**1,501,022**
PHEAA's allocation percentage (rounded to the nearest hundredth)		**2.18%**

(Dollars in thousands)		2013
Projected contributions, July 1, 2014 through June 30, 2015	$	24,602
Total projected contributions, July 1, 2014 through June 30, 2015	$	1,203,652
PHEAA's allocation percentage (rounded to the nearest hundredth)		2.04%

Proportionate Share of Net Pension Liability

As of June 30, 2015, our proportionate share of net pension liability was $323.9 million. See **Note 4 – Change in Accounting Principle** for more details on the "cumulative effect" method used to restate beginning net position. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The following table presents a schedule of the proportionate share of net pension liability as of December 31, 2014 and 2013 (measurement date). As stated previously, PHEAA's proportionate share percentage was rounded to the nearest hundredth of a percent; therefore, you will not be able to recalculate "PHEAA's proportionate share of net pension liability".

(Dollars in thousands)

As of December 31,		**2014**
SERS net pension liability	$	**14,857,408**
PHEAA's allocation percentage		**2.18%**
PHEAA's proportionate share of net pension liability	$	**323,866**

(Dollars in thousands)

As of December 31,		2013
SERS net pension liability	$	13,663,385
PHEAA's allocation percentage		2.04%
PHEAA's proportionate share of net pension liability	$	279,273

Proportionate Share of Total Deferred Outflows of Resources and Total Inflows of Resources

As of June 30, 2015, our deferred outflows of resources and deferred inflows of resources related to pensions were $26.4 million and $1.1 million, respectively. See **Note 4 – Change in Accounting Principle** for more details on the "cumulative effect" method used to restate beginning net position.

The following table presents the components of our proportionate share of total deferred outflows of resources and total inflows of resources related to pensions as of December 31, 2014 (**measurement date**).

(Dollars in thousands)

Deferred Outflows of Resources				Deferred Inflows of Resources	
Differences between expected and actual experience	Net difference between projected and actual investment earnings on pension plan investments	Changes in proportion	Total Deferred Outflow of Resources	Differences between PHEAA's contributions and proportionate share of contributions	Total Deferred Inflow of Resources
$1,758	9,358	15,250	**$26,366**	$1,068	**$1,068**

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

The components of deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual investment earnings on investments, are amortized into pension expense over a 5.6 year closed period for calendar year 2014, which reflects the weighted average remaining service life of all SERS members, beginning the year in which the deferred amount occurs (current year). The annual difference between the projected and actual earnings on SERS investments are amortized over a five-year closed period beginning the year in which the difference occurs (current year).

The amounts of deferred outflows of resources and deferred inflows of resources related to the above items reported as of and for the year ended December 31, 2014 (measurement date) that will be recognized in pension expense in future periods are as follows:

(Dollars in thousands)

	2014	2015	2016	2017	2018	2019	Thereafter
Deferred outflows of resources	**$6,037**	6,037	6,037	6,037	6,037	2,218	-
Deferred inflows of resources	**232**	232	232	232	232	139	-
Net amortization	**$5,805**	5,805	5,805	5,805	5,805	2,079	-

Pension Expense

For the year ended June 30, 2015 and 2014, our statutorily required contributions were $26.7 million and $18.7 million, respectively, and these contributions were equal to the required contributions set by SERS. For the year ended June 30, 2015 and 2014, our proportionate share of total pension expense was $41.6 million and zero, respectively. During the year ended June 30, 2014, GASB 27, the GASB standard in effect during that period of time, required employers in cost-sharing multiple-employer defined benefit pension plans to recognize pension expense equal to the employer's contractually required contributions. See **Note 4 – Change in Accounting Principle** for more details on the adoption and implementation of GASB 68.

The components of our proportionate share of total pension expense for the year ended December 31, 2014 (**measurement date**) are as follows:

(Dollars in thousands)

PHEAA's proportionate share of plan pension expense	Net amortization difference between PHEAA's contributions and proportionate share of contributions	Net amortization of deferred amounts from changes in proportion	Total pension expense
$38,544	(232)	3,315	**$41,627**

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, 2015. 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 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, 2015, 2014 and 2013, our annual contribution rate was $4.0 million, $3.6 million and $3.5 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, 2015, our contribution rate will be $373 thousand per month or $4.5 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 fiscal year ended June 30, 2014. The June 30, 2014 Commonwealth's CAFR can be accessed on-line at www.budget.state.pa.us, select "Financial Reports" and select "Comprehensive Annual Financial Reports".

Note 11 – 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, 2015 and 2014, total servicing revenues were $307.9 million and $295.5 million, respectively. For the years ended June 30, 2015 and 2014, we were servicing on average $252.4 billion and $216.5 billion, respectively, of loans for third party customers. For the years ended June 30, 2015 and 2014, customers using our servicing systems serviced on average $46.3 billion and $49.6 billion, respectively, of loans.

Our servicing agreements, some of which expired during the fiscal year ended June 30, 2015, 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, 2015, ED provided $167.6 million of servicing revenue, which represents 54.4% of the total servicing revenue. The next three loan-servicing customers provided $55.5 million of servicing revenue, which represents 18.0% of the total servicing revenue.

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

Note 12 – 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,		2015	2014
Interest revenue	$	**153,343**	154,281
Interest expense		**(42,059)**	(53,300)
Net interest revenue		**111,284**	100,981
Provision for loan losses		**(3,202)**	(7,149)
Net interest revenue after provision for loan losses		**108,082**	93,832
Total noninterest revenue		**(706)**	3,170
Total operating revenues		**107,376**	97,002
Operating expenses		**(51,644)**	(60,400)
Operating income		**55,732**	36,602
Financial aid		**(2)**	(1)
Income before transfers		**55,730**	36,601
Transfers to unrestricted net position		**(9,265)**	(69,647)
Changes in net position		**46,465**	(33,046)
Net position, beginning of period		**216,916**	249,962
Net position, end of period	$	**263,381**	216,916

Statements of Net Position

(Dollars in thousands)

As of June 30,		2015	2014
Current assets:			
Restricted cash and cash equivalents	$	**253,339**	253,922
Student loans receivable		**1,082,224**	936,917
Interest income receivable		**89,135**	99,819
Other assets		**12**	42
Total current assets		**1,424,710**	1,290,700
Long-term assets:			
Student loans receivable, net		**5,782,456**	6,204,943
Total long-term assets		**5,782,456**	6,204,943
Total assets		**7,207,166**	7,495,643
Deferred outflow of resources:			
Deferred loss on bond refundings		**2,013**	2,728
Total deferred outflow of resources		**2,013**	2,728
Current liabilities:			
Accounts payable and accrued expenses		**21,008**	23,355
Student loan financings		**903,779**	444,140
Total current liabilities		**924,787**	467,495
Long-term liabilities:			
Student loan financings, net		**5,852,232**	6,621,556
Total long-term liabilities		**5,852,232**	6,621,556
Total liabilities		**6,777,019**	7,089,051
Deferred inflow of resources:			
Deferred gain on bond refundings		**168,779**	192,404
Total deferred inflow of resources		**168,779**	192,404
Net position:			
Restricted for debt service		**263,381**	216,916
Total net position	$	**263,381**	216,916

Statements of Cash Flows

(Dollars in thousands)

For the years ended June 30,		**2015**	2014
Cash flows from operating activities			
Interest received on student loans	$	**65,299**	67,722
Principal received on student loans		**1,126,333**	999,458
Student loan purchases		**(924,432)**	(794,753)
Student loan sales, including net gains and losses		**171,601**	356,732
Other		**51**	(1)
Payment of operating expenses		**(43,807)**	(43,732)
Net cash provided by operating activities		**395,045**	585,426
Cash flows from noncapital financing activities			
Proceeds from the issuance of noncapital debt		**2,928,677**	2,914,218
Principal paid on noncapital debt		**(3,240,349)**	(3,309,615)
Interest paid on noncapital debt		**(65,654)**	(79,001)
Bond issuance costs		**(9,066)**	(17,119)
Other		**(9,267)**	(69,648)
Net cash used for noncapital financing activities		**(395,659)**	(561,165)
Cash flows from investing activities			
Interest received on investments		**31**	41
Net cash provided by investing activities		**31**	41
Net change in restricted cash and cash equivalents		**(583)**	24,302
Restricted cash and cash equivalents, beginning of period		**253,922**	229,620
Restricted cash and cash equivalents, end of period	$	**253,339**	253,922

There are seventeen separate trusts with parity ratios, a ratio of assets to liabilities. As of June 30, 2015, the trusts had parity ratios ranging from 1.018 to 1.219. Two of the seventeen trusts have minimum parity ratio requirements and as of June 30, 2015, the trusts complied with the minimum parity ratio requirements.

Note 13 – Blended Component Units

We consider the Trust, the 2011-1 Trust, the 2012-1 Trust, the 2013-1 Trust, the 2013-2 Trust, the 2013-3 Trust, the 2014-1 Trust, the 2014-2 Trust, the 2014-3 Trust, the 2015-1 Trust, the Warehouse Trust 2013-1, the PHEAA SLC, the PHEAA SLC II and the PHEAA SLC III blended component units ("BCUs") of the Foundation, and the 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, 2014-3 Trust, 2015-1 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, 2015, the Foundation entered into a trust agreement with a financial institution that created the 2014-3 Trust and the 2015-1 Trust. The 2014-3 Trust and 2015-1 Trust are statutory trusts formed under the laws of the State of Delaware. The principal purposes of the 2014-3 Trust and the 2015-1 Trust are 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.

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. On March 18, 2015, the Board of Directors authorized the dissolution of PHEF. As part of the dissolution of PHEF, all of the PHEF assets and all funds in its possession that have not been paid or set aside for PHEF's obligations are to be paid to the PHEAA, for its public purposes. On June 8, 2015, PHEF entered into an "Assignment of Rights Incident to Dissolution Agreement" with PHEAA.

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.

Subsequent event

On July 13, 2015, the Foundation filed "Certificates of Cancellation" with the Delaware Secretary of State to cancel the "Certificates of Formation" of the PHEAA SLCs.

In the statements that follow, we present condensed combining information of the BCUs.

Statements of Revenues, Expenses and Changes in Net Position

(Dollars in thousands) For the year ended June 30, 2015		PHEAA SLCs	PHEAA SLTs	Foundation (Total PHEAA SLCs and SLTs)	PHEF	Total BCUs
Interest revenue	$	**-**	**114,233**	**114,233**	**8**	**114,241**
Interest expense		**-**	**(29,659)**	**(29,659)**	**-**	**(29,659)**
Net interest revenue		**-**	**84,574**	**84,574**	**8**	**84,582**
Provision for loan losses		**-**	**(5,582)**	**(5,582)**	**-**	**(5,582)**
Net interest revenue after provision for loan losses		**-**	**78,992**	**78,992**	**8**	**79,000**
Total noninterest revenue		**-**	**(1)**	**(1)**	**-**	**(1)**
Total operating revenues		**-**	**78,991**	**78,991**	**8**	**78,999**
Operating expenses		**-**	**(41,657)**	**(41,657)**	**(10)**	**(41,667)**
Operating income (loss)		**-**	**37,334**	**37,334**	**(2)**	**37,332**
Total transfers and financial aid		**-**	**89,063**	**89,063**	**(771)**	**88,292**
Changes in net position		**-**	**126,397**	**126,397**	**(773)**	**125,624**
Net position, beginning of period		**-**	**16,640**	**16,640**	**1,039**	**17,679**
Net position, end of period	$	**-**	**143,037**	**143,037**	**266**	**143,303**

(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

Statements of Net Position

(Dollars in thousands) As of June 30, 2015		PHEAA SLCs	PHEAA SLTs	Foundation (Total PHEAA SLCs and SLTs)	PHEF	Total BCUs
Current assets:						
Restricted cash and cash equivalents	$	-	155,758	155,758	-	155,758
Restricted investments		-	-	-	266	266
Student loans receivable		-	1,092,340	1,092,340	-	1,092,340
Interest income receivable		-	77,427	77,427	-	77,427
Other assets		-	12	12	-	12
Total current assets		-	1,325,537	1,325,537	266	1,325,803
Long-term assets:						
Student loans receivable, net		-	4,439,933	4,439,933	-	4,439,933
Total long-term assets		-	4,439,933	4,439,933	-	4,439,933
Total assets		-	5,765,470	5,765,470	266	5,765,736
Total deferred outflow of resources		-	732	732	-	732
Current liabilities:						
Accounts payable and accrued expenses		-	18,174	18,174	-	18,174
Student loan financings			465,544	465,544		465,544
Total current liabilities		-	483,718	483,718	-	483,718
Long-term liabilities:						
Student loan financings, net		-	4,970,669	4,970,669	-	4,970,669
Total long-term liabilities		-	4,970,669	4,970,669	-	4,970,669
Total liabilities		-	5,454,387	5,454,387	-	5,454,387
Total deferred inflow of resources		-	168,778	168,778	-	168,778
Net position:						
Restricted for debt service		-	143,037	143,037	-	143,037
Restricted for financial aid grant programs		-	-	-	266	266
Total net position	$	-	143,037	143,037	266	143,303

(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

Statements of Cash Flows

(Dollars in thousands) For the year ended June 30, 2015		**PHEAA SLCs**	**PHEAA SLTs**	**Foundation (Total PHEAA SLCs and SLTs)**	**PHEF**	**Total BCUs**
Net cash used for operating activities	$	**-**	**(1,165,394)**	**(1,165,394)**	**(10)**	**(1,165,404)**
Net cash provided by (used for) noncapital financing activities		**-**	**1,202,660**	**1,202,660**	**(771)**	**1,201,889**
Net cash provided by investing activities		**-**	**16**	**16**	**16**	**32**
Net change in restricted cash and cash equivalents		**-**	**37,282**	**37,282**	**(765)**	**36,517**
Restricted cash and cash equivalents, beginning of period equivalents		**-**	**118,476**	**118,476**	**765**	**119,241**
Restricted cash and cash equivalents, end of period equivalents	$	**-**	**155,758**	**155,758**	**-**	**155,758**

(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

Note 14 – Net Position

We have net investment in capital assets, which includes land, buildings and improvements, software development, purchased software, information technology equipment, and other tangible assets that are used in our operations. 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, 2015, net investment in capital assets amounted to $76.0 million. As of June 30, 2014, net investment in capital assets amounted to $61.6 million.

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, 2015, net position restricted for debt service amounted to $263.4 million. As of June 30, 2014, net position restricted for debt service amounted to $216.9 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, 2015, net position restricted for financial aid grant programs amounted to $61.5 million. As of June 30, 2014, net position restricted for financial aid grant programs amounted to $41.1 million.

We have net position that is unrestricted, which is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of 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, 2015, unrestricted net position amounted to $403.2 million of which net position related to the guaranty activities was $184.5 million. As of June 30, 2015, the Board of Directors committed for fiscal year 2015-2016 $91.0 million of unrestricted net position to fund the Pennsylvania State Grant program (restricted fund), the Pennsylvania Targeted Industry Cluster Certificate Scholarship program (unrestricted fund) and the Distance Education program (unrestricted fund).

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 for fiscal year 2014-2015 $91.0 million of unrestricted net position to fund the Pennsylvania State Grant program (restricted fund), the Pennsylvania Targeted Industry Cluster Certificate Scholarship program (unrestricted fund) and the Distance Education program (unrestricted fund), and as of June 30, 2015, we have fully supplemented these programs.

Note 15 – 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. After discovery regarding the "Arm of the State" standard was completed, PHEAA again requested that the trial court dismiss the action. On January 16, 2015, the trial court issued an Opinion and Order granting PHEAA's motion for summary judgment. In so doing, the trial court again concluded that PHEAA was an arm of the state, and thus not a person under the False Claims Act. As anticipated, the plaintiff immediately filed an appeal with the Fourth Circuit Court of Appeals. Oral arguments were held on May 12, 2015 and all briefings are complete. PHEAA awaits a decision from the Fourth Circuit Court of Appeals. 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, 2015, 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, 2015 and through the date of this report.

Required Supplementary Information

The schedules that follow are required supplementary information and are presented as of and for the year ended December 31, 2014 (**measurement date**) and as of and for the year ended June 30, 2015 (**PHEAA's fiscal year-end**):

Schedule of PHEAA's Proportionate Share of Net Pension Liability
As of and for the year ended December 31, 2014
(Dollars in thousands)

PHEAA's proportionate (percentage) share of collective net pension liability	PHEAA's proportionate (amount) share of collective net pension liability	PHEAA's covered employee payroll	PHEAA's proportionate share of collective net pension liability as a percentage of covered employee payroll	Fiduciary (SERS) net position as a percentage of the total pension liability
2.18%	$323,866	$141,621	228.7%	64.8%

The "Schedule of PHEAA's Proportionate Share of Net Pension Liability" presented above is to illustrate the required 10-year trend of information. However, until we can compile a full 10-year trend of information, we are presenting the information for which information was available.

Schedule of PHEAA's Contributions
As of and for the year ended June 30, 2015
(Dollars in thousands)

Required contributions	PHEAA's contributions recognized by the pension plan	Contribution excess/(deficiency)	PHEAA's covered employee payroll	PHEAA's contributions as a percentage of covered employee payroll
$26,027	**$26,027**	**-**	**$149,629**	**17.4%**

The "Schedule of PHEAA's Contributions" presented above is to illustrate the required 10-year trend of information. However, until we can compile a full 10-year trend of information, we are presenting the information for which information was available.