ism
education loans

Indiana Secondary Market for Education Loans, Inc.

Financial Statements and Supplemental Information for the Years Ended June 30, 2015 and 2014, and Independent Auditors' Report

KSM KATZ SAPPER & MILLER

ksmcpa.com

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC.

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-7
FINANCIAL STATEMENTS	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-28
OTHER REPORT	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	29-30

Independent Auditors' Report

Board of Directors
Indiana Secondary Market for Education Loans, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana Secondary Market for Education Loans, Inc. (ISM), a component unit of the State of Indiana, 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 accounting principles generally accepted in the United States; 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 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 auditors consider 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.

Katz, Sapper & Miller, LLP
Certified Public Accountants
800 East 96th Street, Suite 500
Indianapolis, IN 46240
Tel 317.580.2000
Web ksmcpa.com
An Affiliate of
KSM Business Services, Inc.

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 net position of Indiana Secondary Market for Education Loans, Inc. 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 accounting principles generally accepted in the United States.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 7 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, 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 23, 2015, on our consideration of ISM'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 ISM's internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 23, 2015

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The financial discussion, analysis, and overview of Indiana Secondary Market for Education Loans, Inc. (ISM) is required supplementary information. Among other things, it provides an analytical overview of ISM's condensed financial information and should be read in conjunction with the financial statements and related notes that follow.

Overview of Indiana Secondary Market for Education Loans, Inc.

ISM was established pursuant to Public Law No. 154 of the 1980 Indiana General Assembly and is a public benefit corporation organized exclusively for education purposes. ISM serves as the State of Indiana's designated secondary market for education loans and acts as an eligible lender under the Higher Education Act, as amended. ISM's enabling statute was amended effective April 30, 2013, with the signing of SB 532. SB 532 permits ISM to become a direct lender of non-federal, post-secondary education supplemental loans for the purpose of attending both Indiana and non-Indiana colleges and universities. SB 532 also mandates that ISM engage in financial literacy activities.

ISM is currently governed by a nine member Board of Directors who are appointed by the Governor of the State of Indiana. Taxable floating rate notes and existing cash balances are the primary sources of funding for ISM's programs. The Health Care and Education Reconciliation Act of 2010 (HCEARA) eliminated the origination of new Federal Family Education Loan Program (FFELP) loans after June 30, 2010. This did not impact the terms of existing FFELP loans. ISM continues to administer a program for the servicing of loans guaranteed and reinsured by the United States Department of Education (US DOED). In addition, ISM has a teaming arrangement for servicing loans originated under the Federal Direct Student Loan Program working with the Higher Education Loan Authority of the State of Missouri.

With the change to its enabling statue, ISM has created the Hoosier Education Loan Partnership (HELP) designed to facilitate access for all Indiana residents to educational funding at the lowest possible cost. In addition, ISM continues to expand its support for Indiana resident's pursuit of access by providing informational presentations and distributing educational materials related to education funding.

ISM's financial statements consist of the following: the statements of net position, the statements of revenues, expenses and changes in net position, the statements of cash flows and the related notes. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The statements of net position present the financial position of ISM at the end of the fiscal years and include all assets, liabilities and net position of ISM. The statements of revenues, expenses and changes in net position present ISM's changes in financial position for the years ended June 30, 2015 and 2014. The statements of cash flows provide information about the sources and uses of ISM's cash resources for the years ended June 30, 2015 and 2014.

Condensed Financial Information (in thousands)

Statement of Net Position as of June 30,	**2015**	**2014**	**2013**
Cash and investments	$ 131,561	$ 146,724	$ 165,028
Student loans receivable—net	141,481	157,072	168,251
Other assets	4,456	4,400	4,573
Total assets	$ 277,498	$ 308,196	$ 337,852
Notes payable	$ 138,514		
Taxable bonds payable		$ 168,650	$ 189,381
Tax-exempt bonds payable			750
Other liabilities	1,226	1,204	9,558
Total liabilities	139,740	169,854	199,689
Total net position	137,758	138,342	138,163
Total liabilities and net position	$ 277,498	$ 308,196	$ 337,852

Condensed Financial Information (in thousands)

Operating Results Years Ended June 30,	2015	2014	2013
Interest on student loans, including subsidy	$ 5,418	$ 6,018	$ 43,399
Special allowance on student loans	(3,289)	(3,658)	(24,812)
Loss on sale of student loans			(23,796)
Gain on repurchase of bonds payable	89	674	69,717
Net gain on investments	2,392	234	
Other income	484	506	794
Total operating revenues	5,094	3,774	65,302
Interest expense	1,381	2,070	17,139
Fees and debt issuance costs	1,069	154	933
Loan servicing and administration	3,228	1,371	7,256
Distribution to State of Indiana			10,000
Arbitrage rebate (recovery) provision			(133)
Total operating expenses	5,678	3,595	35,195
Change in net position	(584)	179	30,107
Net Position - Beginning of Year	138,342	138,163	108,056
Net Position - End of year	$ 137,758	$ 138,342	$ 138,163

Financial Analysis

Statement of Net Position

As of June 30, 2015, total assets decreased $30.7 million as compared to a decrease in liabilities of $30.1 million. This resulted in a decrease to ISM's net position of $584 thousand or .42%. This decrease in net position is due to costs associated with debt refinancing, early bond retirement and lease termination expenses. The debt refinancing resulted in the elimination of ISM's auction rate risk as well as reducing basis risk, as debt is indexed to one-month LIBOR as is the collateral of the student loan portfolio. This compares to an increase of .13% in 2014 which was a result of repurchasing outstanding bonds at a discount to face value and an adjustment decreasing the loan loss reserve.

Cash and investments decreased 10% to $132 million as compared to a balance of $147 million at June 30, 2014. The decrease in cash and investments is a result of retirement of bonds, normal on-going operating expenses, debt refinancing costs and leasehold termination expenses. The termination of the lease and relocation will provide for future lease cost savings. A new investment policy was implemented in fiscal year 2015 expanding investment parameters for unencumbered funds.

Student loans receivable decreased 10% from $157 million at June 30, 2014 to $141 million at June 30, 2015, as compared to a 7% decrease in the prior year. This decrease is primarily due to cash receipts consisting of borrower and claim payments and loan consolidations in excess of loan additions and capitalized interest. As of June 30, 2015, the student loan portfolio held by ISM consists of 99.50% FFELP loans, which is made up of 88% consolidation loans and 12% Stafford and PLUS Loans. The remaining .50% is private HELP loans either originated or purchased by ISM.

Other assets increased 1.3% from $4.4 million at June 30, 2014 to $4.5 million at June 30, 2015. This increase is related to changes in investment interest income receivable and leasehold improvements as a result of relocating office space.

Liabilities decreased 18% from $170 million at June 30, 2014 to $140 million at June 30, 2015 as compared to a decrease of 15% in the prior year. This decrease was due to the retirement of bonds and debt refinancing from auction rate securities to a LIBOR based note. This LIBOR note requires monthly principal payments based upon available funds.

Total net position at June 30, 2015, was $137.8 million, representing a decrease from $138.3 million at June 30, 2014. This compares to an increase of .13% in the previous fiscal year.

Operating Results

ISM's net position decreased $584 thousand on operating revenues of $5.1 million for the fiscal year ended June 30, 2015, compared to an increase in net position of $179 thousand from operating revenues of $3.8 million for the prior fiscal year. The current year change in net position was primarily due to an increase in operating revenues due to gains on the investment portfolio, however, it was offset by an increase in operating expenses due to costs associated with debt refinancing, early bond retirement and lease termination expenses.

Total operating revenues increased 35% to $5.1 million for the fiscal year ended June 30, 2015, from $3.8 million for the fiscal year ended June 30, 2014. This compares to a decrease of 94% in the previous fiscal year. Interest income on student loans continues to decrease as does special allowance income as the portfolio decreases. Gain on extinguishment of debt was greatly reduced due to market conditions at the time of repurchases and the amount of bonds repurchased. $169 million, $19 million, and $1,264 million, were repurchased in fiscal years ended June 30, 2015, 2014, and 2013, respectively.

Total operating expenses increased 58% from $3.6 million for the fiscal year ended June 30, 2014, to $5.7 million for the fiscal year ended June 30, 2015, as compared to a decrease of 90% in the previous year. This increase is due to the costs associated with debt refinancing, early bond retirement and lease termination expenses. The decrease in fiscal year 2014 was due to a decrease in the provision for loan loss after reductions in the loan portfolio and a review by management.

Loan Servicing and ISM's Loan Programs

ISM utilizes Pennsylvania Higher Education Assistance Agency, Xerox Education Services, LLC, and Great Lakes Education Loan Services, Inc. to service its FFELP student loan portfolio.

ISM has a contract with Aspire Resources, Inc. and First Merchants Bank, an Indiana chartered bank, to originate private HELP student loans. Aspire Resources, Inc. is the service provider for the HELP student loan portfolio.

Additional contract compliance, loan servicing support and quality control functions are performed in ISM's Carmel, Indiana location for the student loan portfolios.

Requests of Information

This financial report is designed to provide a general overview of ISM's finances for all those with an interest in ISM's finances. Questions concerning any of the information should be addressed to Indiana Secondary Market for Education Loans, Inc., 11595 North Meridian Street, Suite 200, Carmel, Indiana 40632.

FINANCIAL STATEMENTS

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC.

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and equivalents:		
Unrestricted	$ 22,399	$ 126,393
Restricted	3,031	
Total cash and equivalents	25,430	126,393
Short-term investments:		
Unrestricted	77,126	9,128
Restricted		2,000
Student loans receivable — net	10,793	11,309
Accrued interest receivable — student loans receivable	3,799	4,129
Accrued interest receivable — cash and short-term investments	179	24
Prepaids and other assets	234	139
Total current assets	117,561	153,122
NON-CURRENT ASSETS:		
Investments	29,005	9,203
Student loans receivable — net	130,688	145,763
Capital assets — net	244	108
Total non-current assets	159,937	155,074
TOTAL	$ 277,498	$ 308,196
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 1,207	$ 1,162
Accrued interest payable	19	42
Current portion of notes payable — net	20,216	
Total current liabilities	21,442	1,204
NON-CURRENT LIABILITIES:		
Bonds payable		168,650
Notes payable — net	118,298	
Total non-current liabilities	118,298	168,650
Total liabilities	139,740	169,854
NET POSITION:		
Net investment in capital assets	244	108
Unrestricted	134,483	136,234
Restricted	3,031	2,000
Total net position	137,758	138,342
TOTAL	$ 277,498	$ 308,196

See notes to financial statements.

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING REVENUES:		
Interest on student loans	$ 4,919	$ 5,422
U.S. Secretary of Education:		
Special allowance	(3,289)	(3,658)
Interest subsidy	499	596
Gain on repurchase of bonds payable	89	674
Investment income	2,392	234
Other income	484	506
Total operating revenues	5,094	3,774
OPERATING EXPENSES:		
Interest expense	1,381	2,070
Fees	74	154
Debt issuance costs	995	
Loan servicing and administration	3,228	1,371
Total operating expenses	5,678	3,595
CHANGE IN NET POSITION	(584)	179
NET POSITION — Beginning of year	138,342	138,163
NET POSITION — End of year	$ 137,758	$ 138,342

See notes to financial statements.

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014
(In thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan interest received, net of special allowance payments	$ 2,459	$ 516
Purchase of student loans	(8,753)	(8,103)
Principal receipts on student loans	24,344	19,282
Cash received for other operating activities	509	507
Cash payments for employees and vendors	(3,342)	(7,863)
Net cash provided by operating activities	15,217	4,339
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturity of certificates of deposit	10,611	16,355
Proceeds from sale of investments	23,757	149,579
Purchases of investments	(119,721)	(145,011)
Dividends and interest received, net of expenses	1,790	230
Net cash provided (used) by investing activities	(83,563)	21,153
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Repayment and redemption of bonds	(168,561)	(20,807)
Payment of debt issue costs	(361)	
Repayment of notes	(13,537)	
Proceeds from issuance of notes	151,372	
Interest paid on bonds	(1,404)	(2,078)
Net cash used by noncapital financing activities	(32,491)	(22,885)
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Purchase of capital assets, net	(126)	(8)
Net cash used by capital activities	(126)	(8)
CHANGE IN CASH AND EQUIVALENTS	(100,963)	2,599
CASH AND EQUIVALENTS — Beginning of year	126,393	123,794
CASH AND EQUIVALENTS — End of year	$ 25,430	$ 126,393

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013
(In thousands)

	2015	2014
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net position	$ (584)	$ 179
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation and amortization expense	815	767
Gain on repurchase of bonds payable	(89)	(674)
Loss on sales and disposal of capital assets	25	1
Realized and unrealized gain on investments, net	(447)	(20)
Dividend and interest income on investments, net of expenses	(1,945)	(214)
Interest expense	1,381	2,070
Provision for allowance for loan losses, net of write-offs and recoveries	10	2,165
Debt issuance costs	995	
Arbitrage rebate recovery		(2,022)
Interest on student loans recapitalized	(2,690)	(2,990)
Change in assets and liabilities:		
Decrease in student loans receivable	17,563	11,296
Decrease in accrued interest receivable	330	178
Increase in prepaids and other assets	(95)	(73)
Decrease in other liabilities	(52)	(6,324)
Net cash provided by operating activities	$ 15,217	$ 4,339
SUPPLEMENTAL DISCLOSURES:		
Noncash Financing and Capital Activities:		
Proceeds from issuance of notes used for debt issuance costs	$ 634	
Tenant allowance used for purchase of capital assets, included in accrued expenses	97	

See notes to financial statements.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business — Indiana Secondary Market for Education Loans, Inc. (ISM) is an Indiana public benefit corporation formed to purchase and originate student loans under the Federal Family Education Loan Program (FFELP) provided for by the Higher Education Act (the Act), as well as private student loans under the Hoosier Education Loan Partnership (HELP). Effective March 30, 2010, the Health Care and Education Reconciliation Act of 2010 prohibited origination of any new loans after June 2010 under FFELP. Outstanding debts payable as specified in the resolutions authorizing the related sale of the debts, are not payable by funds received from taxation and are not debts of the State of Indiana or any of its political subdivisions. ISM is a discretely presented proprietary component unit of the State of Indiana.

ISM's floating rate notes payable mature in 2044. ISM's ability to meet its long-term obligations is dependent on borrowing costs, U.S. Department of Education (US DOED) subsidies, investment earnings and the ability to control operating expenses. Management has determined that obligations will be paid as due.

Basis of Presentation and Accounting — ISM's financial statements have been prepared on the basis of the governmental enterprise fund concept which pertains to financial activities that operate similarly to a private business enterprise. The assets of certain funds are restricted pursuant to bond or note issuances. For financial statement presentation purposes, the funds have been aggregated into one proprietary fund type. ISM's funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles. ISM follows GASB pronouncements as codified under GASB Statement No. 62.

Student Loans Receivable — Student loans consist of federally insured FFELP student loans and private HELP student loans. Student loans receivable are stated at the principal amounts outstanding adjusted for an estimated allowance for loan losses, and unamortized purchase premiums or discounts related to FFELP loans. The related interest income generated from student loans includes premium and discount amortization. ISM amortizes premiums and discounts over the estimated average life of the loan on a straight-line basis over 10 years, which approximates the effective interest method.

Interest on student loans is accrued based upon the actual principal amount outstanding. The U.S. Secretary of Education makes quarterly interest subsidy payments for FFELP loans until the student is required, under the provisions of the Act, to begin repayment. Repayment must begin generally within six months after the student completes their course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution. Depending on the options selected, repayment may begin prior to completing school.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The US DOED provides a special allowance to lenders participating in the FFELP program. For FFELP loans first disbursed prior to January 1, 2000, the special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of 91-day United States Treasury bills, to the average daily unpaid principal balance and capitalized interest of student loans held by ISM. For FFELP loans first disbursed from January 1, 2000 through June 30, 2006, the special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the three-month financial Commercial Paper rate, to the average daily unpaid principal balance and capitalized interest of FFELP loans held by ISM. If a special allowance amount is a negative number on a FFELP loan first disbursed prior to April 1, 2006, special allowance will not be paid for that FFELP loan type for that quarter. If a special allowance amount is a negative number on a FFELP loan first disbursed after April 1, 2006, the lender must remit the excess interest ("negative SAP") to the US DOED. The special allowance amount for a FFELP loan first disbursed on or after October 1, 2007, has additional provisions for lenders qualified as an eligible not-for-profit holder. Those eligible as not-for-profit lenders earn a 15 basis point higher yield. The special allowance is accrued as earned. Effective April 1, 2012, the index used to calculate special allowance for FFELP loans disbursed after January 1, 2000, is based on one-month LIBOR.

Cash and Equivalents — Cash and equivalents may consist of money market funds and short-term investments with original maturities of three months or less from the date of acquisition.

Investments — Investments consist of certificates of deposit, US Treasury notes, bonds, stocks and mutual funds. Investments are carried at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, based on available market prices of the investments or similar investments. ISM adopted a revised investment policy on April 17, 2014, that was approved by the Indiana Finance Authority on July 17, 2014. This policy is for all funds held outside the existing trust. ISM is restricted to investments that meet the rating requirements per the indenture of trust for all funds held within the trust.

Investment income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific-identification method. Changes in the fair value of investments are included in the statement of revenues, expenses and changes in net position.

Allowance for Loan Losses — Guarantees on federally insured student loans originated after October 1, 1993, but before July 1, 2006, provide for a reduced recovery of 98% of loan principal and accrued interest on FFELP loans which default. Guarantees on FFELP loans originated after July 1, 2006, provide for a reduced recovery of 97% of loan principal and accrued interest on loans which default. Accordingly, ISM provides for an allowance for the estimated loss associated with the portion not recoverable.

ISM evaluates the adequacy of the allowance for loan losses on its private HELP loan portfolio separately from federally insured FFELP loans. Several factors are considered including the following: HELP loans in repayment versus those in a non-paying status, delinquency status, type of credit and any trends from industry data. As the portfolio ages, historical trends and experience will be evaluated as well. A HELP loan charge off will occur when the loan reaches 270 days delinquent without any principal or interest payment activity.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The allowance is increased by a provision charged to operations and reduced for losses actually incurred, and is included in the financial statements as a reduction of student loans receivable. ISM utilizes two national collection agencies to attempt collection on charged off accounts. The amount attributable to expected recoveries remains in the allowance.

In completing the analysis of the adequacy of the allowance for loan losses, past collection experience, delinquency trends and size of the portfolio, economic conditions, document deficiencies, and other factors are considered. Significant changes in these factors could impact the allowance and provision for loan losses. Accordingly, the evaluation of the allowance for loan losses is inherently subjective as it requires material estimates that may be subject to change.

Capital Assets — Capital assets consist of office furniture, equipment and leasehold improvements recorded at cost. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the related assets or the term of the lease, which is 3 to 7 years depending on the asset class.

Discounts on Notes Payable and Debt Issuance Costs — Discounts on notes payable are amortized using the interest method over the notes issued. Debt issuance costs are recorded as expense when incurred.

Net Position — $134,483,000 and $136,234,000 of ISM's net position and all related revenues were unrestricted at June 30, 2015 and 2014, respectively. ISM does, however, maintain debt and other arrangements which limit the use of assets. At June 30, 2015 and 2014, ISM's restricted net position of $3,031,000 and $2,000,000, respectively, reflect debt reserve requirements (see Note 4) and $244,000 and $108,000, respectively, reflect amounts invested in capital assets (see Note 5).

Loan Income and Related Expenses — Interest and special allowance on loans are recognized as income in the period earned, and servicing costs are charged to expense as incurred. Premiums paid for student loans are amortized using a method which approximates the effective interest method over the estimated life of the loans (10 years). At June 30, 2015 and 2014, unamortized premiums totaled $1,138,000 and $1,890,000, respectively.

In addition, loans were purchased at a discount in June 2009, and this discount is being amortized over the estimated life of the loans (10 years). At June 30, 2015 and 2014, the unamortized discount totaled $194,000 and $237,000, respectively.

Servicing Fees — As of June 30, 2015, Pennsylvania Higher Education Assistance Agency, Xerox Education Services, LLC, and Great Lakes Education Loan Services, Inc. service ISM's FFELP student loan portfolio. Aspire Resources, Inc. services the private HELP loan portfolio for ISM. Servicing fee expense amounts are included in operating expenses in the statements of revenues, expenses and changes in net position.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management — ISM is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. Coverage for these various risks of loss is obtained through commercial insurance. There has been no significant reduction in insurance coverage from the prior year for all categories of risk. Commercial insurance is purchased in an amount that is sufficient to cover ISM's risk of loss. ISM will record an estimated loss from a claim as an expense and a liability if it meets the following requirements: (1) information available indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

Operating Revenues and Expenses — Debt and loan issuances are the principal source of the funds. ISM derives revenue from investments, servicing fee income, interest earned on student loans, the U.S. Secretary of Education, and gains (losses) from the sale of student loans. ISM's expenses primarily consist of interest on debt arrangements and loan servicing and administration.

Income Taxes — ISM is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, ISM has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Additionally, ISM meets the criteria required for classification as an affiliate of a government unit, and therefore, is not required to file federal or state information returns.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates that are particularly susceptible to change in the near-term relate to the determination of the allowance for loan losses.

Reclassifications — Certain amounts in the 2014 financial statements have been reclassified to conform to the presentation of the 2015 financial statements.

Subsequent Events — Management has evaluated the financial statements for subsequent events occurring through October 23, 2015, the date the financial statements were available to be issued.

2. DEPOSITS AND INVESTMENTS

Cash Deposits with Financial Institutions

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the three demand deposit accounts are carried at cost and are insured up to $250,000 per financial institution.

The carrying amount of demand deposits was $11,008,000 and bank balances were $11,019,000. ISM's maximum risk was $10,769,000 at June 30, 2015.

Investments

The investment policy allows for investing in a portfolio balanced between equity and fixed income securities. The permissible investments are detailed in the investment policy. Trust accounts are invested in accordance with trust indentures executed by ISM. Excerpts from the investment policy are as follows:

(a) Investment Policy:

- ***Scope of this Investment Policy***
  The statement of investment policy reflects the investment policy, objectives, and constraints for ISM assets that are not encumbered by trust or otherwise.

- ***Long Range Goals***
  In order to meet its needs, the investment strategy of the invested assets is to emphasize a balanced return of current income and modest growth of principal consistent with the preservation of the purchasing power of the Fund. By investing in a portfolio balanced between equity and fixed income securities the Board is willing to accept fluctuations to the principal value of the portfolio in order to provide an opportunity for higher long-term returns. The Board understands that short to intermediate-term results may be negative.

- ***Investments***
  In order to provide the Investment Fund Manager(s) the freedom to invest within the guidelines of this policy statement, the following security classifications are permissible and suitable investment.

  1. *Equity Securities:* Publicly traded common and preferred stocks, American Depository Receipts (ADRs), convertible preferred stocks and convertible debentures. Equity securities may be chosen from the NYSE, regional Exchanges and the National Over-the-Counter Market. All assets must have readily ascertainable market values and be fully liquid and marketable. The equity portfolio is limited to a maximum of 5% at cost and 10% at market (of total account value) of the securities of any one issuer with the exception of Exchange Traded Funds or mutual funds. Broad industry diversification must be maintained.

     The portfolio may also invest in equity mutual funds or Exchange Traded Funds, without limitation on the percentage weight in the portfolio.

2. DEPOSITS AND INVESTMENTS (CONTINUED)

2. *Fixed Income:* The individually managed portfolio shall be comprised of high quality issues. All individually held Corporate Bonds must be rated no lower than Moody's or Standard & Poor's rating Baa/BBB- to be purchased or retained. The portfolio is restricted to a maximum of 5% at cost and 10% at market (of total account value) of the securities of any one issuer, with the exception of U.S. Government and Agency securities which have no limit.

   The portfolio may also invest in fixed income mutual funds or Exchange Traded Funds, without limitation on the percentage weight in the portfolio.

   Investment in mutual funds shall be the chosen vehicle for exposure to high yield (below investment grade) fixed income securities should they be included in your portfolio.

   The portfolio's average maturity should range from 1-7 years.

3. *Cash and Equivalents:* Cash reserves may consist of individual fixed income securities such as Commercial Paper, U.S. Treasury Bills, and other similar instruments, with less than one year to maturity and/or money market funds. Cash reserves should be free from risk and have instant liquidity. Short-term instruments of maturities less than one year in U.S. Government or U.S. Agencies are not restricted in the size of the position.

4. *Non-Traditional Assets:* Non-Traditional Assets includes SEC registered mutual funds and exchange traded funds that invest in asset classes and/or strategies outside of traditional long only equity and fixed income securities portfolios. These investment classes include but are not limited to: convertible securities, convertible arbitrage, long/short equity, commodities, precious metals, real estate investment trusts, foreign bonds and senior bank loans. Permitted holdings include those open and/or closed-end mutual funds, and exchange traded funds.

The Investment Advisor will assist the Investment Committee in balancing the total Fund within the following established strategic allocation parameters:

Investment Class	Target	Allowable Range
Equities	50%	30% - 70%
Fixed income	30%	20% - 70%
Cash and equivalents	0%	0% - 20%
Non-traditional assets	20%	0% - 30%

- ***Performance Review and Evaluation***

  Performance reports generated by the Investment Advisor shall be compiled at least quarterly and communicated to the Investment Committee for review. The purpose of these reports shall be to review and evaluate both the Investment Advisor and the Investment Fund Managers. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this policy. The Investment Committee intends to evaluate the portfolio(s) over at least a five to seven year period, but reserve the right to terminate a fund manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.

2. DEPOSITS AND INVESTMENTS (CONTINUED)

2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.

3. Significant qualitative changes to the investment fund management organization.

Investment Fund Managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results. The Investment Advisor's performance shall also be reviewed regularly. Due diligence reports from the Investment Advisor are expected annually or when deemed appropriate by Investment Advisor, Directors or Investment Committee.

The objective of monitoring is not to set in opposition one Investment Fund Manager or program against another, but rather to ensure prudent management of the Fund and compliance with this policy. It is of primary importance that the guidelines are adhered to and the objectives be met. The Investment Committee shall review the investment management consultant’s performance on a full market cycle (five year).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments.

As of June 30, 2015, ISM had the following investments and cash equivalents and maturities:

Investment Type	Fair Value (In thousands)	Maturities (In Years) < 1	1–5	6–10	> 10
Money market fund shares	$ 14,422	$ 14,422			
Fixed Income investments:					
U.S. Treasury notes	6,500		$ 5,803	$ 697	
Corporate bonds	15,332	261	11,054	4,017	
Govt agency bonds	2,149		1,625		$ 524
Municipal bonds	1,422		1,150	272	
Mutual fund bond funds	2,099		1,604	495	
Certificates of deposit	7,011	5,247	1,764		
Common stocks	22,661	22,661			
Equity mutual funds	11,161	11,161			
Exchange traded products	37,796	37,796			
	$ 120,553	$ 91,548	$ 23,000	$ 5,481	$ 524

2. DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2014, ISM had the following investments and cash equivalents and maturities:

Investment Type	Fair Value (In thousands)	Maturities (In Years) < 1	1–5	6–10	> 10
Guaranteed investment contracts	$ 2,000	$ 2,000		$	$
Money market fund shares	119,984	119,984			
U.S. Treasury notes	1,134		$ 1,134		
Certificates of deposit	17,192	9,374	7,818		
	$ 140,310	$ 131,358	$ 8,952	$	$

Custodial Credit Risk

Custodial credit risk is the risk that ISM will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of ISM, and are held by either the counterparty or the counterparty's trust department or agent but not in ISM's name. ISM has no custodial credit risk on investments.

Credit Risk

The following table provides information on the credit ratings associated with ISM's investments and cash equivalents as of June 30, 2015:

Investment Type	Fair Value (In thousands)	S & P	Moody's
Money market fund shares	$ 6,026	AAAm	Aaa-mf
Money market fund shares	8,396	unrated	unrated
U.S. Treasury notes	6,322	AAA	unrated
U.S. Treasury notes	178	unrated	unrated
Corporate bonds	503	AA	AA1
Corporate bonds	303	AA-	AA1
Corporate bonds	370	AA-	AA2
Corporate bonds	248	AA-	AA3
Corporate bonds	573	AA+	A1
Corporate bonds	393	AA-	A1
Corporate bonds	274	A	A1
Corporate bonds	835	A+	A2
Corporate bonds	1,249	A	A2
Corporate bonds	499	A-	A2
Corporate bonds	512	A	A3
Corporate bonds	1,852	A-	A3
Corporate bonds	463	BBB+	A3
Corporate bonds	910	A-	BAA1

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Type (cont)	Fair Value (In thousands)	S & P	Moody's
Corporate bonds	$ 923	BBB+	BAA1
Corporate bonds	352	BBB	BAA1
Corporate bonds	528	A-	BAA2
Corporate bonds	492	BBB+	BAA2
Corporate bonds	2,051	BBB	BAA2
Corporate bonds	766	BBB-	BAA2
Corporate bonds	404	BBB	BAA3
Corporate bonds	832	BBB-	BAA3
Govt agency bonds	299	AA+	AAA
Govt agency bonds	1,850	unrated	unrated
Municipal bonds	276	AA-	AAA
Municipal bonds	106	AAA	AA2
Municipal bonds	272	AA	AA2
Municipal bonds	27	A	AA2
Municipal bonds	255	A	A1
Municipal bonds	265	A-	A3
Municipal bonds	221	A	unrated
Certificates of deposit	7,011	unrated	unrated
Grand Total	$ 46,836		

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer.

The following shows investments in issuers that represents 5% or more of the total investments at June 30, 2015:

Fidelity Government Money Market	6%
iShares Russell 1000 Value ETF	6%
U.S. Treasury notes	5%

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. At June 30, 2015, there was no foreign currency risk exposure.

3. STUDENT LOANS RECEIVABLE — NET

Student loans receivable consist of FFELP loans made under the Act and are carried at their unpaid principal balance net of an allowance for loan losses plus unamortized purchase premiums and discounts. FFELP loans earn interest at various rates ranging from 1.72% to 10.00%, depending upon the type of FFELP loan and the date the FFELP loan was made. Substantially all of the principal and accrued interest on FFELP loans is insured by certain guarantee agencies which are reinsured by the federal government. At June 30, 2015 and 2014, the majority of ISM’s FFELP loans were guaranteed by the Pennsylvania Higher Education Assistance Agency (59% as of June 30, 2015), California Student Aid Commission/EDFund (19% as of June 30, 2015), and Educational Credit Management Corporation (9% as of June 30, 2015).

Student loans receivable also consist of private loans either originated or purchased under the ISM HELP program. HELP loans are carried at their unpaid principal balance net of an allowance for loan losses. HELP loans earn interest at various rates ranging from 6.59% to 9.09%, depending on the type of HELP loan and date the HELP loan was made. HELP loans are not subject to any federal guarantees.

A portfolio of FFELP loans were sold in June 2013 and this sale agreement includes certain recourse provisions where ISM is required to repurchase FFELP loans that have inaccuracies that materially and adversely affect the value of the FFELP loan. The recourse provision is in effect through the life of the FFELP loans. ISM has 60 days to cure any identified issue prior to being required to repurchase the FFELP loan. ISM has recorded an estimated recourse liability which is included as a component of the allowance for loan losses.

Student loans receivable - net as of June 30, 2015 and 2014, consisted of the following:

	2015	2014
	(In thousands)	
Federal family education loan program	$ 140,833	$ 156,419
HELP loan program	694	
Purchase premiums and discounts - net	944	1,653
Less - allowance for loan losses	(990)	(1,000)
End of year	$ 141,481	$ 157,072
Current portion	$ 10,793	$ 11,309
Long-term portion	$ 130,688	$ 145,763

3. STUDENT LOANS RECEIVABLE — NET (CONTINUED)

The activity for the allowance for loan losses for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
	(In thousands)	
Beginning of year	$ 1,000	$ 3,165
Provision (reduction) for loan losses	81	(2,100)
Write-offs of loans	(91)	(65)
End of year	$ 990	$ 1,000

4. BONDS AND NOTES PAYABLE

The following table displays the aggregate changes in bonds and notes payable for the years ended June 30, 2015 and 2014:

	2014	Additions	Reductions	2015
Bonds payable	$ 168,650	$	$ (168,650)	$
Notes payable, net		152,006	(13,492)	138,514
	$ 168,650	$ 152,006	$ (182,142)	$ 138,514

	2013	Additions	Reductions	2014
Bonds payable	$ 190,131	$	$ (21,481)	$ 168,650

Bonds and notes payable as of June 30, 2015 and 2014, consisted of the following:

	2015	2014
	(In thousands)	
Auction Rate Certificates		$ 168,650
Floating Rate Notes	$ 138,514	
	$ 138,514	$ 168,650

4. BONDS AND NOTES PAYABLE (CONTINUED)

Bonds payable at June 30, 2014, included $168,650 million of taxable Auction Rate Certificates (ARCs). The ARCs matured on various dates between December 1, 2038 and December 1, 2047. Interest on the ARCs ranged from 0.00% to 1.673% during the year ended June 30, 2014, and was payable either at each auction, which generally occurred every 28 or 35 days as stipulated in the related ARC agreement, or semiannually. The interest rates were reset via a “dutch auction.” Since February 2008, the auction process to establish these rates has failed; thus the ARCs generally paid interest to the holder at a maximum rate as defined by the indenture. This failure also resulted in auctions occurring every 7 days. These bonds were repurchased during the year ended June 30, 2015 and refinanced as Floating Rate Notes.

Notes payable at June 30, 2015, includes $138,967 million of taxable LIBOR Floating Rate Notes (FRNs) less an unamortized bond discount of $453 thousand. The FRNs mature on February 25, 2044. Interest on the FRNs ranged from 0.968% to 1.005% during the year ended June 30, 2015. The interest rate is based on one-month LIBOR on a set determination date which is the second business day immediately preceding each Distribution Date plus a spread of .80% per annum. Interest is paid on the Distribution Date which is the 25th of each calendar month or the next succeeding business day. The notes payable are limited obligations of ISM. The notes are collateralized by and payable from the student loans, revenues, and recoveries of principal and all amounts held in any account established under the note documents. Principal payments are required to be made monthly based on available funds less required fees and transfers as stipulated in the note documents.

The following table displays estimated future debt maturities and interest payments for notes payable at June 30, 2015 (in thousands), based on ISM’s best estimate of expected future cash flows as stipulated in the note documents:

Year Ending, June 30,	Principal	Interest	Total
2016	$ 20,216	$ 1,851	$ 22,067
2017	18,375	2,653	21,028
2018	16,911	2,819	19,730
2019	15,727	2,409	18,136
2020	14,654	1,924	16,578
2021-2025	52,631	3,492	56,123
	$ 138,514	$ 15,148	$ 153,662

Significant changes in the estimated future cash flows could impact the reported future debt maturities and interest payments. Accordingly, the estimated future debt maturities and interest payments are inherently subjective as it requires material estimates that may be subject to change.

Notes payable are secured by (a) the proceeds derived from the sale of the notes, (b) eligible loans, and (c) certain accounts established by the respective note resolutions, including monies and securities therein.

4. BONDS AND NOTES PAYABLE (CONTINUED)

The respective bond and note resolutions establish the following special trust accounts for each series, unless otherwise indicated:

Loan Accounts – The loan accounts were used to account for the proceeds of bond issues not required to be deposited in the debt service reserve accounts. Generally, amounts in the loan accounts could have been expended (a) to finance eligible student loans, (b) to pay bond issue costs, and (c) to make deposits to the revenue accounts for the purpose of paying principal and/or interest on the bonds.

Revenue Accounts – The revenue accounts were used to account for all revenues received by ISM. Generally, amounts in the revenue accounts were used (a) to make principal and/or interest payments on the bonds, (b) to fund debt service reserve accounts, (c) to pay estimated program expenses to the operating account, and (d) to reimburse the issuers of insurance guaranteeing the bonds for amounts borrowed under the terms of the policies. Excess amounts in the revenue account may be transferred to the loan accounts or to optional redemption accounts.

Collection Fund – This fund is used to account for all revenues received by ISM with respect to the FFELP Loans. The funds are used for the following distributions: (a) department reserve funds for payments to the Department of Education, (b) estimated program expenses, (c) principal and interest payments, and (d) transfers to reinstate balance of Debt Service Reserve Fund.

Capitalized Interest Fund – Funds were deposited on the Issue Date from the proceeds of the sales of the notes. This fund will be used if insufficient funds are available to make necessary transfers on the distribution date. Any funds remaining on the December 2015, Distribution Date will be released from restriction and transferred to the Collection Fund.

Reserve Funds – These funds may either be used to maintain a minimum reserve requirement or to be paid to the Department of Education for required funds due based on the FFELP Loans.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, (in thousands) was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets:				
Furniture and equipment	$ 587	$ 107	$ 101	$ 593
Leasehold improvements	865	120	874	111
Total depreciable capital assets	1,452	227	975	704
Less accumulated depreciation	1,344	62	946	460
Net depreciable capital assets	$ 108	$ 165	$ 29	$ 244

5. CAPITAL ASSETS (CONTINUED)

Capital assets activity for the year ended June 30, 2014, (in thousands) was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets:				
Furniture and equipment	$ 593	$ 7	$ 13	$ 587
Leasehold improvements	865			865
Total depreciable capital assets	1,458	7	13	1,452
Less accumulated depreciation	1,297	59	12	1,344
Net depreciable capital assets	$ 161	$ (52)	$ 1	$ 108

6. ARBITRAGE REBATE PAYABLE

In accordance with Section 148 of the Internal Revenue Code of 1986 (the Code), as amended, and the regulations promulgated thereunder, ISM was required to pay to the United States Treasury certain amounts related to the ISM tax-exempt bond issues. The amount required to be paid represented the excess of amounts earned over the interest cost of the tax-exempt borrowings as defined in the Code. In July 2012, ISM requested a voluntary closing agreement with the Internal Revenue Service (IRS) (the process hereinafter referred to as (VCAP)). The request for a closing agreement was based on application of the settlement proposed in IRS Announcement 012-14 to certain bond issues described in a closing agreement. The bond issues that were covered were issued as tax-exempt qualified student loan bonds described in Section 144 of the Code. The terms of the proposed closing agreement included a payment by ISM as well as other matters required to be addressed by Announcement 2012-14. The bonds were repaid during fiscal year 2014.

The following table displays the aggregate changes in the arbitrage rebate payable during the year ended June 30, 2014:

	2014 (In thousands)
Arbitrage rebate payable — beginning of year	$ 2,022
Payment	(2,022)
Arbitrage rebate payable — end of year	$

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by ISM using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts ISM could realize in a current market exchange. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair value amounts.

The methods and assumptions used by ISM to estimate the fair value of its financial instruments are set forth below:

Cash and Equivalents — Cash and equivalents are carried at cost, which approximates fair value.

Mutual Fund Shares — Valued at the published net asset value (NAV), as reported by each fund, of the shares held at the reporting date.

Fixed Income Investments, Common Stocks, and Exchange Traded Products — Valued at the closing price reported on the active market on which the individual securities are traded.

Student Loans Receivable, Net — Loans are categorized by status (in-school, grace, repayment, and delinquent). The fair value is estimated by discounting the future cash flows using current rates of return required by investors in similar assets, less an estimated allowance for credit losses.

Accrued Interest Receivable — Accrued interest receivable is carried at cost, which approximates fair value.

Notes Payable, Net — The carrying amount for notes payable approximates fair value due to variable interest rates.

Bonds Payable — The fair value is estimated based on quoted current market prices. They are not recorded in the financial statements at fair value but at face value.

Accrued Interest Payable — Accrued interest payable is carried at cost, which approximates fair value.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of ISM's financial instruments as of June 30, 2015 were as follows:

	2015	
	Carrying Amount	Estimated Fair Value
	(In thousands)	
ASSETS:		
Cash and equivalents	$ 25,430	$ 25,430
Investments	106,131	106,131
Student loans receivable - net	141,481	141,481
Accrued interest receivable	3,978	3,978
LIABILITIES:		
Notes payable	138,514	138,514
Accrued interest payable	19	19

The estimated fair values of ISM's financial instruments as of June 30, 2014 were as follows:

	2014	
	Carrying Amount	Estimated Fair Value
	(In thousands)	
ASSETS:		
Cash and equivalents	$ 126,393	$ 126,393
Investments	20,331	20,331
Student loans receivable - net	156,419	156,419
Accrued interest receivable	4,153	4,153
LIABILITIES:		
Bonds payable	168,650	165,277
Accrued interest payable	42	42

8. RETIREMENT PLANS

ISM established the Indiana Secondary Market 401(k) Retirement Plan (Plan) in July 2002. Effective March 16, 2012, this Plan was merged into the EmPower Retirement Savings Plan as part of the contract with Human Capital Concepts, LLC. The Plan is a "Safe Harbor 401(k) Plan" as described in the Code. All employees 18 or older are eligible to participate on the first day of the month following their hire date. ISM makes a safe-harbor matching contribution equal to 100% of the first 4% that each participant contributes to the Plan. ISM also may make a discretionary profit-sharing contribution to Plan for participants who are employed at the end of the Plan year. Participants are 100% vested in ISM's contributions after one year of service. ISM's contributions to the Plan during fiscal years 2015 and 2014 were approximately $32,000 and $30,000, respectively.

9. COMMITMENT

ISM moved offices during 2015 and leases office space under the terms of a long-term non-cancellable operating lease. Future minimum required payments under this operating lease at June 30, 2015, were as follows:

Years Ending June 30,	Rental Payments
2016	$ 68,185
2017	104,071
2018	106,763
2019	109,454
2020	112,146
Thereafter	105,193
	$ 605,812

Rent expense under operating leases were approximately $708,000 and $598,000 for the years ended June 30, 2015 and 2014, respectively.

ISM had entered into sublease agreements for a portion of its previous office space. The amount of rental income received for the years ended June 30, 2015 and 2014 was approximately $200,000 and $178,000 respectively.

10. CONTINGENCIES

ISM is subject to various legal proceedings and claims which arise primarily in the ordinary course of conducting its business. In management's opinion, the ultimate resolution of such matters will not have a material adverse effect on ISM's financial position or its results of operations.

* * * * * *

OTHER REPORT

*Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards*

Board of Directors
Indiana Secondary Market for Education Loans, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Indiana Secondary Market for Education Loans, Inc. (ISM), a component unit of the State of Indiana, which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ISM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ISM's internal control. Accordingly, we do not express an opinion on the effectiveness ISM's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Katz, Sapper & Miller, LLP
Certified Public Accountants
800 East 96th Street, Suite 500
Indianapolis, IN 46240
Tel 317.580.2000
Web ksmcpa.com
An Affiliate of
KSM Business Services, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 23, 2015