THE GUARANTEED STUDENT LOAN PROGRAMS' OPERATING FUND AND FEDERAL FUND OF THE NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

(A Component Unit of the State of New York)

Financial Statements

March 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

THE GUARANTEED STUDENT LOAN PROGRAMS' OPERATING FUND AND FEDERAL FUND OF THE NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

Financial Statements

March 31, 2016 and 2015

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	3
Financial Statements:	
Statements of Net Position	16
Statements of Revenue, Expenses, and Changes in Net Position	17
Statements of Cash Flows	18
Notes to Financial Statements	19
Required Supplementary Information (unaudited)	
Schedule of Employer Contributions – New York State and Local Employees' Retirement System Pension Plan	33
Schedule of Proportionate Share of the Net Pension Liability – New York State and Local Employee's Retirement System Pension Plan	34

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

Board of Trustees
New York State Higher Education
Services Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Operating Fund and Federal Fund of the Guaranteed Student Loan Programs of the New York State Higher Education Services Corporation (HESC), as of and for the years ended March 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise HESC's basic financial statements for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance 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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the Guaranteed Student Loan Programs' Operating Fund and Federal Fund of the New York State Higher Education Services Corporation as of March 31, 2016 and 2015, and the respective changes in net position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2(i) to the basic financial statements, as of April 1, 2015, HESC adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* and GASB Statement No. 82, *Pension Issues.* Our opinions are not modified with respect to this matter.

Other Matters – Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the information listed under the required supplemental information in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who 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 of America, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016 on our consideration of HESC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HESC's internal control over financial reporting and compliance.

KPMG LLP

December 21, 2016
Albany, New York

Management's Discussion and Analysis

This section of the New York State Higher Education Services Corporation (HESC) Guaranteed Student Loan Programs' financial statements presents management's discussion and analysis of its operations and financial performance during the fiscal years ended March 31, 2016 and 2015. This analysis provides supplementary information on the operations and activities of HESC, and should be read in conjunction with the Operating and Federal Funds' financial statements, which follow this section.

Organization and Operations

HESC is an agency of New York State (NYS) created in 1974 under Chapter 942 of the Laws of 1974 and is responsible for the administration of New York State's student financial aid programs, including the Federal Family Education Loan Program (FFELP) and State loan guarantee program. FFELP was established by Congress and is administered by the U.S. Department of Education (ED) through HESC and other guaranty agencies. As a result of the March 30, 2010 enactment of the Health Care and Education Reconciliation Act (HCERA) (HR4872), new loan guarantees under the FFELP were eliminated effective July 1, 2010.

Under the FFELP, HESC was responsible for processing loans submitted for guarantee and issuing loan guarantees. HESC will continue providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default, and collection activities on loans after purchase by HESC. In addition to FFELP, the Guaranteed Student Loan Programs (GSL) include the residual activity of the State guaranteed loan program under which no new loans have been guaranteed since 1984.

HESC has a Federal Student Loan Reserve Fund (Federal Fund) and an Operating Fund to account for FFELP activity. The Federal Fund assets, and earnings on those assets, are restricted in use and are considered property of ED. The Operating Fund is considered property of HESC, and its assets and earnings may be used generally for guaranty agency and other student financial aid related activities.

2016 Financial Highlights-Operating Fund

- Current assets decreased by $3.6 million or 5%.
- Current liabilities decreased by $0.5 million or 3%.
- Total operating revenue decreased by $2.6 million or 3%.
- Operating expenses decreased by $2.3 million or 4%.
- The Operating Fund provided approximately $10.9 million for the cost of administering the New York State grant and scholarship programs.
- The Operating Fund provided approximately $0.8 million for the cost of administering the federal Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) and the College Access Challenge Grant (CACG) for New York State.
- The Operating Fund transferred $16 million to the New York State Tuition Assistance Program (TAP) to subsidize grant expenditures.

2016 Financial Highlights - Federal Fund

- Current assets increased by $5.2 million or 11%.
- Current liabilities increased by $0.6 million or 14,500%.
- Total operating revenue decreased by $26.7 million or 4%, as a result of a decline in default claims submitted for reimbursement.
- Total operating expenses decreased by $34.9 million or 5%, as a result of a decline in default claims paid lenders.

2015 Financial Highlights-Operating Fund

- Current assets decreased by $20.3 million or 22%.
- Current liabilities decreased by $5.0 million or 25%.
- Total operating revenue decreased by $27.3 million or 25%.
- Operating expenses decreased by $2.2 million or 4%.
- The Operating Fund provided approximately $8.4 million for the cost of administering New York State grant and scholarship programs.
- The Operating Fund provided approximately $0.9 million for the cost of administering the federal Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) and the College Access Challenge Grant (CACG) for New York State.
- The Operating Fund transferred $32.0 million to the New York State Tuition Assistance Program (TAP) to subsidize grant expenditures.

2015 Financial Highlights - Federal Fund

- Current assets decreased by $3.3 million or 7%.
- Total operating revenue decreased by $23.1 million or 3%, as a result of a decline in default claims submitted for reimbursement.
- Total operating expenses decreased by $27.0 million or 4%, as a result of a decline in default claims paid lenders.

THE GUARANTEED STUDENT LOAN PROGRAMS' OPERATING FUND AND FEDERAL FUND OF THE NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

Management's Discussion and Analysis (Unaudited)

March 31, 2016 and 2015

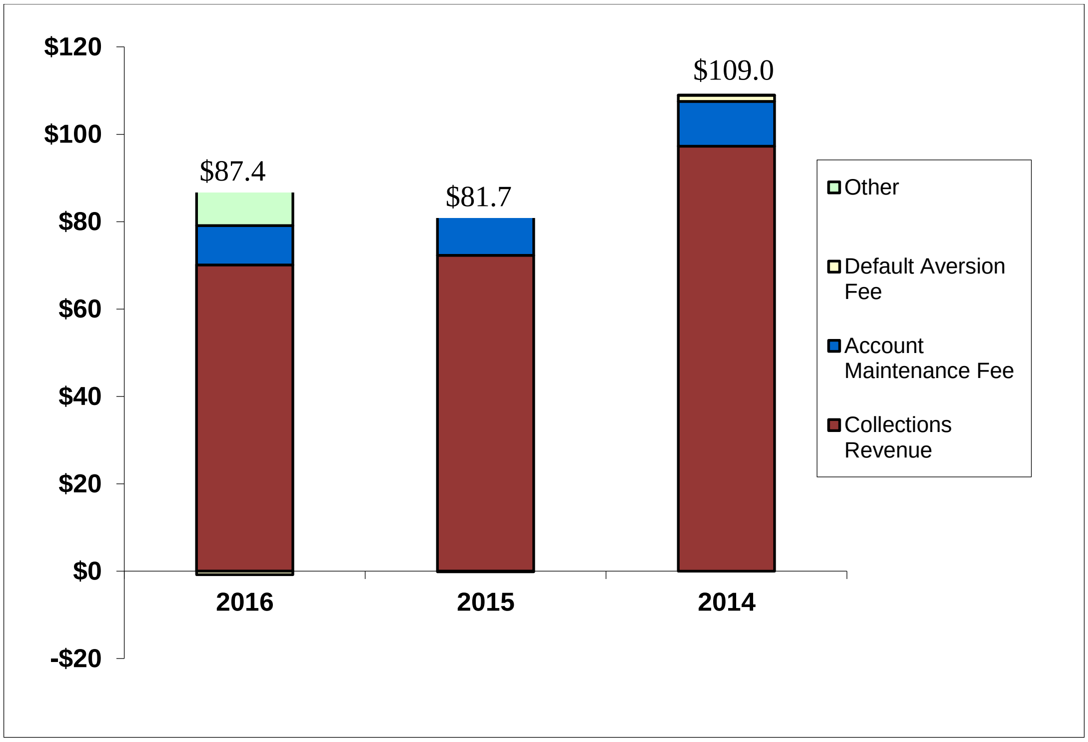
Condensed Financial Information

$ in thousands

		Operating Fund			Federal Fund		
		2016	2015	2014	2016	2015	2014
Current assets	$	70,030	73,673	93,977	51,935	46,696	49,961
Capital assets		10	62	153	-	-	-
Other noncurrent assets		-	-	-	2,256	2,395	2,905
Total assets		70,040	73,735	94,130	54,191	49,091	52,866
Deferred outflow of resources		2,993	-	-	-	-	-
Current liabilities		14,147	14,602	19,575	585	4	1
Noncurrent liabilities		6,356	2,395	2,904	-	-	-
Total liabilities		20,503	16,997	22,479	585	4	1
Net position:							
Invested in capital assets		10	62	153	-	-	-
Restricted		50,871	56,676	71,498	53,606	49,087	52,865
Unrestricted		1,649	-	-	-	-	-
Total net position	$	52,530	56,738	71,651	53,606	49,087	52,865

		Operating Fund			Federal Fund		
		2016	2015	2014	2016	2015	2014
Operating Revenues:							
Defaulted loan collections	$	70,093	72,288	97,260	263,142	254,507	249,347
Reimbursement of defaulted loans		-	-	-	385,761	421,649	450,119
Other operating revenues		8,978	9,350	11,641	783	188	-
Other revenues		8,343	61	62	58	17	10,311
Total revenues		87,414	81,699	108,963	649,744	676,361	709,777
Operating expenses:							
Administrative		51,868	55,137	57,327	-	-	-
Default loan purchases		-	-	-	394,742	437,827	468,131
Collection payments to ED		-	-	-	250,470	242,301	237,593
Fee subsidies		-	-	-	-	-	1,357
Other		1,107	91	143	13	10	13
Non operating expenses		36,148	41,383	45,155	-	-	-
Total expenses		89,123	96,611	102,625	645,225	680,138	707,094
Cumulative effect of change in accounting principle		(2,499)	-	-	-	-	-
Transfers		-	-	(1,500)	-	-	1,500
Changes in net position	$	(4,208)	(14,912)	4,838	4,519	(3,777)	4,183

HESC Total Operating Fund Revenue
$ in millions



Operating Fund Revenue Highlights for fiscal year ending March 31,

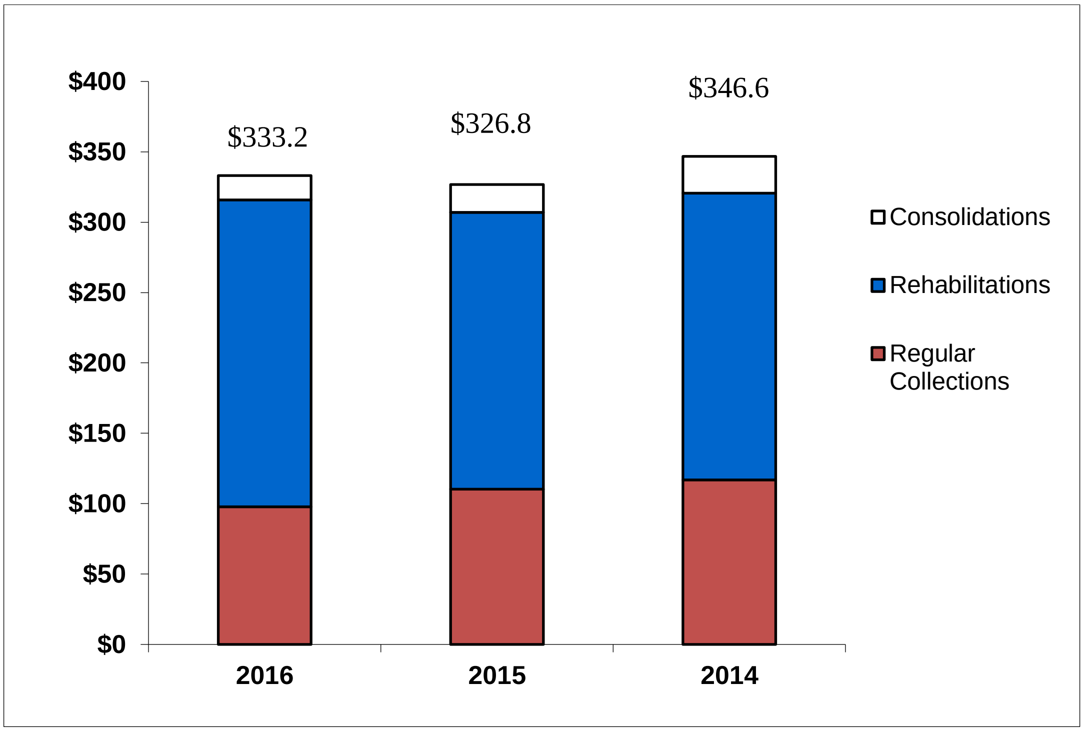
2016

- Collections revenue represents 80% of total revenue as a result of the inclusion of Federal grant award revenues reported as other revenue in 2015-2016.
- Account maintenance fee income decreased by $0.8 million as a result of a decrease in outstanding principal balance of loans outstanding due to loans being paid by borrowers.
- Default aversion fee (DAF) revenue decreased $0.6 million resulting in $0.8 million expense due back to the Federal Fund as a result of DAF refunds exceeding the DAF revenue for the year.
- Other revenue includes Treasury offset refunds revenue which is 100% offset by the expense of payments to borrowers in 2015-2016.

2015

- Collections revenue represents 89% of total revenue consistent with 2013-2014.
- Account maintenance fee income decreased by $0.8 million as a result of a decrease in outstanding principal balance of loans outstanding due to loans being paid by borrowers.
- Default aversion fee (DAF) revenue decreased $1.5 million to $0.2 million expense due back to the Federal Fund as a result of DAF refunds exceeding the DAF revenue for the year.

Total Default Collection Recoveries
$ in millions



HESC's primary source of revenue continues to be from FFELP collection related activity. As a FFELP guarantor, HESC retains a percentage of collection recoveries determined by ED.

Collection Recovery Highlights for the fiscal year ending March 31,

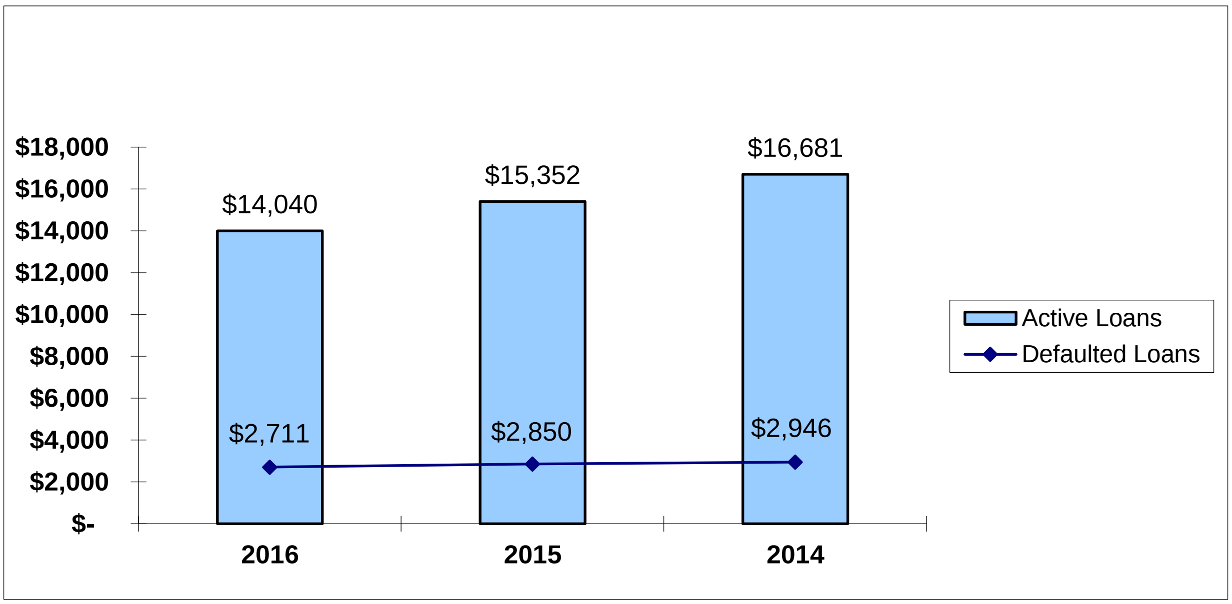
2016

- Collections on rehabilitated loans increased 11% to $218 million from a total of $197 million in 2014-2015.
- Total regular collections decreased $12 million or 11% from $110 million in 2015 to $98 million in 2016, as a result of decreased vendor collections, state tax offsets and garnishment collections received during the fiscal year.
- Federal direct default consolidation revenue decreased in 2016 to $17 million or 15% from $20 million in 2015.

2015

- Collections on rehabilitated loans decreased 3% to $197 million from a total of $203 million in 2013-2014.
- Total regular collections decreased $7 million or 6% from $117 million in 2014 to $110 million in 2015, as a result of decreased vendor collection receipts received during the fiscal year.
- Federal direct default consolidation revenue decreased in 2015 to $20 million or 23% from $26 million in 2014.

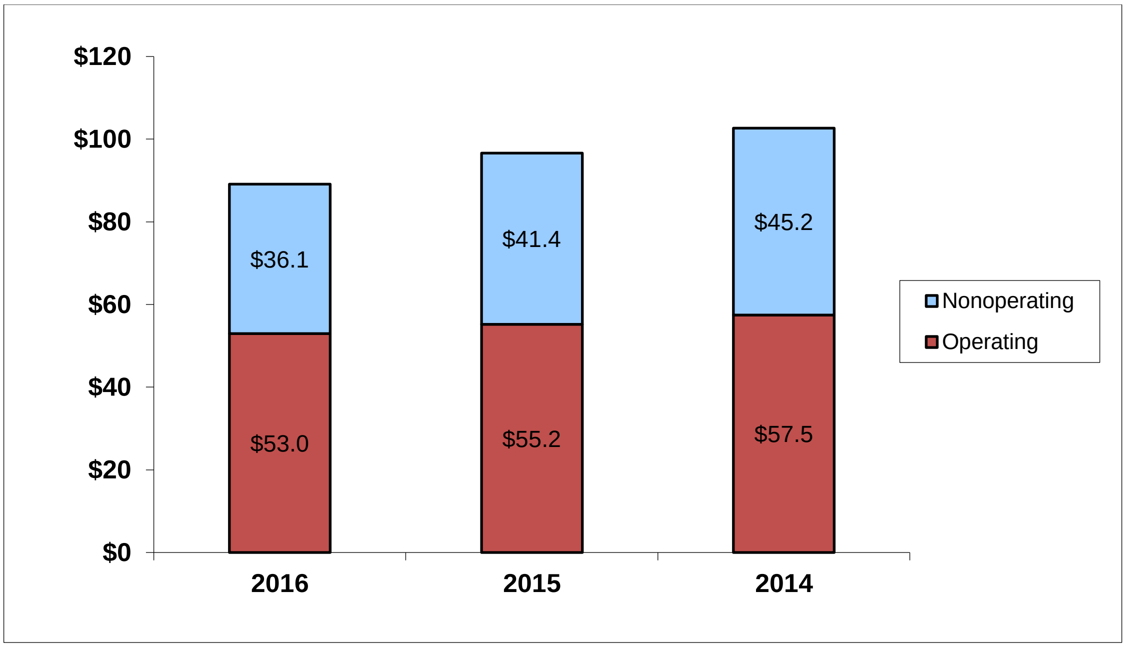
Operating Fund Administration Revenue on Guaranteed FFEL Loans
Outstanding Portfolio Balances
$ in millions



Administrative Revenue Highlights for the fiscal year ending March 31,

2016	2015
• HESC's outstanding active portfolio balance decreased by $1.3 billion or 9% for the fiscal year as a result of active loans being paid in full during the year and no new loans being put into the portfolio, causing a decrease in account maintenance fee income of $0.8 million.	• HESC's outstanding active portfolio balance decreased by $1.3 billion or 8% for the fiscal year as a result of active loans being paid in full during the year and no new loans being put into the portfolio, causing a decrease in account maintenance fee income of $0.8 million.

Total HESC Operating Fund Expenses
$ in millions



HESC Operating Expense Highlights for fiscal year ending March 31,

2016

Operating Expenses

- Outsourced vendor collection fees increased $1.8 million or 9.7% as a result of increased collections attributable to outside collection agencies.
- Payroll and fringe benefit expense decreased by $3.9 million or 14.7%. The savings achieved by the reduction in full time equivalents from 267 in 2014-2015 to 239 in 2015-2016 was offset by the additional costs of $1.5 million associated with the implementation of GASB No. 68 – *Accounting and Financial Reporting for Pensions*.
- ITS data center expense increased 58% from $1.2 million in 2014-2015 to $1.9 million in 2015-2016.
- Postage expense decreased $0.6 million as a result of an adjustment to the prepaid postage balance in 2014-2015.
- Other expense includes $1.1 million of Treasury offset refunds sent to borrowers which is 100% reimbursed by the Federal Department of Education.

2015

Operating Expenses

- Outsourced vendor collection fees decreased $4.6 million or 19.8% as a result of decreased collections attributable to outside collection agencies as HESC transitioned to a new vendor collection contract.
- Payroll and fringe benefit expense decreased by $6.2 million or 24% due to a reduction in full time equivalent employees. The significant reduction in FTE's is a result of staff being transferred to the Office for Information Technology Services as part of the Governor's cost savings initiatives. A large portion of this reduction in personal service was offset by a charge back for NYS Servicing expense of $9.6 million which includes expenses for FFELP and Grant and Scholarship programs.
- Postage expense increased $0.5 million as a result of an adjustment to the prepaid postage balance for a postage account that was not recorded in past periods.

2016

Nonoperating Expenses

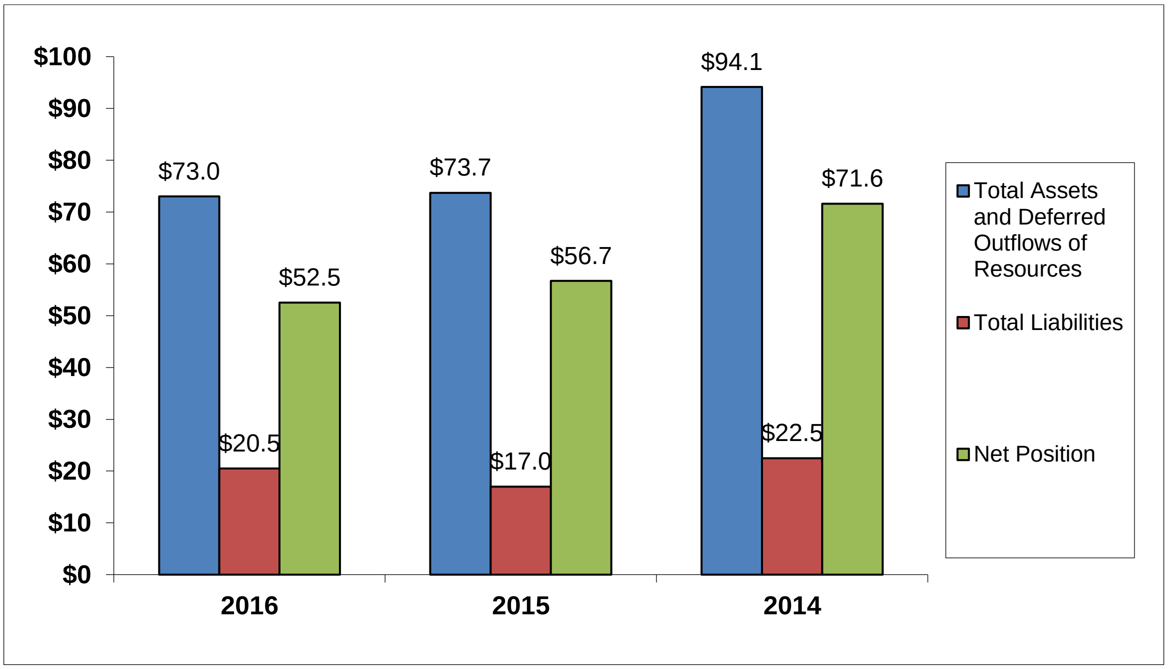
- The Operating Fund contributed $16 million to subsidize the Tuition Assistance Program.
- Grant and scholarship program expenses increased $2.5 million, as a result of the reclassification of ITS expenses for the 2015-2016 year from NYS Servicing Expense to program expense.
- HESC expenses related to NYHELPs increased $0.08 million, a 94.4% increase due to aversion and collection activity on accounts.
- Federal grant expense of $9.1 million includes $8.2 million in payments to grantees which are 100% reimbursed by the Federal Grant. HESC continues to pay administrative expenses of $0.8 million.

2015

Nonoperating Expenses

- The Operating Fund contributed $32 million to subsidize the Tuition Assistance Program.
- Grant and scholarship program expenses decreased $3.4 million, primarily as a result of the transfer of IT employees to Office for Technology.
- HESC expenses related to NYHELPs decreased $0.2 million, a 67% reduction from the prior year.
- Federal grant administration expenses decreased $0.2 million or 17% which represents reduction in personal service allocated to the program during the state fiscal year.

Operating Fund Assets and Liabilities
$ in millions



Assets

- Total operating fund assets are primarily current assets, consisting of cash and cash equivalents, receivables due from the U.S. Department of Education and the Federal Fund.
- Total assets decreased $3.7 million or 5% in 2015-2016, primarily due to an increase in cash from operational activities of $23.1 million offset by the cash out flow from noncapital financial activities of $28 million. In addition, HESC receivables increased $1.2 million during the state fiscal year 2015-2016.
- Deferred outflows of resources for subsequent payments related to pensions of $3.0 million is a result of the implementation of GASB No. 68 during the state fiscal year 2015-2016.

Liabilities

- Accounts payable and accrued liabilities represented 69% and 82% of total liabilities for the state fiscal years 2015-2016 and 2014-2015 respectively.
- Current liabilities decreased $0.5 million during the 2016 state fiscal year.
- Noncurrent liabilities increased $4 million, as a result of the implementation of GASB 68 reporting for pension costs.

Net Position

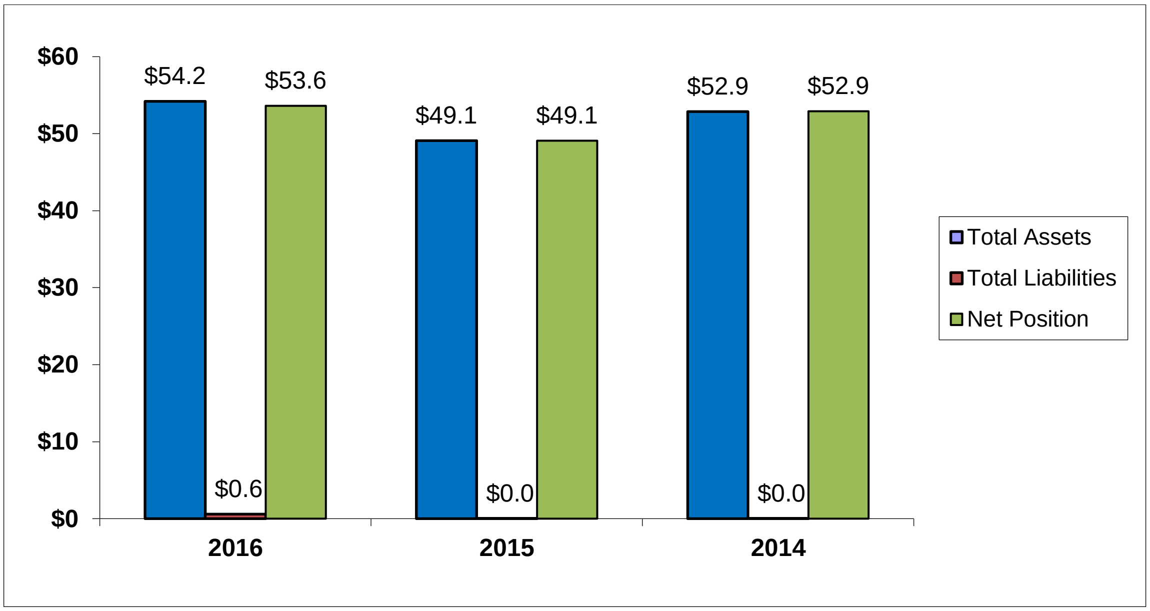
- Net position decreased $4.2 million or 7.4% as a result of a decrease in cash and cash equivalents due to expenses exceeding revenues during state fiscal year 2015-2016.

THE GUARANTEED STUDENT LOAN PROGRAMS' OPERATING FUND AND FEDERAL FUND OF THE NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

Management's Discussion and Analysis (Unaudited)

March 31, 2016 and 2015

The Federal Student Loan Reserve Fund (Federal Fund)
$ in millions



The Federal Fund assets are owned by the U.S. Department of Education and have restricted use, primarily to reimburse lender claims for defaulted student loans.

Assets

- The Federal Fund cash and cash equivalents increased $11.5 million or 28.5% in fiscal year 2015-2016 as a result of cash provided by operations.
- Total assets increased as a result of decreased receivables from U.S. Department of Education in the amount of $5.7 million.
- Noncurrent assets decreased $0.1 million as a result of decreased default aversion fee revenue and estimated future returns.

Liabilities

- HESC current liabilities include amounts payable to the Operating Fund for default aversion fees and to lenders for returned checks.

Net Position

- Net position increased $4.5 million or 9.2% as a result of increased collection revenue and the elimination of the guaranty agency risk share effective December 2015.

Significant Known Facts, Decisions and Conditions

The Operating Fund will continue to support the operational expenses of the grant and scholarship programs in the amount of approximately $10.0 million for state fiscal year ended March 31, 2017.

Contacting Financial Management

This financial report is designed to provide our customers, business partners and creditors with a general overview of the Guaranteed Student Loan Programs' finances. For detailed information regarding the Federal Family Education Loan Program, you may also review our annual report on the web at www.hesc.ny.gov.

Questions about this report can be directed to HESC's Chief Financial Officer, Warren Wallin at (518) 486-7443 or Warren.Wallin@hesc.ny.gov.

THE GUARANTEED STUDENT LOAN PROGRAMS' OPERATING FUND AND FEDERAL FUND OF THE NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

(A Component Unit of the State of New York)

Statements of Net Position

March 31, 2016 and 2015

	2016		2015	
Assets and Deferred Outflows of Resources	**Operating Fund**	**Federal Fund**	**Operating Fund**	**Federal Fund**
Current assets:				
Cash and cash equivalents (note 4)	$ 65,504,010	51,935,055	70,323,101	40,418,719
Receivables due from U.S. Department of Education:				
Administrative fees (note 5)	2,097,542	—	2,297,026	—
Reinsurance	—	—	—	5,712,834
Interfund balances (note 6)	381,204	—	—	564,425
Prepaid expenses and other assets	291,794	337	1,053,369	117
Due from Federal Government	1,755,724	—	—	—
Total current assets	70,030,274	51,935,392	73,673,496	46,696,095
Noncurrent assets:				
Interfund default aversion fee allowance (note 5)	—	2,255,868	—	2,395,167
Capital assets, net (note 8)	10,001	—	62,301	—
Total noncurrent assets	10,001	2,255,868	62,301	2,395,167
Total assets	70,040,275	54,191,260	73,735,797	49,091,262
Deferred outflows of resources related to pensions	2,992,516	—	—	—
Total assets and deferred outflows of resources	73,032,791	54,191,260	73,735,797	49,091,262
Liabilities and Net Position				
Current liabilities:				
Accounts payable and accrued liabilities	14,117,979	88	14,035,877	4,154
Interfund balances (note 6)	—	381,204	564,425	—
Amounts payable to schools through EFT	28,744	—	1,707	—
Reinsurance due to U.S. Department of Education	—	204,198	—	—
Total current liabilities	14,146,723	585,490	14,602,009	4,154
Noncurrent liabilities:				
Net pension liability	1,649,233	—	—	—
Pension contributions payable	2,450,552	—	—	—
Interfund default aversion fee allowance (note 5)	2,255,868	—	2,395,167	—
Total noncurrent liabilities	6,355,653	—	2,395,167	—
Total liabilities	20,502,376	585,490	16,997,176	4,154
Net position:				
Invested in capital assets	10,001	—	62,301	—
Restricted – property of U.S. Department of Education	—	53,605,770	—	49,087,108
Restricted – for student aid related activities	50,871,181	—	56,676,320	—
Unrestricted	1,649,233	—	—	—
Total net position	52,530,415	53,605,770	56,738,621	49,087,108
Total liabilities and net position	$ 73,032,791	54,191,260	73,735,797	49,091,262

See accompanying notes to financial statements.

THE GUARANTEED STUDENT LOAN PROGRAMS'
OPERATING FUND AND FEDERAL FUND OF
THE NEW YORK STATE HIGHER EDUCATION
SERVICES CORPORATION
(A Component Unit of the State of New York)

Statements of Revenue, Expenses, and Changes in Net Position

Years ended March 31, 2016 and 2015

	2016		2015	
	Operating Fund	**Federal Fund**	**Operating Fund**	**Federal Fund**
Operating revenues:				
Defaulted loan collections (note 2(e))	$ 70,093,036	263,141,717	72,288,285	254,506,632
Administrative and program fee income (note 5)	7,897,638	—	9,314,720	—
Reimbursement on purchases of default loans from lenders (note 2(f))	—	385,760,682	—	421,649,007
Default aversion fee subsidy	—	783,433	—	187,962
Other revenue	1,080,532	—	35,345	—
Total operating revenues	79,071,206	649,685,832	81,638,350	676,343,601
Operating expenses:				
Salaries and employee benefits	16,370,058	—	19,329,467	—
General and administrative	5,429,768	—	6,241,706	—
Collection vendors	20,505,539	—	18,694,206	—
NYS servicing	7,701,565	—	9,635,140	—
NYS Office for Technology equipment usage charges	1,860,522	—	1,237,069	—
Purchases of default loans from lenders (note 2 (f))	—	394,742,656	—	437,827,401
Defaulted loan collections paid to U.S. Department of Education (note 2(e))	—	250,469,572	—	242,301,321
Depreciation (note 8)	52,300	—	90,527	—
Other expense	1,054,946	12,959	—	10,260
Total operating expenses	52,974,698	645,225,187	55,228,115	680,138,982
Operating income (loss)	26,096,508	4,460,645	26,410,235	(3,795,381)
Nonoperating revenues (expenses):				
Interest income	101,052	58,017	60,980	17,218
Federal grant revenue	8,241,595	—	—	—
Federal grant administrative expenses	(9,065,211)	—	(890,243)	—
New York State initiatives (note 7)	(27,083,250)	—	(40,493,285)	—
Total nonoperating (expenses) revenues	(27,805,814)	58,017	(41,322,548)	17,218
(Decrease) increase in net assets	(1,709,306)	4,518,662	(14,912,313)	(3,778,163)
Net position, beginning	56,738,621	49,087,108	71,650,934	52,865,271
Cumulative effect of change in accounting principle (note 2(i))	(2,498,900)	—	—	—
Net position, ending	$ 52,530,415	53,605,770	56,738,621	49,087,108

See accompanying notes to financial statements.

THE GUARANTEED STUDENT LOAN PROGRAMS' OPERATING FUND AND FEDERAL FUND OF THE NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

(A Component Unit of the State of New York)

Statements of Cash Flows

Years ended March 31, 2016 and 2015

	2016		2015	
	Operating Fund	**Federal Fund**	**Operating Fund**	**Federal Fund**
Cash flows from operating activities:				
Receipts from:				
Collections	$ 69,061,657	264,218,274	70,722,785	254,726,011
Administrative fees	8,088,751	—	8,988,521	—
Other sources	1,285,101	—	35,345	—
Reimbursement on purchases of default loan purchases	—	391,781,346	—	433,172,127
Federal default aversion fee income	—	791,804	—	—
Payments for:				
Salaries and employee benefits	(17,219,192)	—	(19,846,216)	—
Administrative fees	—	—	—	717,033
Purchases of default loans from lenders	—	(394,742,656)	—	(437,827,401)
Collections paid to U.S. Department of Education	—	(250,577,270)	—	(242,147,020)
General, administrative and other expenses	(38,111,370)	(12,959)	(38,262,578)	(10,260)
Net cash provided by operating activities	23,104,947	11,458,539	21,637,857	8,630,490
Cash flows from noncapital financing activities:				
Payments to NYS – other student aid activities	(28,024,801)	—	(42,288,166)	—
Net cash used in noncapital financing activities	(28,024,801)	—	(42,288,166)	—
Cash flows from investing activities:				
Interest received	100,763	57,797	60,936	17,101
Net cash provided by investing activities	100,763	57,797	60,936	17,101
(Decrease) increase in cash and cash equivalents	(4,819,091)	11,516,336	(20,589,373)	8,647,591
Cash and cash equivalents, beginning	70,323,101	40,418,719	90,912,474	31,771,128
Cash and cash equivalents, ending	$ 65,504,010	51,935,055	70,323,101	40,418,719
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 26,096,508	4,460,645	26,410,235	(3,795,381)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	52,300	—	90,527	—
Change in assets and liabilities that provided (used) cash:				
Receivables	199,484	5,917,032	202,872	11,673,725
Other assets	(993,859)	—	(488,284)	—
Interfund balances	(945,629)	945,629	(239,101)	239,101
Accounts payable and accrued liabilities and other liabilities	(117,426)	(4,066)	(3,829,043)	3,696
Pension contribution payable	53,310	—	—	—
Allowance for default aversion refunds	(139,299)	139,299	(509,349)	509,349
Net pension liability, net of deferred outflows of resources	(1,100,442)	—	—	—
Total adjustments	(2,991,561)	6,997,894	(4,772,378)	12,425,871
Net cash provided by operating activities	$ 23,104,947	11,458,539	21,637,857	8,630,490

See accompanying notes to financial statements.

(1) Organization and Operations

New York State Higher Education Services Corporation (HESC) is an agency of New York State (the State) created in 1974 under Chapter 942 of the Laws of 1974 and is responsible for the administration of the State's student financial aid programs, including the Federal Family Education Loan Program (FFELP) and State loan guarantee program.

FFELP was established by Congress and is administered by the U.S. Department of Education through HESC and other guaranty agencies. As a guaranty agency, HESC made loans available through lending institutions to students attending colleges, universities, and postsecondary educational and vocational schools. FFELP allows HESC to guarantee repayment of principal and accrued interest to lenders for eligible student loans. HESC has the responsibility of providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default, and performing certain collection activities on loans after purchase by HESC. In addition to FFELP, the Guaranteed Student Loan Programs include the residual activity of the State guaranteed loan program under which no new loans have been guaranteed since 1984.

On March 30, 2010, the President signed into law H.R. 4872 – The Health Care and Education Reconciliation Act of 2010 (HCERA), which terminated new loan originations in FFELP on June 30, 2010. Effective July 1, 2010, all new Stafford, PLUS or consolidated loans are originated under the U.S. Department of Education Direct Loan Program. Existing FFELP loans will continue to be eligible for program benefits. The Guaranteed Student Loan Programs' Operating Fund and Federal Fund of HESC continue to administer its existing FFELP portfolio of both active and default student loans.

The accompanying financial statements only reflect the Operating Fund and Federal Fund of the Guaranteed Student Loan Programs of HESC. The Federal Fund assets, and earnings on those assets, are restricted in use and are property of the U.S. Department of Education. The Operating Fund is property of HESC and its assets and earnings are restricted in use for student financial aid related activities as required by the Higher Education Amendments of 1998.

HESC also administers the Tuition Assistance Program, and State Scholarship Programs, under which students apply for payments to attend eligible educational institutions based on family income and/or academic achievement. In addition, HESC partners with colleges, universities, school districts and other educational organizations in administering the Gaining Early Awareness and Readiness for Undergraduate Programs and College Access and Challenge Grant which are designed to increase the number of low income students who are prepared to enter and succeed in postsecondary education. These programs are not included in the accompanying financial statements.

(2) Significant Accounting Policies

(a) Basis of Accounting

The Guaranteed Student Loan Programs' Operating Fund and Federal Fund of the New York State Higher Education Services Corporation are prepared under U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). The Guaranteed Student Loan Programs' Operating Fund and Federal Fund follow fund accounting under which resources are classified for accounting and reporting purposes into funds established according to their purpose. The Federal Fund finances FFELP insurance activities, while the Operating Fund accounts for substantially all FFELP operational costs as well as financial aid awareness and related outreach activities. The two funds together constitute the Guaranteed Student Loan Programs and are accounted for as business-type activities using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the cost is incurred regardless of the timing of the related cash flow.

(b) Cash and Cash Equivalents

Cash and cash equivalents, consisting of United States Treasury Bills and collateralized short-term repurchase agreements with original maturities of 90 days or less, are carried at cost plus accrued interest, which approximates fair value. Investment income represents interest on deposits and gains and losses.

(c) Net Position

HESC's net position is classified in the following categories: invested in capital assets, consisting of capital assets, net of accumulated depreciation; restricted – property of U.S. Department of Education, consisting of restricted assets reduced by related liabilities belonging to the U.S. Department of Education; restricted – for student aid related activities, consisting of assets reduced by related liabilities that are not classified as invested in capital assets or restricted – property of U.S. Department of Education; and unrestricted, consisting of pension liabilities.

(d) Operating Revenues and Expenses

Operating revenues and expenses result generally from activities associated with FFELP, including collection on defaulted loans, default prevention, and default loan purchase activities. All revenues and expenses not derived from the administration of FFELP are reported as nonoperating revenues and expenses.

(e) Collections on Defaulted Loans

HESC management is required by Federal statutes to pursue collections on loans upon default claim payment. Collections on defaulted loans and related complements are recorded at the time such collections are received. Through December 31, 2015, all collection receipts were initially deposited in the Operating Fund and daily estimated collection transfers are made to the Federal Fund. Effective

January 1, 2016, HESC established a Federal Fund Suspense account where all deposits are made and daily estimated collections transfers are made to both the Federal Fund and Operating Fund. The Operating Fund retained 16% of borrower payments and rehabilitation collections and 10% of principal and interest at the time of consolidation.

(f) Purchase of Defaulted Federal Loans

Purchases of defaulted loans and amounts repurchased by lenders are recorded as Federal Fund activity. The reinsurance reimbursement results in a net reduction to the Federal Fund for default purchases completed prior to December 1, 2015, due to reduced reinsurance rates of 98% and 95% as a result of various amendments to the Higher Education Act. The Higher Education Act was amended during the 2015-2016 state fiscal year to repeal the reduced reinsurance rates for Guaranty Agencies, all claims are reimbursed at 100% effective December 2015.

All FFELP claims are paid to lenders and servicers at 97% of the claim value. As of March 2016, HESC was processing claims for 7 servicers and 5 lenders.

(g) Income Taxes

HESC is a component unit of the State of New York and is generally exempt from Federal, State, and Local income taxes.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. Management estimates include default aversion fee refunds, carrying value of capital assets, and accrued expenses. Actual results could differ from those estimates.

(i) Adoption of New Accounting Pronouncements and Restatements

During fiscal year 2016, HESC has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*. For the cost-sharing multiple-employer pension plan that HESC participates in, the New York State and Local Employees' Retirement System (the System or ERS), GASB 68 requires that a portion of the System's net pension liability (asset) as well as deferred inflows and outflows of resources from pension activities be reflected in reported amounts on HESC's statement of net position. As a result of adopting this pronouncement, HESC has restated the beginning net position of the Operating Fund at April 1, 2015 of $2,498,900 as follows:

Net position as previously reported at March 31, 2015	$	56,738,621
Net pension liability (measurement date as of March 31, 2014)		(2,206,072)
Deferred outflows:		
HESC contributions made during the year ended March 31, 2015		2,448,913
Pension contribution payable (measurment date as of March 31, 2015)		(2,741,741)
Total cumulative change in accounting principle		(2,498,900)
Net position as restated, April 1, 2015	$	54,239,721

For purposes of measuring the net pension liability, and deferred outflows of resources related to HESC's participation in the System, as well as the related pension expense, information about the fiduciary net position of the System, and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments are recognized when due and payable in accordance with the statutes governing the System. Investments of the System are reported at fair value.

(3) Guaranteed Loans Outstanding and Respective Unpaid Balances

As of March 31, 2016 and 2015, the Federal Fund was the guarantor of loans outstanding with original principal amounts of approximately $14,040,000,000 and $15,352,000,000, respectively, made to students by participating lending institutions. A substantial portion of that amount is guaranteed by the U.S. Department of Education, with an amount representing less than 1% guaranteed by the State. At March 31, 2016 and 2015, the unpaid balances were approximately $10,841,000,000 and $12,121,000,000, respectively.

HESC's management anticipates that a certain portion of the loans outstanding will go into default status, requiring the Federal Fund to purchase loans from lenders. Because the majority of these loans are federally guaranteed, the Federal Fund will be reimbursed by the U.S. Department of Education.

(4) Cash and Cash Equivalents

In accordance with HESC's investment policy, investments are made in low risk securities that are fully collateralized by the dealer. Cash equivalents are short-term investments with original maturities of three months or less when purchased and generally consist of short-term United States Treasury Bills and collateralized repurchase agreements. Cash equivalents are recorded at cost plus accrued interest, which approximates the fair value at March 31, 2016 and 2015. Federal Fund amounts are restricted in use and are property of the U.S. Department of Education. HESC actively manages the investment of its cash balances to minimize its uninvested funds. Excess cash balances are generally invested in short-term repurchase agreements until such time that HESC anticipates the funds will be required for operational needs. Cash balances in an administrative account in the Operating Fund are invested in the New York State Comptroller's short-term investment pool. These cash balances are available to HESC upon demand.

(Continued)

Custodial credit risk for cash and cash equivalents is the risk that in the event of the failure of the counterparty to a transaction, HESC will not be able to recover the value of cash and cash equivalents that are in the possession of an outside party. In order to manage this risk, HESC requires collateral consisting of Federal government obligations or agency instruments guaranteed by the Federal government pursuant to its investments in repurchase agreements and delivery to its Trustee (agent) of all securities purchased and collateral for repurchase agreements, regardless of the seller institution. To manage custodial credit risk on deposits, HESC requires that its depository banks pledge collateral based on available bank balances. Additionally, HESC's investment policy limits the amount of funds which may be invested at any given dealer to $125 million.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a cash equivalent. HESC's policy for managing this risk is to hold cash equivalents to maturity, at which time the fair value of the investment is equal to its stated maturity value.

Cash and cash equivalents at March 31 were as follows:

		2016	2015
Operating Fund:			
Repurchase agreements	$	63,518,645	60,594,726
Cash in State Comptroller's short-term investment pool and cash in bank		1,985,365	9,728,375
Operating Fund cash and cash equivalents	$	65,504,010	70,323,101
Federal Fund:			
Repurchase agreements	$	48,473,981	46,968,815
Cash-net of outstanding bank checks		3,461,074	(6,550,096)
Federal Fund cash and cash equivalents	$	51,935,055	40,418,719

(5) Operating Administrative Fees

The 1998 Amendments established two fees recorded in the Operating Fund for administering the loan program on behalf of the Federal Government based on performance as a guaranty agency.

A Default Aversion Fee is recognized for default aversion activities on delinquent loans at the time the lenders request aversion assistance between the 60th and 120th days of a borrower's delinquency. A fee of 1% of principal and interest on the loan may be charged to the Federal Fund at the time the guaranty agency receives a request from a lender for preclaim assistance. However, the fee must be refunded by the Operating Fund to the Federal Fund in the event the loan is later paid as a default claim. Accordingly, an estimate of default aversion fee refunds of $2,255,868 and $2,395,167 at March 31, 2016 and 2015, respectively, is reported as a liability in the Operating Fund and a receivable in the Federal Fund. The net default aversion fee is transferred from the Federal Fund to the Operating Fund on a monthly basis.

An Account Maintenance Fee is calculated on the original principal amount of loans outstanding at a rate of 0.06%. This fee is paid to the Operating Fund either directly by the U.S. Department of Education or as an authorized transfer from the Federal Fund on a quarterly basis.

For the years ended March 31, 2016 and 2015, the administrative fees receivable from U.S. Department of Education consisted of the following:

		2016	2015
Operating Fund:			
Account maintenance fee receivable	$	2,097,542	2,297,026
	$	2,097,542	2,297,026

For the years ended March 31, 2016 and 2015, administrative fee income is as follows:

		2016	2015
Operating Fund:			
Default aversion fee subsidy, net of estimated refunds	$	(783,433)	(187,962)
Account maintenance fee		8,681,071	9,502,682
Total administrative and program fee income	$	7,897,638	9,314,720

Gross default aversion fee income for the years ended March 31, 2016 and 2015 was $1,916,267 and $3,070,726, respectively. The estimated reserve for default aversion fee refunds is netted against default aversion fee income. In 2016 and 2015, the default aversion fee allowance estimate was 117% and 78% of default aversion fee income, respectively. The estimate of the refunds for 2016 is based on the three year average change in actual refunds applied to current year refunds. Prior year estimates were calculated based on the current year refunds as a percentage of revenue. As the portfolio ages without new loans being added the refunds are exceeding revenue as revenue declines.

(6) Interfund Balances

Interfund balances are monies due to and/or due from the Federal Fund to the Operating Fund and includes collection transfer balances and default aversion fees pending transfer. A daily transfer between funds is made based on an estimate of U.S. Department of Education's equitable share of daily collections. A final settlement for the actual amount of collections due to the Federal Fund is made at month end.

At March 31, 2016, the Operating Fund had a net interfund receivable balance of $381,204 consisting of a receivable from the Federal Fund for overpayment of collections for the month of $477,154 and an interfund default aversion payable of $95,950. At March 31, 2015, the interfund payable consisted of an underpayment of collections activity of $599,403 and a default aversion fee receivable of $34,978.

(7) New York State Initiatives

The New York State budget required the Operating Fund to pay the operational expenses related to the administration of the State's grant and scholarship programs, which amounted to $10,903,738 and $8,351,702 in the years ended March 31, 2016 and 2015, respectively. The increase in expenses is a result of allocating the ITS staff personal service costs directly to the grant and scholarships expense in the year ended March 31, 2016; in the prior year the cost was charged to NYS Servicing expense.

The New York State budgets for the state fiscal years ended March 31, 2016 and 2015 appropriated $16,000,000 and $32,000,000, respectively, of operating funds to subsidize the Tuition Assistance Program (TAP).

In the years ended March 31, 2016 and 2015, HESC's Operating Fund incurred costs of $169,025 and $83,027, respectively, for costs associated with administering the NYHELPs.

HESC's Operating Fund incurred costs for the administration of the college savings program during state fiscal years ended March 31, 2016 and 2015 in the amounts of $10,487 and $26,684, respectively.

The activities of these State programs are excluded from the accompanying financial statements.

(8) Capital Assets

Capital assets are recorded at cost. Capital assets are defined as assets with initial, individual costs exceeding a capitalization threshold of $40,000. Depreciation for Operating Fund assets is based on an estimated five year useful life, using an accelerated depreciation method. The majority of the Federal and Operating Funds' capital assets consists of computer equipment, while a small part of these assets are office equipment.

Capital asset activity in the Operating Fund for the year ended March 31, 2016 is as follows:

		Balance April 1, 2015	Additions	Disposals	Balance March 31, 2016
Office and computer equipment	$	2,145,831	—	(1,081,773)	1,064,058
Less accumulated depreciation		(2,083,530)	(52,300)	1,081,773	(1,054,057)
Net capital assets	$	62,301	(52,300)	—	10,001

Capital asset activity in the Operating Fund for the year ended March 31, 2015 is as follows:

		Balance April 1, 2014	Additions	Disposals	Balance March 31, 2015
Office and computer equipment	$	2,145,831	—	—	2,145,831
Less accumulated depreciation		(1,993,003)	(90,527)	—	(2,083,530)
Net capital assets	$	152,828	(90,527)	—	62,301

At March 31, 2016 and 2015, the Federal Fund did not have any capitalized equipment. All Federal Fund assets were fully depreciated and were obsolete during the State fiscal year.

(9) Retirement Plan

(a) General Information

Substantially all employees working for the Guaranteed Student Loan Programs are members of the System, a defined-benefit cost-sharing, multiple-employer public employee retirement system. The net position of the System is held in the New York State Common Retirement Fund (Fund), which was established to hold all net assets and recorded change in fiduciary net position allocated to the System. System benefits and required contributions are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the State Comptroller serves as sole trustee and administrative head of the System. The Comptroller promulgates rules and regulations for the administration and transaction of the business of the System and for the custody and control of their monies. The System offers a range of programs and benefits that vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, disability benefits and optional methods of benefit payments. Once a public employer elects participate in the System, the election is irrevocable. The System issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, New York 12236, or www.osc.state.ny.us/retire/publications/index.php.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of accredited service. Retirement benefits and contributory requirements depend upon the point in time at which an employee last joined the system. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan. The Operating Fund contributes the entire amount determined to be payable to the System for these employees. Personnel who joined the System after July 27, 1976 are required by law to contribute some percentage of their gross salary for the first ten years of employment. The Operating Fund contributes the balance payable to the System for these employees.

(b) Contributions

System funding requirements are determined by the actuary of the System. The System calculates the employer contribution as a result of the actuarially determined rates and salaries. Participating employers are required under the RSSL to contribute to the System at an actuarially determined rate adopted annually by the Comptroller. The contribution rate for HESC, made through the application of the pension benefit rate within the New York State Fringe Benefit rate calculated by the State's Division of the Budget for the year ended March 31, 2016 and 2015 was 16.73% and 17.52%, respectively, of covered payroll.

Under Chapter 49 of the Law of 2003, the annual contribution rates are based on the value of the State's Common Retirement Funds as of the preceding April, with a minimum contribution of 4.5%. RSSL Chapter 57 of the Laws of 2010 authorized the State and local employers to amortize over ten years, at 5% interest, a portion of their annual bill starting in the fiscal year ended 2011. HESC's contributions to the System for the years ended March 31, 2016 and March 31, 2015 was $2,263,283 and $2,866,458, respectively. Beginning in fiscal year 2011, the State has elected to defer a portion of its required employer contribution resulting in a pension contribution payable as of March 31, 2016 of $2,795,051, of which $2,450,552 is in noncurrent liabilities and $344,499 is included in current liabilities.

(c) Pension Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

HESC's proportionate share of the State's collective net pension liability of $1,649,233 reported at March 31, 2016, was measured as of March 31, 2015, and was determined using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. HESC's proportion of the State's net pension liability was based on a projection of HESC's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. The State makes contributions to the System on behalf of HESC.

At the measurement date of March 31, 2015, HESC's proportion of the net pension liability of ERS was 0.04882%, which is the same as the proportion at March 31, 2014.

For the year ended March 31, 2016, HESC recognized a pension expense of $1,504,623. At March 31, 2016, HESC reported the following deferred outflows of resources related to pension from the following sources:

		Deferred Outflows of Resources
Difference between expected and actual experience	$	52,794
Net difference between projected and actual investment earnings on pension plan investments		286,452
Changes in proportion and differences between contributions and proportionate share of contributions		48,205
Contributions made subsequent to measurement date		2,605,065
Total	$	2,992,516

The amounts of deferred outflows of resources resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2017. The remaining cumulative net amounts reported as deferred outflows of resources related to pensions will be recognized in future pension expense as follows:

		HESC
Year ending March 31:		
2017	$	96,863
2018		96,863
2019		96,863
2020		96,863

(d) Actuarial Assumptions

The total pension liability at the measurement date of March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation for ERS used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation	2.7 percent
Salary scale	4.9 percent
Investment rate of return, including inflation	7.5 percent compounded annually, net of investment expenses
Cost of living adjustments	1.4 percent annually
Decrements	Developed from each Plan's 2010 experience study for period April 1, 2005 through March 31, 2010
Mortality improvement	Society of Actuaries Scale MP-2014

Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for the System as of April 1, 2014 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	38%	7.30%
International equity	13	8.55
Private equity	10	11.00
Real estate	8	8.25
Absolute return strategies	3	6.75
Opportunistic portfolio	3	8.60
Real assets	3	8.65
Bonds and mortgages	18	4.00
Cash	2	2.25
Inflation indexed bonds	2	4.00
	100%	

Discount Rate

The discount rate used to calculate the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the current period net pension liability of HESC calculated using the current period discount rate assumption of 7.5 percent, as well as what HESC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current assumption:

		1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability (asset)	$	10,992,848	1,649,233	(6,239,096)

(10) Other Postretirement Benefits

As a State agency, HESC participates in the New York State Health Insurance Program (NYSHIP), which is administered by the State as an agent multiple employer defined benefit plan. The plan under the State provides certain healthcare benefits for eligible retired employees and their dependents under a single employer noncontributory healthcare plan. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provision of the plan and to establish maximum obligations of the plan members to contribute to the plan. The State's plan states that employees and/or their dependents become eligible for these benefits at 55 years of age when the employee has 10 years of State service. In calculating the 10 year service requirement, all of the employee's service need not be with the State, but may be a composite of State service and service in other qualified sectors. Employees with no prior State service must work a minimum of 10 years before they and their dependents are eligible for the retirement medical benefits. Eligible retirees are required to contribute to the cost of coverage for health insurance benefits, and the rates are based on the negotiated contract rates effective for single or dependent coverage at the time of retirement. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

During the fiscal year ended March 31, 2015, NYSHIP provided health insurance coverage through the Empire Plan, an indemnity health insurance plan with managed care components; 10 Health Maintenance Organizations (HMOs); and through the Student Employee Health Plan (SEHP). Generally, these include hospital, medical, mental health and substance abuse benefits, and prescription drug benefits.

HESC's policy regarding retiree healthcare benefits is to pay the amounts billed through the State's fringe benefit rate on a pay-as-you-go basis. HESC has no obligation beyond the payment of the State's fringe benefit rate for retiree healthcare benefits. The State's policy is that the State is responsible for recording the annual required contribution and the actuarial accrued liability under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits, Other Than Pensions*, for HESC's retiree health care benefits in the State's governmental-wide financial statements.

As of March 31, 2016 and 2015, HESC had approximately 506 and 495 retired and/or spouses of retired employees, receiving retiree health care benefits with an annual pay-as-you-go cost of approximately $4.9 million and $4.5 million, respectively.

(11) Employees' Vacation Pay Benefits

Under the terms of HESC management's personnel policies and its union agreements, vacation pay benefits may be paid upon termination up to a combined maximum of 30 days. The Operating Fund recognizes employees' vacation pay benefits when earned. The liability for employees' vacation pay benefits is $907,861 and $968,853 as of March 31, 2016 and 2015, respectively, and is recorded in accounts payable and accrued expenses in the Operating Fund.

(12) Deferred Compensation

The State offers its employees, including HESC employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan are placed in trust for participants and their beneficiaries.

(13) Leases

HESC leases office and storage space under noncancelable operating leases effective through 2018. Total rental expense recorded in the Operating Fund, which includes utilities for HESC's one significant lease, for the years ended March 31, 2016 and 2015, was $1,527,694 and $1,470,031, respectively. The following is a summary of total future minimum rental commitments under noncancelable leases with terms exceeding one year:

Year ending March 31:	
2017	$ 1,616,662
2018	537,961
	$ 2,154,623

(14) Contingencies

The Operating Fund and the Federal Fund are subject to U.S. Department of Education oversight and audit that at times may result in program issues and potential liabilities. The issues relate to possible violations of the rules and regulations established by the U.S. Department of Education to administer the federal loan programs. Management diligently attempts to interpret the FFELP rules and regulations, and believes that its implementation of policies and procedures properly adheres to those rules and regulations, and that any resulting liabilities would not be material.

(Continued)

During the normal course of business the Guaranteed Student Loan Programs are involved in various legal proceedings and investigations, pertaining to matters relating to the Programs' operations and activities. While these proceedings and investigations may lead to a possible liability, in the opinion of HESC management, after considering all relevant facts, these possible liabilities will not in the aggregate have a material adverse effect on the financial position of the Operating Fund or Federal Fund as of March 31, 2016 and 2015, respectively.

As of the financial issuance date, HESC was working to verify the collections process performed in relation to certain classes of student loans purchased by the agency. There is the potential for a liability resulting from the activities being performed that cannot reasonably be determined at this time. Management believes, however, that the resolution of the verification and any resulting liability will not likely materially affect the financial position or operations of HESC.

HESC is exposed to various risks of loss related to damage and destruction of assets, injuries to employees, or noncompliance with Federal requirements and other natural and other unforeseen disasters. HESC in general does not insure its buildings, contents or related risks and does not insure its assets for claims and assessments arising from bodily injury, property damages, and other perils. Unfavorable judgments, claims, or losses incurred by HESC are covered by the State on a self-insured basis. The State does have fidelity insurance on State employees.

THE GUARANTEED STUDENT LOAN PROGRAMS' OPERATING FUND AND FEDERAL FUND OF THE NEW YORK STATE HIGHER EDUCATION SERVICES CORPORATION

(A Component Unit of the State of New York)

Required Supplemental Information

Schedule of Employer Contributions – New York State and Local Employees' Retirement System Pension Plan (Unaudited)

March 31, 2016

		2016
Contractually required contribution	$	2,007,242
Contributions in relation to the contractually required contribution		2,263,283
Contribution deficiency (excess)	$	(256,041)
Covered payroll	$	11,067,051
Contributions as a percentage of covered payroll		18.1370990%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

THE GUARANTEED STUDENT LOAN PROGRAMS'
OPERATING FUND AND FEDERAL FUND OF
THE NEW YORK STATE HIGHER EDUCATION
SERVICES CORPORATION
(A Component Unit of the State of New York)

Required Supplemental Information

Schedule of Proportionate Share of the Net Pension Liability – New York State and Local Employees' Retirement System Pension Plan (Unaudited)

March 31, 2016

		2016
Share of net pension liability		0.04882%
Proportionate share of the net pension liability	$	1,649,233
Covered payroll	$	11,924,736
Proportionate share of the net pension liability as a percentage of its covered payroll		13.8303523%
Plan fiduciary net position as a percentage of the total pension liability		97.9%

The pension information is based on an actuarial date of April 1, 2014 using a measurement date of March 31, 2015.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.