**IOWA STUDENT LOAN LIQUIDITY CORPORATION**

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors’ Report Thereon)

**IOWA STUDENT LOAN LIQUIDITY CORPORATION**

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**KPMG LLP**
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

# Independent Auditors' Report

The Board of Directors
Iowa Student Loan Liquidity Corporation
West Des Moines, Iowa:

## Report on the Financial Statements

We have audited the accompanying financial statements of Iowa Student Loan Liquidity Corporation (the Corporation), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### *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 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 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### *Other Matters*

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3-12 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 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 October 30, 2015 on our consideration of the Corporation'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 the Corporation's internal control over financial reporting and compliance.

KPMG LLP

Des Moines, Iowa
October 30, 2015

This section of the Iowa Student Loan Liquidity Corporation's (the Corporation) annual financial statements presents management's discussion and analysis of the financial position and results of operations for the fiscal years ended June 30, 2015 (FY15) and 2014 (FY14). This information is being presented to provide additional information regarding the activities of the Corporation. This discussion and analysis should be read in conjunction with the independent auditors' report of KPMG LLP, the financial statements, and the accompanying notes.

## Financial Highlights

- Purchased or originated over $21.1 million in student loans under both its owned and serviced student loan portfolio.
- Continued servicing student loans for the U.S. Department of Education and in FY15 converted an additional $140.9 million in loans to the servicing system. The loans under this serviced portfolio at June 30, 2015 totaled $9.2 billion.
- Issued new debt totaling $38.3 million.
- Retired over $196.9 million in bonds and notes payable.

## Overview of the Financial Statements

The financial statements consist of management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; statements of cash flows; and notes to financial statements section.

The statements of net position present information on all of the Corporation's assets, deferred outflows, liabilities, and deferred inflows with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present information showing how the Corporation's net position changed during FY15 and FY14.

The statements of cash flows report the cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities.

## Condensed Financial Information

The following tables present condensed financial information for FY15, FY14, and FY13 for the Corporation as a whole. The financial information includes net position and revenues, expenses, and changes in net position.

### Net Position

June 30, 2015, 2014, and 2013

(In millions of dollars)

| | | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Assets: | | | | |
| Cash | $ | 4.4 | 9.3 | 9.9 |
| Investments | | 219.1 | 194.9 | 217.3 |
| Student loans receivable, net | | 1,535.2 | 1,725.4 | 1,895.6 |
| Accrued interest receivable | | 17.9 | 20.0 | 23.7 |
| Other receivables | | 1.6 | 1.7 | 2.0 |
| Prepaid expenses | | 4.8 | 3.6 | 3.1 |
| Capital assets, net | | 16.4 | 16.4 | 16.2 |
| Total assets | | 1,799.4 | 1,971.3 | 2,167.8 |
| Deferred outflows of resources: | | | | |
| Accumulated decrease in fair value of hedging derivative | | 3.7 | 6.7 | 9.8 |
| Total deferred outflows of resources | | 3.7 | 6.7 | 9.8 |
| Total assets and deferred outflows of resources | $ | 1,803.1 | 1,978.0 | 2,177.6 |
| Liabilities: | | | | |
| Other accounts payable and accrued expenses | $ | 7.7 | 11.1 | 15.4 |
| Accrued interest payable | | 2.1 | 2.2 | 2.5 |
| Notes payable, net | | 57.9 | 68.1 | 78.2 |
| Bonds payable, net | | 1,132.8 | 1,276.6 | 1,459.6 |
| Total liabilities | | 1,200.5 | 1,358.0 | 1,555.7 |
| Deferred inflows of resources: | | | | |
| Refundable origination fees | | 6.2 | 9.6 | 13.0 |
| Deferred gain on refunded debt | | 99.6 | 118.9 | 150.8 |
| Total deferred inflows of resources | | 105.8 | 128.5 | 163.8 |

| | | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Net position: | | | | |
| Net investment in capital assets | $ | 16.4 | 16.4 | 16.2 |
| Restricted, student loan purchase program | | 267.1 | 236.9 | 205.8 |
| Unrestricted, board designated | | 213.3 | 238.2 | 236.1 |
| Total net position | | 496.8 | 491.5 | 458.1 |
| Total liabilities, deferred inflows of resources, and net position | $ | 1,803.1 | 1,978.0 | 2,177.6 |

**Revenues, Expenses, and Changes in Net Position**

Years ended June 30, 2015, 2014, and 2013

(In millions of dollars)

| | | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Investment income | $ | 0.3 | 0.2 | — |
| Net (decrease) increase in fair value of investments | | (6.0) | 3.8 | 16.3 |
| Student loan interest income | | 59.3 | 65.2 | 78.8 |
| Other student loan revenue | | 3.2 | 3.7 | 3.9 |
| Other income | | 15.0 | 15.9 | 21.6 |
| Gain on extinguishment of debt | | — | — | 2.6 |
| Total operating revenues | | 71.8 | 88.8 | 123.2 |
| Operating expenses (income): | | | | |
| Interest on bonds and notes payable | | 30.8 | 34.6 | 40.2 |
| Amortization of deferred gain on refunded debt | | (19.2) | (31.8) | (38.9) |
| Debt-related expenses | | 1.6 | 0.8 | 5.3 |
| General and administrative | | 48.4 | 50.2 | 50.8 |
| Provision for loan losses | | 4.9 | 1.7 | 9.4 |
| Total operating expenses | | 66.5 | 55.5 | 66.8 |
| Operating income | | 5.3 | 33.3 | 56.4 |
| Net position, beginning of year | | 491.5 | 458.2 | 401.8 |
| Net position, end of year | $ | 496.8 | 491.5 | 458.2 |

**Financial Analysis - 2015**

**Total Assets** – Total assets ended in FY15 at $1.8 billion, a decrease of 8.84% ($174.8 million) as compared to the FY14 amount of $2.0 billion. Cash and investments increased 9.40% ($19.2 million) compared to FY14. Student loan payment collection accumulations, servicing fee receipts and debt draws exceeded cash used for normal on-going operating expenditures, debt service, and origination loan funding. Total Iowa Student Loan owned net student loans have decreased 11.02% ($190.1 million) to $1.5 billion compared to $1.7 billion at June 30, 2014. This decrease is primarily due to borrower cash receipts in excess of loan additions and capitalized borrower interest. The Corporation has purchased or originated $14.8 million in student loans during FY15, a slight increase from the $12.4 million during the same period in FY14.

**Total Liabilities** – Total liabilities decreased 11.60% ($157.6 million) as compared to FY14. Debt activity makes up most of this change. Bond and note maturities exceeded new debt issuances during the year resulting in a net decrease in debt outstanding totaling $154 million. Other accounts payable and accrued expenses dropped 31.52% ($3.5 million) with most of this decrease coming from a $3.0 million decrease in the accumulated fair value of a hedging derivative.

Deferred inflows of resources, including refundable origination fees and deferred gains on refunded debt activities, was at $105.8 million at the end of FY15 compared to an ending FY14 balance of $128.5 million. This is a 17.62% ($22.6 million) decrease. The refundable origination fee change is primarily due to normal amortization. Deferred gain on refunded debt activity included amortization of deferred gain on refunded debt totaling $19.2 million.

**Net Position** – Net position of the Corporation increased 1.09% ($5.3 million) during FY15 to $496.8 million from an ending FY14 balance of $491.5 million. Positive net interest margins and a reduction in operating expenses both contributed to positive operating income.

**Total Operating Revenues** – The Corporation earned $71.8 million in total operating revenues during FY15, a decrease of 19.04% ($16.9 million) from FY14. Student loan interest income decreased 9.06% ($5.9 million) compared to FY14. The Corporation's average owned outstanding student loan portfolio dropped by 9.08% ($178.9 million) in FY15. Normal pay downs during the year have impacted the average student loan outstanding comparison. Borrower interest allowance adjustments on defaulted private loans reduced student loan interest income by $4.6 million in FY15. Net decrease in fair value of investments reduced revenue $6.0 million. This is a $9.8 million decrease from the FY14 amount.

**Total Operating Expenses** – The Corporation's total operating expenses for FY15 increased 19.94% ($11.1 million) over FY14 totals. Total interest expense on bonds and notes payable during FY15 decreased 10.92% ($3.8 million) from FY14 due primarily to a decrease in average debt outstanding from FY14 to FY15 of $189.5 million (12.88%). Additionally, debt-related expenses increased in FY15 by $0.8 million over the FY14 amount. Most of this increase relates to additional cost of issuance expense incurred during FY15 on the new debt issuance. The FY15 amortization of deferred gain on refunded debt was $19.2 million, a decrease of 39.45% ($12.5 million). This change comes from the amortization of deferred gains on short-term debt that ended during FY14. The provision for loan losses (related primarily to private loans) increased in FY15 by $3.2 million when compared to FY14. General default trends and additional loans maturing into a repayment status contributed to this increase.

## Major Financing and Long-Term Debt Activity

The following list details the major financing activity of the Corporation during FY15:

| Date | Amount | Type of activity |
|---|---|---|
| 7/10/2014 | $ (831,722) | Principal payment on notes outstanding |
| 7/15/2014 | (152) | Principal payment on notes outstanding |
| 7/16/2014 | 5,900 | Funding draw on commercial note used to fund student loans. |
| 7/17/2014 | 5,900 | Funding draw on commercial note used to fund student loans. |
| 7/25/2014 | (4,636,388) | Principal payment on bonds outstanding |
| 8/11/2014 | (881,623) | Principal payment on notes outstanding |
| 8/15/2014 | (228) | Principal payment on notes outstanding |
| 8/18/2014 | 1,500 | Funding draw on commercial note used to fund student loans. |
| 8/25/2014 | (5,505,722) | Principal payment on bonds outstanding |
| 8/26/2014 | 23,765 | Funding draw on commercial note used to fund student loans. |
| 8/27/2014 | 37,341 | Funding draw on commercial note used to fund student loans. |
| 8/28/2014 | 542 | Funding draw on commercial note used to fund student loans. |
| 8/29/2014 | 13,591 | Funding draw on commercial note used to fund student loans. |
| 9/2/2014 | 5,448 | Funding draw on commercial note used to fund student loans. |
| 9/4/2014 | 10,745 | Funding draw on commercial note used to fund student loans. |
| 9/10/2014 | (818,585) | Principal payment on notes outstanding |
| 9/11/2014 | 2,277 | Funding draw on commercial note used to fund student loans. |
| 9/12/2014 | 3,800 | Funding draw on commercial note used to fund student loans. |
| 9/15/2014 | (545) | Principal payment on notes outstanding |
| 9/17/2014 | 3,900 | Funding draw on commercial note used to fund student loans. |
| 9/18/2014 | 2,306 | Funding draw on commercial note used to fund student loans. |
| 9/19/2014 | 6,000 | Funding draw on commercial note used to fund student loans. |
| 9/22/2014 | 1,750 | Funding draw on commercial note used to fund student loans. |
| 9/25/2014 | (17,468,743) | Principal payment on bonds outstanding |
| 9/29/2014 | 6,000 | Funding draw on commercial note used to fund student loans. |
| 10/1/2014 | 3,500 | Funding draw on commercial note used to fund student loans. |
| 10/9/2014 | 3,950 | Funding draw on commercial note used to fund student loans. |
| 10/10/2014 | (915,230) | Principal payment on notes outstanding |
| 10/15/2014 | 3,034 | Funding draw on commercial note used to fund student loans. |
| 10/21/2014 | 3,000 | Funding draw on commercial note used to fund student loans. |
| 10/23/2014 | 3,250 | Funding draw on commercial note used to fund student loans. |
| 10/24/2014 | 4,280 | Funding draw on commercial note used to fund student loans. |
| 10/27/2014 | (5,724,417) | Principal payment on bonds outstanding |
| 11/5/2014 | 4,573 | Funding draw on commercial note used to fund student loans. |
| 11/10/2014 | (825,810) | Principal payment on notes outstanding |
| 11/14/2014 | 4,455 | Funding draw on commercial note used to fund student loans. |
| 11/15/2014 | (6,816) | Principal payment on notes outstanding |
| 11/18/2014 | (3,772) | Principal payment on notes outstanding |

| Date | Amount | Type of activity |
|---|---|---|
| 11/19/2014 | $ 11,000 | Funding draw on commercial note used to fund student loans. |
| 11/24/2014 | 7,455 | Funding draw on commercial note used to fund student loans. |
| 11/25/2014 | (5,879,420) | Principal payment on bonds outstanding |
| 12/1/2014 | (45,960,000) | Principal payment on bonds outstanding |
| 12/10/2014 | (697,328) | Principal payment on notes outstanding |
| 12/16/2014 | 3,352 | Funding draw on commercial note used to fund student loans. |
| 12/17/2014 | 5,952 | Funding draw on commercial note used to fund student loans. |
| 12/26/2014 | (17,830,225) | Principal payment on bonds outstanding |
| 1/2/2015 | 3,050 | Funding draw on commercial note used to fund student loans. |
| 1/5/2015 | 32,647 | Funding draw on commercial note used to fund student loans. |
| 1/12/2015 | (1,018,681) | Principal payment on notes outstanding |
| 1/13/2015 | 100,024 | Funding draw on commercial note used to fund student loans. |
| 1/15/2015 | (3,739) | Principal payment on notes outstanding |
| 1/26/2015 | (5,709,439) | Principal payment on bonds outstanding |
| 1/28/2015 | 3,365 | Funding draw on commercial note used to fund student loans. |
| 1/29/2015 | 6,500 | Funding draw on commercial note used to fund student loans. |
| 2/6/2015 | 8,049 | Funding draw on commercial note used to fund student loans. |
| 2/9/2015 | 4,698 | Funding draw on commercial note used to fund student loans. |
| 2/10/2015 | (894,186) | Principal payment on notes outstanding |
| 2/15/2015 | (22,921) | Principal payment on notes outstanding |
| 2/25/2015 | (5,854,542) | Principal payment on bonds outstanding |
| 2/25/2015 | 4,127 | Funding draw on commercial note used to fund student loans. |
| 3/1/2015 | (3,354) | Principal payment on notes outstanding |
| 3/5/2015 | 1,000 | Funding draw on commercial note used to fund student loans. |
| 3/6/2015 | 1,000 | Funding draw on commercial note used to fund student loans. |
| 3/10/2015 | (858,138) | Principal payment on notes outstanding |
| 3/15/2015 | (364) | Principal payment on notes outstanding |
| 3/18/2015 | 5,000 | Funding draw on commercial note used to fund student loans. |
| 3/19/2015 | 4,148 | Funding draw on commercial note used to fund student loans. |
| 3/20/2015 | 482 | Funding draw on commercial note used to fund student loans. |
| 3/23/2015 | 481 | Funding draw on commercial note used to fund student loans. |
| 3/25/2015 | (18,593,506) | Principal payment on bonds outstanding |
| 3/27/2015 | 139,280 | Funding draw on commercial note used to fund student loans. |
| 4/7/2015 | 4,017 | Funding draw on commercial note used to fund student loans. |
| 4/8/2015 | 4,016 | Funding draw on commercial note used to fund student loans. |
| 4/9/2015 | 1,658 | Funding draw on commercial note used to fund student loans. |
| 4/10/2015 | (1,073,652) | Principal payment on notes outstanding |
| 4/15/2015 | (3,764) | Principal payment on notes outstanding |
| 4/27/2015 | (6,142,907) | Principal payment on bonds outstanding |

| Date | | Amount | Type of activity |
|---|---|---|---|
| 4/28/2015 | $ | 6,840 | Funding draw on commercial note used to fund student loans. |
| 4/30/2015 | | 3,885 | Funding draw on commercial note used to fund student loans. |
| 5/1/2015 | | 6,805 | Funding draw on commercial note used to fund student loans. |
| 5/5/2015 | | 3,400 | Funding draw on commercial note used to fund student loans. |
| 5/11/2015 | | (954,743) | Principal payment on notes outstanding |
| 5/13/2015 | | 37,800,000 | New issue - Taxexempt student loan revenue bonds |
| 5/15/2015 | | (14,024) | Principal payment on notes outstanding |
| 5/19/2015 | | 6,000 | Funding draw on commercial note used to fund student loans. |
| 5/26/2015 | | (5,902,891) | Principal payment on bonds outstanding |
| 5/28/2015 | | 3,920 | Funding draw on commercial note used to fund student loans. |
| 6/1/2015 | | (21,610,000) | Principal payment on bonds outstanding |
| 6/10/2015 | | (939,435) | Principal payment on notes outstanding |
| 6/25/2015 | | (19,339,299) | Principal payment on bonds outstanding |

**Financial Analysis – 2014**

**Total Assets** – Total assets ended in FY14 at $2.0 billion, a decrease of 9.17% ($199.6 million) as compared to the FY13 amount of $2.2 billion. Cash and investments decreased 10.09% ($22.9 million) compared to FY13. Cash used for normal on-going operating expenditures, debt service, and origination loan funding exceeded student loan payment collection accumulations, servicing fee receipts and debt draws. Total Iowa Student Loan owned net student loans have decreased 8.98% ($170.3 million) to $1.7 billion compared to $1.9 billion at June 30, 2013. This decrease is primarily due to borrower cash receipts in excess of loan additions and capitalized borrower interest. The decrease in student loans due to cash receipts exceeding new loan additions was partially offset by the allowance for loan losses decreasing approximately $102.7 million. The decrease in the allowance for loan losses is primarily due to a change in write-off policy for private loans. Prior to FY14, the Corporation would reserve for, but not write-off, loans that had been identified as in default. During FY14, the Corporation implemented a policy to write-off the principal balance and related accrued interest receivable on private loans that were 270 or more days past due with no principal or interest payment activity in the most recent 12 month period. The change in policy resulted in an insignificant impact to operating income as all write-offs were recorded as a reduction to the allowance for loan losses. The Corporation has purchased or originated $12.4 million in student loans during FY14, a slight increase from the $11.8 million during the same period in FY13.

**Total Liabilities** – Total liabilities decreased 12.71% ($197.7 million) as compared to FY13. Debt activity makes up most of this change. Bond and note maturities exceeded new debt issuances during the year resulting in a net decrease in debt outstanding totaling $193.1 million. Other accounts payable and accrued expenses dropped 27.2% ($4.2 million) with most of this decrease coming from a $3.1 million decrease in the accumulated fair value of a hedging derivative.

Deferred inflows of resources, including refundable origination fees and deferred gains on refunded debt activities, was at $128.5 million at the end of FY14 compared to an ending FY13 balance of $163.8 million. This is a 21.53% ($35.2 million) decrease. The refundable origination fee change is primarily to from normal amortization. Deferred gain on refunded debt activity included amortization of deferred gain on refunded debt totaling $31.8 million.

**Net Position** – Net position of the Corporation increased 7.27% ($33.3 million) during FY14 to $491.5 million from an ending FY13 balance of $458.2 million. Positive net interest margins, increased servicing fee income, amortization of deferred gains, and lower provisions for loan losses all contributed.

**Total Operating Revenues** – The Corporation earned $88.8 million in total operating revenues during FY14, a decrease of 28.08% ($34.7 million) from FY13. Student loan interest income decreased 17.23% ($13.6 million) compared to FY13. The Corporation's average owned outstanding student loan portfolio dropped by 8.01% ($171.5 million) in FY14. Normal pay downs during the year have impacted the average student loan outstanding comparison. Borrower interest allowance adjustments on defaulted private loans reduced student loan interest income by $5.6 million in FY14. Net increase in fair value of investments added $3.8 million to investment income. This is a $12.5 million (76.86%) drop from the FY13 amount.

Gain on extinguishment of debt activity in FY14 was significantly below FY13 by $2.6 million as there was no new debt refinancing in FY14.

**Total Operating Expenses** – The Corporation's total operating expenses for FY14 decreased 17.19% ($11.3 million) from FY13. Total interest expense on bonds and notes payable during FY14 decreased 14.80% ($5.6 million) from FY13 due primarily due a decrease in average debt outstanding from FY13 to FY14 of $166.1 million (10.63%). Additionally, debt-related expenses in FY13 included new debt issuance costs of $4.4 million, which were not incurred in FY14 due to no significant new debt issuances.

The FY14 amortization of deferred gain on refunded debt was $31.8 million, a decrease of 18.13% ($7.0 million). This change comes from the amortization of deferred gains on short-term debt that finished during part of FY14 compared to a full year in FY13. The provision for loan losses (related primarily to private loans) decreased in FY14 by 82.00% ($7.7 million) when compared to FY13. This decrease is mainly due to a more seasoned repayment portfolio and effective management of delinquent loans.

### Major Financing and Long-Term Debt Activity

The following list details the major financing activity of the Corporation during FY14:

| Date | Amount | Type of activity |
|---|---|---|
| 7/10/2013 | $ (798,841) | Principal payment on notes outstanding. |
| 7/15/2013 | (269) | Principal payment on notes outstanding. |
| 7/25/2013 | (9,549,721) | Principal payment on bonds outstanding. |
| 8/12/2013 | (987,961) | Principal payment on notes outstanding. |
| 8/20/2013 | (189) | Principal payment on notes outstanding. |
| 8/26/2013 | (4,818,459) | Principal payment on bonds outstanding. |
| 9/3/2013 | 5,500 | Funding draw on commercial note used to fund student loans. |
| 9/9/2013 | 2,250 | Funding draw on commercial note used to fund student loans. |
| 9/10/2013 | (805,796) | Principal payment on notes outstanding. |
| 9/10/2013 | 10,000 | Funding draw on commercial note used to fund student loans. |
| 9/15/2013 | (196) | Principal payment on notes outstanding. |
| 9/17/2013 | 15,150 | Funding draw on commercial note used to fund student loans. |
| 9/25/2013 | (16,958,983) | Principal payment on bonds outstanding. |
| 9/27/2013 | 3,512 | Funding draw on commercial note used to fund student loans. |
| 10/8/2013 | 1,400 | Funding draw on commercial note used to fund student loans. |
| 10/10/2013 | (878,345) | Principal payment on notes outstanding. |
| 10/11/2013 | 2,874 | Funding draw on commercial note used to fund student loans. |
| 10/15/2013 | (219) | Principal payment on notes outstanding. |
| 10/25/2013 | (4,100,989) | Principal payment on bonds outstanding. |
| 10/29/2013 | 4,460 | Funding draw on commercial note used to fund student loans. |
| 10/31/2013 | 6,750 | Funding draw on commercial note used to fund student loans. |
| 11/8/2013 | 6,178 | Funding draw on commercial note used to fund student loans. |
| 11/12/2013 | (744,108) | Principal payment on notes outstanding. |
| 11/15/2013 | (1,984) | Principal payment on notes outstanding. |
| 11/19/2013 | 2,000 | Funding draw on commercial note used to fund student loans. |
| 11/25/2013 | (3,855,103) | Principal payment on bonds outstanding. |
| 11/25/2013 | 10,601 | Funding draw on commercial note used to fund student loans. |
| 11/27/2013 | 6,650 | Funding draw on commercial note used to fund student loans. |
| 12/2/2013 | (49,005,000) | Principal payment on bonds outstanding. |
| 12/6/2013 | 1,000 | Funding draw on commercial note used to fund student loans. |
| 12/10/2013 | 10,000 | Funding draw on commercial note used to fund student loans. |
| 12/10/2013 | (771,531) | Principal payment on notes outstanding. |
| 12/15/2013 | (215) | Principal payment on notes outstanding. |
| 12/26/2013 | (14,687,767) | Principal payment on notes outstanding. |
| 1/2/2014 | 6,250 | Funding draw on commercial note used to fund student loans. |
| 1/3/2014 | 18,101 | Funding draw on commercial note used to fund student loans. |
| 1/6/2014 | 42,750 | Funding draw on commercial note used to fund student loans. |
| 1/10/2014 | (942,148) | Principal payment on notes outstanding. |
| 1/15/2014 | (1,949) | Principal payment on notes outstanding. |
| 1/27/2014 | 915 | Funding draw on commercial note used to fund student loans. |
| 1/27/2014 | (5,236,887) | Principal payment on bonds outstanding. |

| Date | Amount | Type of activity |
|---|---|---|
| 1/29/2014 | $ 116,177 | Funding draw on commercial note used to fund student loans. |
| 2/10/2014 | (993,507) | Principal payment on notes outstanding. |
| 2/12/2014 | 77 | Funding draw on commercial note used to fund student loans. |
| 2/13/2014 | (1,447) | Principal payment on notes outstanding. |
| 2/15/2014 | (554) | Principal payment on notes outstanding. |
| 2/25/2014 | (4,977,215) | Principal payment on bonds outstanding. |
| 2/28/2014 | 15,150 | Funding draw on commercial note used to fund student loans. |
| 3/10/2014 | (848,920) | Principal payment on notes outstanding. |
| 3/25/2014 | (16,988,374) | Principal payment on bonds outstanding. |
| 4/1/2014 | 7,000 | Funding draw on commercial note used to fund student loans. |
| 4/10/2014 | (972,598) | Principal payment on notes outstanding. |
| 4/15/2014 | (196) | Principal payment on notes outstanding. |
| 4/25/2014 | (6,367,558) | Principal payment on bonds outstanding. |
| 4/28/2014 | 6,116 | Funding draw on commercial note used to fund student loans. |
| 5/6/2014 | 6,332 | Funding draw on commercial note used to fund student loans. |
| 5/12/2014 | (907,063) | Principal payment on notes outstanding. |
| 5/15/2014 | (189) | Principal payment on notes outstanding. |
| 5/16/2014 | 38 | Funding draw on commercial note used to fund student loans. |
| 5/21/2014 | 6,700 | Funding draw on commercial note used to fund student loans. |
| 5/27/2014 | (6,135,987) | Principal payment on bonds outstanding. |
| 5/28/2014 | 7,025 | Funding draw on commercial note used to fund student loans. |
| 6/2/2014 | (23,385,000) | Principal payment on bonds outstanding. |
| 6/9/2014 | 4,500 | Funding draw on commercial note used to fund student loans. |
| 6/10/2014 | (787,817) | Principal payment on notes outstanding. |
| 6/15/2014 | (225) | Principal payment on notes outstanding. |
| 6/25/2014 | (18,456,290) | Principal payment on bonds outstanding. |
| 6/25/2014 | 2,525 | Funding draw on commercial note used to fund student loans. |
| 6/26/2014 | 9,307 | Funding draw on commercial note used to fund student loans. |

**IOWA STUDENT LOAN LIQUIDITY CORPORATION**

Statements of Net Position

June 30, 2015 and 2014

| **Assets and Deferred Outflows of Resources** | | **2015** | **2014** |
|---|---|---|---|
| Current assets: | | | |
| Cash (note 2) | $ | 4,422,760 | 9,339,004 |
| Assets held by trustee (substantially restricted): | | | |
| Investments (note 2) | | 188,710,486 | 127,935,394 |
| Student loans receivable, net (note 3) | | 159,088,427 | 123,992,247 |
| Accrued interest receivable | | 10,190,710 | 7,359,080 |
| Other receivables | | 1,628,065 | 1,715,409 |
| Other assets | | 1,190,085 | 1,401,261 |
| Total current assets | | 365,230,533 | 271,742,395 |
| Noncurrent assets: | | | |
| Assets held by trustee (substantially restricted): | | | |
| Investments (note 2) | | 30,354,866 | 67,006,533 |
| Student loans receivable, net (note 3) | | 1,376,125,385 | 1,601,343,945 |
| Accrued interest receivable | | 7,667,452 | 12,656,556 |
| Other assets | | 3,722,264 | 2,178,681 |
| Capital assets, net of accumulated depreciation and amortization | | 16,391,516 | 16,370,502 |
| Total noncurrent assets | | 1,434,261,483 | 1,699,556,217 |
| Total assets | | 1,799,492,016 | 1,971,298,612 |
| Deferred outflows of resources: | | | |
| Accumulated decrease in fair value of hedging derivative | | 3,678,850 | 6,712,601 |
| Total deferred outflows of resources | | 3,678,850 | 6,712,601 |
| Total assets and deferred outflows of resources | $ | 1,803,170,866 | 1,978,011,213 |
| **Liabilities, Deferred Inflows of Resources, and Net Position** | | | |
| Current liabilities: | | | |
| Other accounts payable and accrued expenses | $ | 7,667,320 | 11,196,101 |
| Accrued interest payable | | 2,135,987 | 2,197,918 |
| Notes payable, net (note 4) | | 8,968,211 | 9,628,882 |
| Bonds payable, net (note 4) | | 132,258,856 | 122,703,239 |
| Total current liabilities | | 151,030,374 | 145,726,140 |
| Noncurrent liabilities: | | | |
| Notes payable, net (note 4) | | 48,898,628 | 58,463,811 |
| Bonds payable, net (note 4) | | 1,000,573,722 | 1,153,872,242 |
| Total noncurrent liabilities | | 1,049,472,350 | 1,212,336,053 |
| Total liabilities | | 1,200,502,724 | 1,358,062,193 |
| Deferred inflows of resources: | | | |
| Refundable origination fees | | 6,201,953 | 9,573,371 |
| Deferred gain on refunded debt | | 99,629,198 | 118,886,950 |
| Total deferred inflows of resources | | 105,831,151 | 128,460,321 |
| Commitments and contingencies (note 6) | | | |
| Net position (note 8): | | | |
| Net investment in capital assets | | 16,391,516 | 16,370,502 |
| Restricted, student loan purchase program | | 267,126,155 | 236,945,560 |
| Unrestricted, board designated | | 213,319,320 | 238,172,637 |
| Total net position | | 496,836,991 | 491,488,699 |
| Total liabilities, deferred inflows of resources, and net position | $ | 1,803,170,866 | 1,978,011,213 |

See accompanying notes to financial statements.

**IOWA STUDENT LOAN LIQUIDITY CORPORATION**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

| | | 2015 | 2014 |
|---|---|---|---|
| Operating revenues: | | | |
| Investment income | $ | 374,705 | 220,287 |
| Net (decrease) increase in fair value of investments | | (6,017,634) | 3,775,901 |
| Student loan interest income | | 59,315,510 | 65,227,269 |
| Other student loan revenue | | 3,233,095 | 3,657,920 |
| Other income | | 14,970,565 | 15,896,143 |
| Total operating revenues | | 71,876,241 | 88,777,520 |
| Operating expenses (income): | | | |
| Interest on bonds and notes payable | | 30,833,681 | 34,613,403 |
| Amortization of deferred gain on refunded debt | | (19,257,753) | (31,802,165) |
| Debt-related expenses | | 1,629,126 | 793,247 |
| General and administrative (note 5) | | 48,418,308 | 50,172,311 |
| Provision for loan losses (note 3) | | 4,904,587 | 1,689,460 |
| Total operating expenses | | 66,527,949 | 55,466,256 |
| Operating income | | 5,348,292 | 33,311,264 |
| Net position, beginning of year | | 491,488,699 | 458,177,435 |
| Net position, end of year | $ | 496,836,991 | 491,488,699 |

See accompanying notes to financial statements.

**IOWA STUDENT LOAN LIQUIDITY CORPORATION**

Statements of Cash Flows

Years ended June 30, 2015 and 2014

| | | 2015 | 2014 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Principal receipts on student loans | $ | 217,113,640 | 202,178,718 |
| Interest receipts on student loans | | 44,749,160 | 48,085,133 |
| Origination of student loans | | (14,795,206) | (12,449,790) |
| Cash receipts (refunds) for fees, net | | (463,894) | 272,362 |
| Payments to employees | | (18,303,806) | (19,435,215) |
| Payments to vendors | | (26,895,996) | (29,603,784) |
| Other | | 15,220,050 | 16,168,743 |
| Net cash provided by operating activities | | 216,623,948 | 205,216,167 |
| Cash flows from non-capital financing activities: | | | |
| Proceeds from issuance of bonds | | 40,587,486 | – |
| Repayment of bonds | | (186,157,499) | (184,523,333) |
| Interest paid on bonds | | (29,026,951) | (33,494,510) |
| Proceeds from issuance of notes | | 542,958 | 337,288 |
| Repayment of notes | | (10,768,812) | (10,446,267) |
| Payments for debt service costs | | (710,404) | (782,305) |
| Payments for bond issuance costs | | (872,217) | – |
| Net cash used in non-capital financing activities | | (186,405,439) | (228,909,127) |
| Cash flows from capital and related financing activites | | | |
| Acquisition of capital assets | | (2,827,343) | (3,083,195) |
| Cash used in capital and related financing activites | | (2,827,343) | (3,083,195) |
| Cash flows from investing activities: | | | |
| Purchases of investments | | (14,917,936) | (72,384,136) |
| Interest received on investments | | 872,795 | 88,104 |
| Maturities of investments | | 36,668,733 | 10,437,472 |
| Net cash provided by (used in) investing activities | | 22,623,592 | (61,858,560) |
| Net increase (decrease) in cash and cash equivalents | | 50,014,758 | (88,634,715) |
| Cash and cash equivalents, beginning of year | | 103,041,790 | 191,676,505 |
| Cash and cash equivalents, end of year | $ | 153,056,548 | 103,041,790 |
| Reconciliation of operating income to cash provided by operating activities: | | | |
| Operating income | $ | 5,348,292 | 33,311,264 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization on capital assets | | 2,840,916 | 2,887,026 |
| Interest income from investments | | (374,705) | (220,287) |
| Equity investment loss - Other income | | 309,432 | – |
| Amortization of deferred gain on refunded debt | | (19,257,752) | (31,802,165) |
| Interest expense on bonds and notes payable | | 30,833,681 | 34,613,403 |
| Debt-related expenses | | 1,629,126 | 793,247 |
| Decrease in student loans receivable, net | | 190,122,380 | 170,307,967 |
| Decrease in accrued interest receivable | | 2,114,789 | 3,825,155 |
| Decrease in other receivables | | 129,535 | 245,028 |
| Disposal of capital assets | | – | 31,207 |
| Increase (decrease) in employee and vendor-related prepaid and deferred expenses | | 856,450 | (516,469) |
| Decrease in other accounts payable and accrued expenses | | (574,412) | (1,087,751) |
| Decrease in refundable origination fees | | (3,371,418) | (3,395,557) |
| Decrease (increase) in fair value of investments | | 6,017,634 | (3,775,901) |
| Net cash provided by operating activities | $ | 216,623,948 | 205,216,167 |

See accompanying notes to financial statements.

## (1) Organization and Summary of Significant Accounting Policies

### *(a) Reporting Entity*

The Iowa Student Loan Liquidity Corporation (the Corporation) was incorporated in 1979 as a private nonprofit corporation for the purpose of providing funds for the acquisition of student loan notes incurred under the United States Higher Education Act of 1965, as amended, and to provide procedures for servicing such notes.

Aspire Resources Inc. (AR), formerly ISL Service Corp, a wholly owned subsidiary of the Corporation, was incorporated in 2001 to provide services not related to the Corporation's nonprofit purpose. AR has developed systems and procedures for loan origination and disbursement related processes including supporting the functions of electronic data transmissions management, Web reporting, loan information delivery, and centralized loan disbursement services. AR also provides on-going portfolio servicing for student loan portfolios not owned by the Corporation.

The Corporation's board of directors is appointed by the Governor of the State of Iowa. The State of Iowa's accountability does not extend beyond the appointment of the board of directors, and therefore, the Corporation is not a component unit of the State of Iowa. Pursuant to Section 7C.4A(3) of the Code of Iowa, the Corporation has the ability to directly issue debt that pays interest, which is exempt from federal taxation.

Pursuant to the action of the Legislature of the State of Iowa, the Corporation is also empowered to finance and originate alternative education loans in addition to those permitted under the United States Higher Education Act of 1965.

The Corporation has no taxing authority. Bonds and notes issued do not constitute a debt, liability of, obligation of, or a pledge of the faith and credit of the State of Iowa or any agency or political subdivision thereof. There are no other organizations or agencies whose financial statements should be combined and presented with those of the Corporation.

### *(b) Basis of Presentation*

The accompanying financial statements of the Corporation have been prepared in conformity with U.S. generally accepted accounting principles (GAAP).

### *(c) Basis of Accounting and Accounting Estimates*

The accounting and financial reporting treatment applied is the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are reported when earned and expenses are reported at the time liabilities are incurred, regardless of when the related cash flows take place. In preparing the accompanying financial statements, management is required 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***(d) Cash Equivalents***

For purposes of the statements of cash flows, all highly liquid investments with maturity of three months or less when purchased are considered to be cash equivalents.

***(e) Investments***

The Corporation carries its investments at fair value based on available market prices. Changes in fair value are recorded in the statements of revenues, expenses, and changes in net position. Interest on investments is accrued and credited to interest income.

***(f) Student Loans Receivable***

Student loans consist of federally insured student loans and alternative (nonfederally insured) student loans. If the Corporation has the ability and intent to hold loans for the foreseeable future, such loans are held for investment and carried at amortized cost. Loans which are held for investment also have an allowance for loan loss as needed.

***(g) Allowance for Losses on Loans and Uncollected Interest***

The allowance for loan losses represents management's estimate of probable losses on student loans. This evaluation process is subject to numerous estimates and judgments. The Corporation evaluates the adequacy of the allowance for loan losses on its federally insured loan portfolio separately from its private loan portfolio.

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Corporation's loan portfolios considering past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. The federal government currently guarantees 97% of the principal of and the interest on federally insured student loans disbursed on and after July 1, 2006 (and 98% for those loans disbursed prior to July 1, 2006), which limits the Company's loss exposure on the outstanding balance of the Corporation's federally insured portfolio. Federal student loans disbursed prior to October 1, 1993 are fully insured.

In determining the adequacy of the allowance for loan losses on private loans the Corporation considers several factors including: loans in repayment versus those in a nonpaying status, delinquency status, type of credit, and trends in defaults in the portfolio based on Corporation and industry data. The Corporation considers a private loan to be in a default status when it reaches 120 days delinquent or greater. The defaulted loans are further evaluated and disaggregated based on delinquency and principal and interest payment history. For defaulted loans, a 100% allowance is applied to the outstanding principal balance for the allowance calculation. For defaulted loans in which the Corporation has worked with the borrower to establish a workout schedule and the borrower is less than 120 days past due, a lifetime default percentage is applied to the outstanding principal balance. For all other nondefaulted private loans, a net allowance percentage based on historical experience is applied to the outstanding principal balance.

Student loans are charged off in the event of a borrower's death, permanent disability, or amounts representing the unguaranteed portion of Federal Family Education Loan Program (FFELP) loans. Additionally, a private loan charge-off is recorded when the loan reaches 270 days delinquent without any principal or interest payment activity during the previous 12 months.

The Corporation places a private loan on nonaccrual status when the terms of a loan are restructured, and the Corporation does not resume accrual of interest. Cash receipts on nonaccrual loans are first applied to any accrued and unpaid interest before being applied to principal. At June 30, 2015 and 2014, loans totaling $15,208,048 and $26,456,209, respectively, were greater than 90 days past due and accruing interest. The Corporation assesses accrued and unpaid student loan interest for collectability, and reverses student loan interest income in the period in which it is determined that collection is doubtful. The Corporation charges off accrued interest receivable when a loan reaches 270 days delinquent without any principal or interest payment activity during the previous 12 months.

The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be subject to significant changes. The provision for loan losses reflects the activity for the applicable period and provides an allowance at a level that the Corporation's management believes is appropriate to cover probable losses inherent in the loan portfolio.

The provision for loan losses represents the periodic expense of maintaining an appropriate allowance to absorb probable losses inherent in the portfolio of student loans. Activity in the allowance for loan losses, for the years ended June 30, 2015 and 2014 is shown below.

**Allowance for Loan Loss Activity**

Year ended June 30, 2015

| | | Government loans | Private loans | Total |
|---|---|---|---|---|
| Beginning balance | $ | 1,414,250 | 58,807,267 | 60,221,517 |
| Charge-offs | | (17,508) | (35,446,831) | (35,464,339) |
| Recoveries | | — | 528,652 | 528,652 |
| Provision for loan losses | | (347,000) | 5,251,587 | 4,904,587 |
| Ending balance | $ | 1,049,742 | 29,140,675 | 30,190,417 |
| Ending loan balance | $ | 738,196,602 | 827,208,390 | 1,565,404,992 |
| Allowance for loan losses as a percentage of loans | | 0.14% | 3.52% | |

**Allowance for Loan Loss Activity**

Year ended June 30, 2014

| | | Government loans | Private loans | Total |
|---|---|---|---|---|
| Beginning balance | $ | 1,007,900 | 161,873,433 | 162,881,333 |
| Charge-offs | | (188,897) | (104,160,379) | (104,349,276) |
| Provision for loan losses | | 595,247 | 1,094,213 | 1,689,460 |
| Ending balance | $ | 1,414,250 | 58,807,267 | 60,221,517 |
| Ending loan balance | $ | 859,416,767 | 926,141,718 | 1,785,558,485 |
| Allowance for loan losses as a percentage of loans | | 0.16% | 6.35% | |

Delinquencies have the potential to adversely impact the Corporation's earnings through increased servicing and collection costs and account charge-offs. The tables below shows the Corporation's student loan delinquency amounts on loans as of June 30, 2015 and 2014.

**Portfolio Summary**

Year ended June 30, 2015

| | Government loans | | Private loans | | Total | |
|---|---|---|---|---|---|---|
| Loans in-school/grace | $ 3,744,957 | | 28,829,540 | | 32,574,497 | |
| Loans in deferment and forbearance: | | | | | | |
| Deferment | 57,554,755 | | 48,337,069 | | 105,891,824 | |
| Forbearance | 20,062,494 | | 27,265 | | 20,089,759 | |
| Total loans in-school/ grace, and deferment and forbearance | 81,362,206 | | 77,193,874 | | 158,556,080 | |
| Loans in repayment: | | | | | | |
| Current | 602,898,731 | 91.79% | 679,102,249 | 90.55% | 1,282,000,980 | 91.13% |
| 31-60 days delinquent | 16,273,997 | 2.48 | 10,855,432 | 1.45 | 27,129,429 | 1.93 |
| 61-90 days delinquent | 9,176,317 | 1.40 | 6,389,976 | 0.85 | 15,566,293 | 1.11 |
| 91-120 days delinquent | 6,291,222 | 0.96 | 3,609,074 | 0.48 | 9,900,296 | 0.70 |
| 121-180 days delinquent | 9,822,573 | 1.50 | — | — | 9,822,573 | 0.70 |
| 181-270 days delinquent | 9,251,758 | 1.41 | — | — | 9,251,758 | 0.66 |
| 271 days or grater delinquent | 2,690,395 | 0.40 | — | — | 2,690,395 | 0.19 |
| Claims filed but not yet paid and private loan defaults | 429,403 | 0.06 | 50,057,785 | 6.67 | 50,487,188 | 3.58 |
| Total loans in repayment | 656,834,396 | 100.00% | 750,014,516 | 100.00% | 1,406,848,912 | 100.00% |
| Total loans | $ 738,196,602 | | 827,208,390 | | 1,565,404,992 | |

**Portfolio Summary**

Year ended June 30, 2014

| | Government loans | | Private loans | | Total | |
|---|---|---|---|---|---|---|
| Loans in-school/grace | $ 7,801,954 | | $ 30,839,760 | | $ 38,641,714 | |
| Loans in deferment and forbearance: | | | | | | |
| Deferment | 77,350,071 | | 63,895,977 | | 141,246,048 | |
| Forbearance | 56,512,607 | | 35,398 | | 56,548,005 | |
| Total loans in-school/ grace, and deferment and forbearance | 141,664,632 | | 94,771,135 | | 236,435,767 | |
| Loans in repayment: | | | | | | |
| Current | 656,273,062 | 91.43% | 725,258,911 | 87.24% | 1,381,531,973 | 89.18% |
| 31-60 days delinquent | 16,462,042 | 2.29 | 12,355,702 | 1.49 | 28,817,744 | 1.86 |
| 61-90 days delinquent | 10,792,216 | 1.50 | 8,169,790 | 0.98 | 18,962,006 | 1.22 |
| 91-120 days delinquent | 6,937,447 | 0.97 | 3,862,764 | 0.46 | 10,800,211 | 0.70 |
| 121-180 days delinquent | 10,712,204 | 1.49 | — | — | 10,712,204 | 0.69 |
| 181-270 days delinquent | 10,090,389 | 1.41 | — | — | 10,090,389 | 0.65 |
| 271 days or grater delinquent | 4,227,337 | 0.59 | — | — | 4,227,337 | 0.27 |
| Claims filed but not yet paid and private loan defaults | 2,257,438 | 0.32 | 81,723,416 | 9.83 | 83,980,854 | 5.43 |
| Total loans in repayment | 717,752,135 | 100.00% | 831,370,583 | 100.00% | 1,549,122,718 | 100.00% |
| Total loans | $ 859,416,767 | | $ 926,141,718 | | $ 1,785,558,485 | |

Loan portfolio segments are defined as government loans and private loans. Government loans include loans in the FFELP and under the Health Education Assistance Loan Program (HEAL). Private loans represent loans for students to fund the attendance of certain post-secondary education institutions and these are not guaranteed through any federal program. See additional discussion in note (3) Student Loans Receivable.

### *(h) Revenue Recognition*

Loan interest is paid by the U.S. Department of Education (the Department) or the borrower, depending on the status of the loan at the time of the accrual. In addition, the Department makes quarterly interest subsidy payments on certain qualified FFELP loans until the student is required under the provisions of the Higher Education Act to begin repayment.

The Department provides a special allowance to lenders participating in the FFELP. The special allowance amount is commercial paper rate or the 1-month London InterBank Offered Rate (LIBOR) to the average daily unpaid principal balance and capitalized interest of student loans held by the Corporation. We accrue the special allowance as earned or payable. For loans first disbursed prior to

January 1, 2000, the 91-day Treasury Bill rate is used rather than the 3-month financial commercial paper rate or the 1-month LIBOR. The Corporation recognizes student loan income as earned. Loan income is recognized based upon the expected yield of the loan after giving effect to borrower utilization of incentives such as timely payments (borrower benefits) and other yield adjustments.

### *(i) Capital Assets*

Furniture, equipment, and leasehold improvements are stated at cost. Depreciation on furniture and equipment is calculated on the straight-line method over the estimated useful lives of three to ten years. Leasehold improvements are amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Capital assets had the following activity during the years ended June 30, 2015 and 2014:

| | June 30, 2014 | Additions | Retirements | June 30, 2015 |
|---|---|---|---|---|
| Furniture, equipment, and leasehold improvements | $ 42,091,105 | 2,861,930 | 1,050 | 44,951,985 |
| Less accumulated depreciation | 25,720,603 | 2,840,916 | 1,050 | 28,560,469 |
| Furniture, equipment, and leasehold improvements, net | $ 16,370,502 | 21,014 | — | 16,391,516 |

| | June 30, 2013 | Additions | Retirements | June 30, 2014 |
|---|---|---|---|---|
| Furniture, equipment, and leasehold improvements | $ 40,211,260 | 3,083,195 | 1,203,350 | 42,091,105 |
| Less accumulated depreciation | 24,005,720 | 2,887,026 | 1,172,143 | 25,720,603 |
| Furniture, equipment, and leasehold improvements, net | $ 16,205,540 | 196,169 | 31,207 | 16,370,502 |

### *(j) Deferred Revenue*

Refundable origination fees are received by the Corporation at the time of origination of loans. These fees are amortized over the life of the loan using the sum-of-the-years-digits method, which approximates the interest method. A portion of the fees are refundable to the borrower in the event the loan is paid in full prior to the scheduled maturity date.

### *(k) Derivative Products*

During 2012, the Corporation entered into an interest rate swap transaction in connection with the issuance of Series 2011A bonds. The interest rate swap will result in a net floating rate obligation of the Corporation and is reasonably anticipated to better align the Corporation's borrowing costs with the return on the eligible financed loans. The Corporation is receiving payments based on a fixed rate equal to 1.23%. The Corporation is making payments to the counterparty based on a floating rate indexed to three-month LIBOR. This agreement has a current notional amount of $318,505,000 that amortizes to zero on the final termination date of December 1, 2030. This swap is subject to optional cancellation on each interest payment date (without a termination payment), in part or in full, from the notional amount down to an amount no less than the minimum notional amount. The minimum notional amount will in all cases be less than or equal to the stated notional amount per the amortization schedule, and is based on the initial schedule of expected redemptions prior to stated maturity. The value of the interest rate swap for 2015 and 2014 is recorded in other accounts payable and accrued expenses in the statements of net position, with accumulated changes in value recorded as a deferred outflow of resources in the statements of net position. As of June 30, 2015 and 2014, the fair value of the swap recorded in the statements of net position was a liability of $3,678,850 and $6,712,601, respectively. During the year ended June 30, 2015 and 2014, the Corporation received payments from the counterparty totaling $3,314,823 and $3,658,456, respectively. This amount is recorded in interest on bonds and notes payable in the statements of revenues, expenses, and changes in net position.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit Risk* – The Corporation is exposed to credit risk on the hedging instrument to the extent it is in an asset position. To minimize the exposure to loss related to credit risk, if the counterparty's credit rating falls below certain minimum levels then the counterparty is required to either post collateral, transfer the swap to an eligible transferee, or obtain a guarantee from an eligible guarantor, depending on the level of credit downgrade.

There was no exposure to credit risk at June 30, 2015 or 2014 as the derivative had a negative fair value as of that date. The credit ratings of the counterparty to the 2011 swap as of June 30, 2015 and 2014 were A (Fitch Ratings) and A-1 (Standard & Poor's) which were above the minimum level in the swap agreement. The Corporation has no other interest rate swap agreements with the counterparty so there are no master netting arrangements in place. Additionally, no collateral has been posted by the Corporation or the counterparty.

*Termination Risk* – Upon the occurrence of any default or termination event the swap agreement terminates and a termination payment may be required to be made by either the Corporation or the counterparty to the other party. The termination payment is based on market quotations and loss amounts netted against any unpaid amounts. All or a portion of the 2011 swap agreement may be terminated by the Corporation on each June 1 or December 1 through the term of the swap agreement.

*Interest Rate and Basis risk* – The Corporation is exposed to interest rate risk because the swap created synthetic variable-rate debt subject to changes in market interest rates. The Corporation is not exposed to basis risk because the debt being hedged is fixed rate.

*Rollover Risk* –The Corporation is not exposed to rollover risk, because the maturity date of the swap agreements closely matches the amortization period of the assets collateralizing the debt.

The following table details the estimated future cash flows of the 2011A debt and the 2011 interest rate swap using the 3-month LIBOR interest rate in effect at June 30, 2015, without forecasting forward changes in that rate and using the amortization schedule in the swap agreement. Future increases in the 3-month LIBOR rate could materially affect these expected cash flows.

| Year ending June 30 | Principal payments | Interest payments | Interest rate swap receipts, net | Total |
|---|---|---|---|---|
| 2016 | $ 23,540,000 | 13,494,172 | (2,862,577) | 34,171,595 |
| 2017 | 19,680,000 | 12,706,091 | (2,466,774) | 29,919,317 |
| 2018 | 14,055,000 | 12,050,211 | (2,185,162) | 23,920,049 |
| 2019 | 13,700,000 | 11,456,933 | (2,053,623) | 23,103,310 |
| 2020 | 17,220,000 | 10,741,211 | (1,907,081) | 26,054,130 |
| 2021-2025 | 95,220,000 | 39,612,910 | (6,867,269) | 127,965,641 |
| 2026-2030 | 88,190,000 | 12,615,380 | (2,156,887) | 98,648,493 |
| 2031-2035 | 9,135,000 | 222,677 | (43,301) | 9,314,376 |
| Total | $ 280,740,000 | 112,899,585 | (20,542,674) | 373,096,911 |

### *(l) Income Taxes*

The Corporation is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code, and accordingly, no provision for income taxes has been made in the accompanying financial statements. As such, the Corporation is subject to federal and state income taxes only on any net unrelated business income under the provisions of Section 511 of the Internal Revenue Code.

Aspire Resources, Inc., a wholly owned taxable subsidiary, of the Corporation generated current year income and is using historical loss carryforwards to offset it. Income tax expense has been recorded in the financial statements, along with any related tax assets and liabilities. The income tax effects of AR are not material to the financial statements.

***(m) Fair Value of Financial Instruments***

The Corporation holds certain assets that are required to be measured at fair value on a recurring basis. These include the Corporation's investment in United States agency obligations and corporate notes and bonds. The Corporation is required to group its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

**Level 1** – Valuation is based upon quoted prices for identical instruments traded in active markets.

**Level 2** – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

**Level 3** – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Corporation's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Corporation's investments in money market mutual funds and investments in United States agency obligations are valued using quoted market prices for identical instruments traded in active markets, and are therefore Level 1 in the fair value hierarchy. The Corporation's interest rate swaps are valued using widely accepted valuation techniques based on observable market-based inputs, and are therefore in Level 2. Corporate notes and bonds are valued using a model based on significant assumptions not observable in the market and are therefore in Level 3.

There were no transfers between levels for the years ended June 30, 2015 or 2014.

The Corporation had no nonfinancial assets or liabilities that were recognized or disclosed in the financial statements at fair value on a nonrecurring basis.

The methods and assumptions used by the Corporation to estimate the fair value of its financial instruments not recorded in the financial statements at fair value are set forth below. The fair value disclosures of these financial instruments are included in note 7 to the financial statements.

*Student Loans Receivable* – The fair value was estimated by modeling loan cash flows using existing loan terms and assumptions to determine loan yields, average term, and present value. The discount rate is estimated using currently offered yields of similar remaining maturities.

*Accrued Interest Receivable* – The carrying amount for accrued interest receivable approximates its fair value.

*Bonds Payable* – The fair value of bonds payable is calculated by discounting scheduled cash flows through maturity using estimated market discount rates. The discount rate is estimated using the rates currently offered for debt of similar remaining maturities.

*Notes Payable* – The carrying amount for notes payable approximates fair value due to variable interest rates.

*Accounts Payable and Accrued Expenses* – The carrying amount for accounts payable and accrued expenses approximates its fair value.

*Accrued Interest Payable* – The carrying amount for accrued interest payable approximates its fair value.

*Limitations* – Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Because no active market exists for a significant portion of the Corporation's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## (2) Deposits and Investments

### *(a) Cash Deposits and Cash Equivalents*

At June 30, 2015 and 2014, the Corporation's cash deposits of $4,422,760 and $9,339,004, respectively, were covered by federal depository insurance or collateralized trust accounts. Cash equivalents of $148,633,788 and $93,702,786, respectively, were included in investments in the statements of net position for total cash and cash equivalents of $153,056,548 and $103,041,790, respectively.

### *(b) Investments*

The following table displays the types of investments, amounts, and the average maturity of the investment:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Face amount** | **Fair value** | **Average maturity** | **Face amount** | **Fair value** | **Average maturity** |
| United States agency obligations | $ 54,300,000 | 54,417,926 | 1–5 years | $ 76,000,000 | 76,547,890 | 1–5 years |
| Corporate notes and bonds | 21,954,000 | 16,013,638 | 0–34 years | 51,900,788 | 24,691,251 | 0–34 years |
| Money market mutual funds investing in United States agency obligations | 148,633,788 | 148,633,788 | Less than 1 year | 93,702,786 | 93,702,786 | Less than 1 year |
| | $ 224,887,788 | 219,065,352 | | $ 221,603,574 | 194,941,927 | |

### *(c) Investment Policy*

Investment portfolio management is the responsibility of the Corporation's management and staff. The Corporation's board of directors has established a general investment policy and specific bond indentures direct investment policy for assets restricted under those bond indentures.

Qualified investments under the general investment policy include investments in:

- U.S. Treasury, agency, and instrumentality obligations; interest-bearing time or demand deposits, certificates of deposits, and repurchase agreements and reverse repurchase agreements with any financial institution provided that such funds are fully insured by an agency of the federal government or collateralized at 100% with securities unconditionally and fully guaranteed by the U.S. government or collateralized with 102% of nongovernmental securities in this policy.
- Commercial paper rated, at the time of purchase, at least “P1” by Moody’s, “A1” by S & P, and “F-1+” by Fitch.
- Money market funds and corporate notes rated, at the time of purchase, at least in the top two tiers of one of the nationally recognized rating agencies.
- Investment agreements or guarantee investment contracts, secured by collateral securities that may be entered into with any bank, bank holding company, corporation, or any other financial institution whose outstanding: (i) commercial paper is rated, at the time of purchase, at least the same as commercial paper above for agreements 12 months or less, (ii) unsecured long-term debt is rated, at time of purchase, in the top two rating categories of one of the nationally recognized rating agencies, and commercial paper rated the same as above for agreements greater than 12 months, or (iii) in each case, by an insurance company whose claims paying ability is rated as provided in (ii) above.

All investment purchase orders must be authorized by a Corporate Officer, the Board Chairman, or the Board Vice Chairman.

**Concentration Limits**

With the exception of treasury and agency securities, no more than 5% of the overall investment portfolio, or 5% of the investment portfolio of any trust estate, may be invested in one asset category.

With the exception of treasury and agency securities, no more than 2% of the overall investment portfolio, or 2% of the investment portfolio of any trust estate, may be invested in securities issued by or sponsored by the same entity. In no event will more than $10 million in securities owned or sponsored by a common entity be owned by the Corporation, with the exception of treasury and agency securities.

Corporate notes and bonds were in compliance with the policy above as of the purchase date of those investments. Concentration restrictions were not in place at the time of purchase of the current outstanding corporate notes and bonds.

**Special Considerations**

Commercial Paper: The Corporation may only invest in commercial paper that is fully guaranteed by a line of credit or a combination of bond insurance and a liquidity provider, all such entities being rated in the top two ratings categories.

Money Market Funds: The Corporation may only invest in money market funds that: 1. limit their investments to those which otherwise conform to this policy, and 2. which include special safeguards to collateralize or insure all cash held by the fund.

Qualified investments under various bond indentures includes any of the following obligations, which at the time of investment are legal investments under the laws of the State of Iowa for the money proposed to be invested therein:

(a) Cash held in a trust account or if not held in a trust account insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (b) below

(b) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America

(c) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Farmers Home Administration
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration

(d) Senior debt obligations rated "AAA" by S&P and "Aaa" by Moody's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, or senior debt obligations of other government sponsored agencies approved by the Bond Insurer with notice to S&P

(e) U.S. dollar denominated deposit accounts, federal funds, and banker's acceptances with domestic commercial banks that have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank)

(f) Commercial paper that is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase

(g) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P

(h) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state that are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the escrow), in the highest rating category of S&P and Moody's or any successors thereto; and

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate

(i) Guaranteed investment contracts or surety bonds providing for the investment of funds in an account or insuring a minimum rate of return on investments of such funds, which contract or surety bond shall: (i) be an obligation of or guaranteed by an insurance company or other corporation or financial institution whose debt obligations or insurance financial strength or claims paying ability are rated "AAA" by S&P, "Aaa" by Moody's, and "AAA" by Fitch

(j) A repurchase agreement that satisfies the following criteria: (i) must be between the trustee and a dealer, bank, securities firm, insurance company, or other financial institution described as: (A) primary dealers on the Federal Reserve reporting dealer list, which (x) have a long-term rating of "AA-" or better by S&P, "Aa2" or better by Moody's and "A" or better by Fitch or (y) have a long-term rating of "AA-" or better by S&P, "A" or better by Fitch and "Aa3" or better by Moody's and a short-term rating of "P-1" by Moody's, or (B) banks, insurance companies, or other financial institutions, which (x) have a long-term rating of "AA-" or better by S&P, "Aa2" or better by Moody's and "A" or better by Fitch or (y) have a long-term rating of "AA-" or better by S&P, "A" or better by Fitch and "Aa3" or better by Moody's and a short-term rating of "P-1" by Moody's; (ii) the written repurchase agreement must include the following: Securities that are acceptable for the transfer are: (A) direct U.S. government, or (B) federal agencies backed by the full faith and credit of the U.S. government (and Fannie Mae & Freddie Mac); and (iii) the collateral must be delivered to the trustee or third-party custodian acting as agent for the trustee by appropriate book entries and confirmation statements must have been delivered before or simultaneous with payment (perfection by possession of certificated securities)

***(d) Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a depository institution failure, the Corporation's deposits may not be returned.

***(e) Credit Risk***

Credit risk is the risk that an issuer or counterparty will not fulfill its obligation to the Corporation. The Corporation minimizes credit risk by limiting securities to those authorized in the investment policy; diversifying the investment portfolio to limit the impact of potential losses from any one type of security or issuer; and prequalifying the financial institutions, brokers, dealers, and advisers with which the Corporation does business.

***(f) Concentration Risk***

Concentration of risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security.

The table below addresses credit risk and concentration risk for the Corporation's corporate notes and bonds at June 30, 2015 and 2014:

| | | June 30, 2015 | | June 30, 2014 | |
|---|---|---|---|---|---|
| **Provider** | **S&P rating*** | **Total** | **Percentage of total** | **Total** | **Percentage of total** |
| Raven Funding Limited (formerly Rhinbridge, PLC) | A-1+ | $ 7,935,938 | 50% | $ 7,355,427 | 30% |
| Harbour Limited (formerly Mainsail II, LTD) | A-1+ | 8,077,700 | 50 | 17,335,824 | 70 |
| Total | | $ 16,013,638 | 100% | $ 24,691,251 | 100% |

* S&P rating at the time of purchase

***(g) Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of the portfolio. It is the intent and practice of the Corporation's management to hold investments to maturity, which mitigates interest rate risk.

***(h) Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Corporation has no positions in foreign currency or any foreign currency denominated investments.

***(i) Market Risk***

Due to the level of risk with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the value of the securities. Recent market conditions have resulted in an unusually high degree of volatility and increased the risks with certain investments held by the Corporation which could impact the value of investments after the date of these financial statements.

## (3) Student Loans Receivable

Student loans receivable include eligible student loans acquired by the Corporation that are guaranteed as to principal and interest by any guarantor with which the Corporation has an agreement and whose guarantee is entitled to federal reimbursement. The loans are reinsured by the United States Secretary of Education. Upon default, unpaid principal and accrued interest on FFELP student loans receivable are guaranteed by the Federal Government at the following rates:

| Disbursement Date of Loan | Guarantee Percentage |
|---|---|
| Prior to October 1, 1993 | 100% |
| October 1, 1993 – June 30, 2006 | 98% |
| On or After July 1, 2006 | 97% |

Such guarantees require lenders, servicers, and guarantors to comply with the provisions of the Higher Education Act of 1965 and the applicable regulations thereunder.

In addition, the Higher Education Act of 1965, as amended, provides for interest subsidy and special allowance payments by the Secretary of Education. The interest subsidy is a payment of interest for those loans not in repayment status. The special allowance payment, which continues throughout the loan life, provides additional income to holders of student loans or requires a payment to the federal government. This allowance is calculated on the unpaid principal balance of student loans, based on an annual rate increased by various add-on rates depending upon when the loan was originated. The special allowance amount is commercial paper rate or the 1-month London InterBank Offered Rate (LIBOR) to the average daily unpaid principal balance and capitalized interest of student loans held by the Corporation. For loans first disbursed prior to January 1, 2000, the 91-day Treasury Bill rate is used rather than the 3-month financial commercial paper rate or the 1-month LIBOR. If the special allowance rate is above the loan interest rate then a payment is made to the lender from the federal government on the difference. If the special allowance rate is below the loan interest rate then the difference is paid to the federal government by the lender.

The Corporation holds loans under the HEAL. The HEAL loans are 100% insured as to principal and interest by the Secretary of Education of the United States Department of Health and Human Services. The receipt of federal reimbursement payments is subject to compliance with the insurance contracts and the requirements of the Federal Public Services Act. Under the HEAL program, borrowers are eligible to pay interest at a quarterly reset variable rate based upon the 91-day Treasury bill plus a spread of up to 3%.

The Corporation also holds loans under the Iowa Partnership Loan Program, which are not subject to the aforementioned federal guarantees. Private loans are not insured so the Corporation has the full risk of loss.

As of June 30, 2015 and 2014, the Corporation serviced loans for others in the amounts of $10.0 billion and $11.2 billion, respectively.

The Corporation offers on-time repayment incentives to certain borrowers through a reduction in interest upon meeting program criteria.

A summary of the Corporation's student loans receivable by loan program at June 30, 2015 and 2014 is as follows:

| | | 2015 | 2014 |
|---|---|---|---|
| Federal family education loan program | $ | 735,947,394 | 856,389,523 |
| Health education assistance loan program | | 2,249,208 | 3,027,244 |
| Iowa partnership loan program | | 827,208,390 | 926,141,718 |
| | | 1,565,404,992 | 1,785,558,485 |
| Allowance for repayment incentive benefits | | (763) | (776) |
| Allowance for loan losses | | (30,190,417) | (60,221,517) |
| Student loans receivable, net | $ | 1,535,213,812 | 1,725,336,192 |

The weighted average yield on student loans receivable at June 30, 2015 and 2014 was 3.57% and 3.28%, respectively.

A summary of changes in the allowance for loan losses for the years ended June 30, 2015 and 2014 is as follows:

| | | 2015 | 2014 |
|---|---|---|---|
| Beginning allowance for loan losses | $ | 60,221,517 | 162,881,333 |
| Provision for loan losses | | 4,904,587 | 1,689,460 |
| Charge-offs | | (35,464,339) | (104,349,276) |
| Recoveries | | 528,652 | — |
| Ending allowance for loan losses | $ | 30,190,417 | 60,221,517 |

## (4) Bonds and Notes Payable

The bonds and notes payable are limited obligations of the Corporation, payable primarily from the principal and interest payments on student loans purchased and originated. The bonds and notes are collateralized by and payable only from the student loans, revenues, and recoveries of principal and all amounts held in any account established under the bond indenture or note documents. In addition, accounts are restricted in accordance with the provisions of the applicable bond indenture or note documents.

A summary of bonds and notes payable at June 30, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---|---|---|
| $262,000,000 student loan asset-backed notes, 2005 Senior Class A-2 (taxable), final maturity date March 25, 2022 | $ — | 22,112,136 |
| $168,000,000 student loan asset-backed notes, 2005 Senior Class A-3 (taxable), final maturity date September 25, 2037 | 163,957,006 | 168,000,000 |
| $35,000,000 student loan asset-backed notes, 2005 Subordinate Class B (taxable), final maturity date September 25, 2037 | 27,161,557 | 31,494,487 |
| The 2005 Class A-2, A-3, and B notes were issued to bear interest at an annual rate equal to three-month LIBOR plus 0.10%, 0.17%, and 0.35%, respectively. Interest rate resets will occur on the 25th day of each March, June, September, and December. Interest rates ranged from 0.33% to 0.63% during 2015 and were 0.38%, 0.45%, and 0.63% on June 30, 2015, respectively. Interest rates ranged from 0.33% to 0.62% during 2014 and were 0.33%, 0.40%, and 0.58% on June 30, 2014, respectively. | | |
| | 191,118,563 | 221,606,623 |

| | 2015 | 2014 |
|---|---|---|
| $166,085,000 student loan revenue bonds, Series 2009-1, November 18, 2009 | $ 86,655,000 | 108,410,000 |
| Less unamortized bond discount | (138,196) | (128,198) |
| $23,255,000 student loan revenue bonds, Series 2009-2, November 18, 2009 | 23,255,000 | 23,255,000 |
| Less unamortized bond discount | (71,053) | (77,874) |
| $40,830,000 student loan revenue bonds, Series 2009-3, November 18, 2009 | 4,485,000 | 4,485,000 |
| Less unamortized bond discount | (8,774) | (10,966) |
| The Series 2009 bonds are term bonds due December 1, 2015 through December 1, 2031. Interest rates on the bonds range from 4.38% to 5.80%, based on maturity. Interest accrues and is payable semiannually. Bonds maturing after December 1, 2020, are subject to early redemption at par value at the option of the Corporation. In addition, certain bonds issued at a premium that are optionally redeemed may have an additional redemption price based on unamortized and outstanding premiums. During 2015 and 2014, a portion of the bonds were redeemed early. | | |
| | 114,176,977 | 135,932,962 |
| $249,000,000 student loan asset-backed notes, 2011-1 series, November 22, 2011. | 178,925,139 | 199,732,694 |
| Less unamortized discount | (9,424,322) | (10,520,295) |
| The 2011-1 notes were issued to bear interest at an annual rate equal to three-month LIBOR plus 1.25%. Interest rate resets will occur on the 25th day of each March, June, September, and December. The interest rate ranged from 1.48% to 1.53% during 2015 and was 1.53% on June 30, 2015. The interest rate ranged from 1.48% to 1.52% during 2014 and was 1.48% on June 30, 2014. | | |
| | 169,500,817 | 189,212,399 |

| | | 2015 | 2014 |
|---|---|---|---|
| $244,250,000 student loan revenue bonds, Series 2011A-1 November 22, 2011. | $ | 157,580,000 | 189,645,000 |
| $175,250,000 student loan revenue bonds, Series 2011A-2 November 22, 2011. | | 123,160,000 | 136,910,000 |
| The Series 2011A bonds are term bonds due December 1, 2015 through December 1, 2030. The interest rates on the bonds range from 3.50% to 5.85%, based on maturity. Interest accrues and is paid semiannually. Bonds maturing on or after December 20, 2020 are subject to redemption at the option of the Corporation at par plus a redemption premium and accrued interest. Also, there is a special optional redemption from excess revenue at the option of the Corporation during the recycling period at par plus accrued interest. During 2015, a portion of the bonds was redeemed early. | | | |
| | | 280,740,000 | 326,555,000 |
| $521,000,000 student loan asset-backed notes, Series 2012-1 Senior Class A (taxable), final maturity August 25, 2033 | | 330,759,295 | 398,051,179 |
| $10,000,000 student loan asset-backed notes, Series 2012-1 Subordinate Class B (taxable), final maturity December 26, 2046 | | 10,000,000 | 10,000,000 |
| Less unamortized discount | | (3,993,969) | (4,782,682) |
| The 2012 Class A and B notes were issued to bear interest at an annual rate equal to one-month LIBOR plus 0.80% and 3.50%, respectively. Interest rate resets will occur on the 25th day of each calendar month. Interest rates ranged from 0.95% to 3.69% during 2015 and were 0.99% and 3.69% on June 30, 2015, respectively. Interest rates ranged from 0.95% to 3.69% during 2014 and were 0.95% and 3.65% on June 30, 2014, respectively. | | | |
| | | 336,765,326 | 403,268,497 |

| | | 2015 | 2014 |
|---|---|---|---|
| $37,800,000 student loan revenue bonds, Series 2015-A | | | |
| May 13, 2015. | $ | 37,800,000 | — |
| Plus unamortized premium | | 2,730,895 | — |
| The Series 2015-A bonds are term bonds due December 1, 2018 through December 1, 2034. Interest rates on the bonds range from 4.00% to 5.00%, based on maturity. Interest accrues and is paid semiannually. Bonds maturing on or after December 1, 2026 are subject to redemption at the option of the Corporation at par plus a redemption premium and accrued interest. Also, there is a special optional redemption from excess revenue at the option of the Corporation during the recycling period at par plus accrued interest. | | | |
| | | 40,530,895 | — |
| Total bonds payable, net | $ | 1,132,832,578 | 1,276,575,481 |

| | | 2015 | 2014 |
|---|---|---|---|
| Notes payable: | | | |
| $2,500,000 promissory note | $ | 339,543 | 340,262 |
| On October 10, 2008, the Corporation entered into a promissory note in an amount not to exceed $2,500,000. Under the agreement, advances were made to fund certain private student loans fully disbursed during the period from October 10, 2008 through August 30, 2009. The promissory note matures on March 31, 2026 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to New York Prime published on the last business day of the previous calendar quarter plus 0.50%. The interest rate was 3.75% throughout the years ended June 30, 2015 and 2014. | | | |
| | | 339,543 | 340,262 |
| $400,000 promissory note | | 35,847 | 37,175 |
| On January 6, 2009, the Corporation entered into a promissory note in an amount not to exceed $400,000. Under the agreement, advances were made to fund certain private student loans fully disbursed during the period from January 6, 2009 through August 30, 2009. The promissory note matures on March 31, 2030 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to New York Prime published on the tenth calendar day prior to the end of the preceding calendar quarter plus 0.75%. The minimum interest rate is 4.00%. The interest rate was 4.00% throughout the years ended June 30, 2015 and 2014. | | | |
| | | 35,847 | 37,175 |

| | | 2015 | 2014 |
|---|---|---|---|
| $400,000 promissory note<br>On January 29, 2009, the Corporation entered into a promissory note in an amount not to exceed $400,000. Under the agreement, advances were made to fund certain private student loans fully disbursed during the period from January 29, 2009 through August 30, 2009. The promissory note matures on March 31, 2026 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to New York Prime published on the tenth calendar day prior to the end of the preceding calendar quarter plus 0.75%. The minimum interest rate is 4.00%. The interest rate was 4.00% throughout the years ended June 30, 2015 and 2014. | $ | 123,716 | 123,716 |
| | | 123,716 | 123,716 |
| $2,000,000 promissory note<br>On June 18, 2009, the Corporation entered into a promissory note in an amount not to exceed $2,000,000. Under the agreement, advances were made to fund certain private student loans fully disbursed during the period from June 30, 2009 through August 30, 2010. The promissory note matures on May 31, 2026 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to New York Prime published on the tenth calendar day prior to the end of the preceding calendar quarter plus 1.75%. The minimum interest rate is 5.00%. The interest rate was 5.00% throughout the years ended June 30, 2015 and 2014. | | 975,242 | 975,242 |
| | | 975,242 | 975,242 |

| | | 2015 | 2014 |
|---|---|---|---|
| $200,000 promissory note<br>On July 31, 2009, the Corporation entered into a promissory note in an amount not to exceed $200,000. Under the agreement, advances were made to fund certain private student loans fully disbursed during the period from July 31, 2009 through August 30, 2010. The promissory note matures on May 31, 2030 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to New York Prime published on the tenth calendar day prior to the end of the preceding calendar quarter plus 1.75%. The minimum interest rate is 5.00%. The interest rate was 5.00% throughout the years ended June 30, 2015 and 2014. | $ | 99,674 | 99,674 |
| | | 99,674 | 99,674 |
| $300,000 promissory note<br>On September 1, 2009, the Corporation entered into a promissory note in an amount not to exceed $300,000. Under the agreement, advances were made to fund certain private student loans fully disbursed during the period from September 1, 2009 through August 30, 2010. The promissory note matures on May 31, 2027 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to New York Prime published on the tenth calendar day prior to the end of the preceding calendar quarter plus 1.75%. The minimum interest rate is 5.00%. The interest rate was 5.00% throughout the years ended June 30, 2015 and 2014. | | 294,153 | 294,154 |
| | | 294,153 | 294,154 |

| | | 2015 | 2014 |
|---|---|---|---|
| $1,500,000 promissory note<br>On March 31, 2010, the Corporation entered into a promissory note in an amount not to exceed $1,500,000. Under the agreement, advances may be made to fund certain private student loans fully disbursed during the period from September 1, 2010 through August 30, 2011. The promissory note matures on March 31, 2027 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to New York Prime published on the tenth calendar day prior to the end of the preceding calendar quarter plus 0.50%. The minimum interest rate is 5.00%. The interest rate was 5.00% throughout the years ended June 30, 2015 and 2014. | $ | 1,146,791 | 1,166,461 |
| | | 1,146,791 | 1,166,461 |
| $82,000,000 promissory note, Series 2011-B<br>On October 25, 2011, the Corporation entered into a promissory note. The promissory note has a final maturity not to exceed October 10, 2031 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans. The notes were issued to bear interest at an annual rate equal to three-month LIBOR plus 3.50%. Interest rate resets will occur on the 10th day of each January, April, July, and October. The interest rate ranged from 3.73% to 3.78% during 2015 and was 3.78% on June 30, 2015. The interest rate ranged from 3.73% to 3.77% during 2014 and was 3.73% on June 30, 2014. | | 47,258,873 | 56,837,180 |
| | | 47,258,873 | 56,837,180 |

| | | 2015 | 2014 |
|---|---|---|---|
| $9,800,000 commercial loan, Series 2012-A<br>On July 25, 2012, the Corporation entered into a term credit note. The note has a final maturity date not to exceed June 30, 2032 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans. The notes were issued to bear interest at an annual rate equal to three-month LIBOR plus 3.45%. Rate resets will occur quarterly each March, June, September, and December. Interest rates ranged from 3.68% to 3.73% during 2015 and was 3.73% on June 30, 2015. Interest rates ranged from 3.69% to 3.73% during 2014 and was 3.69% on June 30, 2014. | $ | 6,753,934 | 7,884,747 |
| | | 6,753,934 | 7,884,747 |
| $300,000 promissory note<br>On July 15, 2013 the Corporation entered into a promissory note in an amount not to exceed $300,000. Under the agreement, advances are made to fund certain private student loans fully disbursed during the period from July 31, 2013 through August 31, 2014. The promissory note matures on June 30, 2038, and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to the U.S. Prime rate published on the tenth calendar day prior to the end of the preceding calendar quarter plus 0.50%. The minimum interest rate is 4.00%. The interest rate was 4.00% throughout the years ended June 30, 2015 and 2014. | | 61,949 | 62,106 |
| | | 61,949 | 62,106 |

| | | 2015 | 2014 |
|---|---|---|---|
| $300,000 promissory note<br>On August 1, 2013, the Corporation entered into a promissory note in an amount not to exceed $300,000. Under the agreement, advances are made to fund certain private student loans fully disbursed during the period from August 1, 2013 through August 31, 2014. The promissory note matures on June 30, 2037, and is a limited obligation of the Corporation payable solely from the payments made on the collateralized student loans or from payment made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to the U.S. Prime rate published on the tenth calendar day prior to the end of the preceding calendar quarter plus 0.50%. The interest rate was 3.75% throughout the years ended June 30, 2015 and 2014. | $ | 268,205 | 271,976 |
| | | 268,205 | 271,976 |
| $750,000 promissory note<br>On April 21, 2014, the Corporation entered into a promissory note in an amount not to exceed $300,000. Under the agreement, advances are made to fund certain private student loans fully disbursed prior to August 30, 2015. The promissory note matures on June 30, 2039 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to the U.S. Prime rate published on the tenth calendar day prior to the end of the preceding calendar quarter plus 0.50%. The interest rate was 3.75% throughout the year ended June 30, 2015. | | 276,014 | — |
| | | 276,014 | — |

| | | 2015 | 2014 |
|---|---|---|---|
| $400,000 promissory note<br>On July 1, 2014, the Corporation entered into a promissory note in an amount not to exceed $400,000. Under the agreement, advances are made to fund certain private student loans fully disbursed prior to August 30, 2015. The promissory note matures on June 30, 2038 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to the U.S. Prime rate published on the tenth calendar day prior to the end of the preceding calendar quarter plus 0.50%. The minimum interest rate is 4.00%. The interest rate was 4.00% throughout the year ended June 30, 2015. | $ | 186,437 | — |
| | | 186,437 | — |
| $125,000 promissory note<br>On April 21, 2014, the Corporation entered into a promissory note in an amount not to exceed $125,000. Under the agreement, advances are made to fund certain private student loans fully disbursed prior to August 30, 2015. The promissory note matures on June 30, 2038 and is a limited obligation of the Corporation payable solely from payments made on the collateralized student loans or from payments made pursuant to a school guaranty agreement. The interest rate on outstanding advances is adjusted quarterly and is equal to the U.S. Prime rate published on the tenth calendar day prior to the end of the preceding calendar quarter plus 0.50%. The interest rate was 3.75% throughout the year ended June 30, 2015. | | 46,461 | — |
| | | 46,461 | — |
| | $ | 57,866,839 | 68,092,693 |

The following summarizes the activity in the principal balances of bonds and notes payable for the Corporation for the years ended June 30, 2015 and 2014:

| | June 30, 2014 | Additions | Reductions | June 30, 2015 | Due within one year |
|---|---|---|---|---|---|
| Bonds payable, net | $ 1,292,095,496 | 37,800,000 | 186,157,499 | 1,143,737,997 | 133,789,107 |
| Notes payable, net | 68,092,693 | 542,958 | 10,768,812 | 57,866,839 | 8,968,211 |
| | $ 1,360,188,189 | 38,342,958 | 196,926,311 | 1,201,604,836 | 142,757,318 |

| | June 30, 2013 | Additions | Reductions | June 30, 2014 | Due within one year |
|---|---|---|---|---|---|
| Bonds payable, net | $ 1,476,618,829 | — | 184,523,333 | 1,292,095,496 | 124,202,789 |
| Notes payable, net | 78,201,672 | 337,288 | 10,446,267 | 68,092,693 | 9,628,882 |
| | $ 1,554,820,501 | 337,288 | 194,969,600 | 1,360,188,189 | 133,831,671 |

A summary of the scheduled principal and interest payments as of June 30, 2015 is as follows:

| | Bond maturities and redemption | Note maturities | Unamortized discounts | Total principal and unamortized items | Estimated interest costs | Total principal unamortized items and interest |
|---|---|---|---|---|---|---|
| Year ending June 30: | | | | | | |
| 2016 | $ 133,789,107 | 8,968,211 | (1,530,251) | 141,227,067 | 29,946,412 | 171,173,479 |
| 2017 | 115,947,324 | 7,485,369 | (1,590,101) | 121,842,592 | 27,279,068 | 149,121,660 |
| 2018 | 98,428,575 | 6,248,673 | (1,639,749) | 103,037,499 | 24,970,587 | 128,008,086 |
| 2019 | 90,338,283 | 5,217,165 | (1,709,856) | 93,845,592 | 24,640,948 | 118,486,540 |
| 2020 | 75,157,385 | 4,356,712 | (1,780,590) | 77,733,507 | 20,773,459 | 98,506,966 |
| 2021 – 2025 | 288,112,842 | 13,116,967 | (2,611,763) | 298,618,046 | 78,441,458 | 377,059,504 |
| 2026 – 2030 | 231,499,231 | 8,352,993 | (26,293) | 239,825,931 | 25,651,837 | 265,477,768 |
| 2031 – 2035 | 71,931,524 | 3,693,109 | (16,818) | 75,607,815 | 6,560,895 | 82,168,710 |
| 2036 – 2040 | 24,210,451 | 427,640 | — | 24,638,091 | 2,201,883 | 26,839,974 |
| 2041 – 2045 | 13,155,351 | — | — | 13,155,351 | 667,814 | 13,823,165 |
| 2046 – 2050 | 1,167,924 | — | — | 1,167,926 | 56,473 | 1,224,399 |
| | $ 1,143,737,997 | 57,866,839 | (10,905,421) | 1,190,699,417 | 241,190,834 | 1,431,890,251 |

## (5) Retirement Plan

The Corporation sponsors a defined contribution retirement plan, the Iowa Student Loan Liquidity Corporation 401(k) Retirement Plan, covering all employees who are 18 years of age or older and meet length-of-service requirements. Corporation contributions are made at the sole discretion of the Corporation's board of directors, and are allocated to active participants by the ratio of their compensation to total compensation of all active participants. The Corporation's contribution for the years ended June 30, 2015 and 2014 was $1,602,453 and $1,741,060, respectively.

## (6) Leases

The Corporation is obligated under a noncancelable operating lease for office space and equipment in the normal course of business. Future minimum lease payments under the noncancelable operating leases as of June 30, 2015 are approximately as follows:

| | | |
|---|---|---|
| 2016 | $ | 159,651 |
| 2017 | | 64,202 |
| 2018 | | 2,139 |
| Total minimum lease payments | $ | 225,992 |

Rent expense for the years ended June 30, 2015 and 2014 totaled $144,923 and $383,415, respectively.

## (7) Fair Value of Financial Instruments

Following are disclosures of the estimated fair value of the Corporation's financial instruments at June 30, 2015 and 2014:

| | | June 30, 2015 | | June 30, 2014 | |
|---|---|---|---|---|---|
| | | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Assets: | | | | | |
| Investments | $ | 219,065,352 | 219,065,352 | 194,941,927 | 194,941,927 |
| Student loans receivable | | 1,535,213,812 | 1,744,524,328 | 1,725,336,192 | 1,953,100,398 |
| Accrued interest receivable | | 17,858,162 | 17,858,162 | 20,015,636 | 20,015,636 |
| Deferred outflows of resources: | | | | | |
| Accumulated decrease in FV of hedging derivative | $ | 3,678,850 | 3,678,850 | 6,712,601 | 6,712,601 |
| Liabilities: | | | | | |
| Bonds and notes payable | $ | 1,190,699,417 | 1,280,353,682 | 1,344,668,174 | 1,449,724,439 |
| Accrued interest payable | | 2,135,987 | 2,135,987 | 2,197,918 | 2,197,918 |
| Accounts payable and accrued expenses | | 7,667,320 | 7,667,320 | 11,196,101 | 11,196,101 |
| Deferred inflows of resources: | | | | | |
| Deferred gain on refunded debt | $ | 99,629,198 | 99,629,198 | 118,886,950 | 118,886,950 |

## (8) General – Designated Net Position

The board of directors has designated unrestricted net position for items such as future bond issuances, student borrower benefits, and contingent capacity for alternative loans.

## (9) Risk Management

The Corporation is exposed to various risks related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, employee health benefits, and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## (10) Related Party Transactions

The Iowa College Access Network (ICAN) was previously operated as a division of the Corporation and during 2010 was spun-off into a separate unrelated organization. The Corporation's President and CEO is a member of ICAN's board of directors. During the year, ICAN's operations were supported through contributions from the Corporation.

The Corporation and ICAN have entered into a contractual administrative services agreement whereas the Corporation will provide ICAN support services, including but not limited to accounting and financial reporting, payroll processing, human resources, facilities management, information technology, creative support for promotional and informative materials, corporate communications, and public relations. The Corporation will charge a fee for these services based on actual cost plus an overhead factor. During the year ended June 30, 2014, the value of some of these services was contributed to ICAN as an in kind donation.

Contributions from the Corporation to ICAN during 2015 and 2014 were as follows:

| | | 2015 | 2014 |
|---|---|---|---|
| In Kind Donation of services | $ | — | 14,089 |
| Other contributions | | 1,095,000 | 1,158,911 |
| Administrative service charges | | 35,642 | 4,376 |
| Total | $ | 1,130,642 | 1,177,376 |

## (11) Subsequent Events

The Corporation has reviewed subsequent events through October 30, 2015, the date the financial statements were available to be issued, and concluded there were no events or transactions subsequent to June 30, 2015 that would require recognition or disclosure in the financial statements or notes to the financial statements, except for the Corporation's termination of its direct loan servicing program with the US Department of Education.

Subsequent to June 30, 2015, Aspire Resources Inc., a wholly owned subsidiary of the Corporation, received approval from the U.S. Department of Education to implement an agreement to transfer responsibilities for servicing federal student loans within the William D. Ford Federal Direct Loan Program (Direct Loan) currently serviced by Aspire Resources Inc. to the Missouri Higher Education Loan Authority. As of June 30, 2015 Aspire Resources Inc. serviced 398,748 Direct Loan accounts with an outstanding principal balance totaling $9.2 billion. Loan transfers began in August 2015 and were completed in September 2015. The loan servicing contract with the U.S. Department of Education will terminate in 2016.