

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
August 31, 2006 and 2005**



JOHNSON & SHELDON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

August 31, 2006 and 2005

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS - Required Supplementary Information (Unaudited)	3
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Net Assets.....	8
Consolidated Statements of Revenues, Expenses and Changes in Net Assets	9
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements.....	12
SUPPLEMENTAL INFORMATION - 2006 ONLY	
Combining Schedule of Statement of Net Assets Information	28
Combining Schedule of Statement of Revenues, Expenses and Changes in Net Assets Information	29
Consolidating Schedule of Statements of Net Assets	30
Consolidating Schedule of Statements of Revenues, Expenses and Changes in Net Assets	31
Consolidating Schedule of Statements of Cash Flows	32



JOHNSON & SHELDON, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Audit Committee
Panhandle-Plains Higher
Education Authority, Inc. and Subsidiary
Canyon, Texas

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated statements of net assets of **Panhandle-Plains Higher Education Authority, Inc. and Subsidiary** (the "Authority"), a not-for-profit corporation, as of August 31, 2006 and 2005 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Panhandle-Plains Higher Education Authority, Inc. and Subsidiary as of August 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**Panhandle-Plains Higher
Education Authority, Inc. and Subsidiary
Page 2 of 2**

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise Panhandle-Plains Higher Education Authority, Inc. and Subsidiary's basic consolidated financial statements. The combining and consolidating schedules as of and for the year ended August 31, 2006, as listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2006, on our consideration of Panhandle-Plains Higher Education Authority, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Johnson & Sheldon, P.C.

Johnson & Sheldon, P.C.

October 28, 2006

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
August 31, 2006 and 2005**

Panhandle-Plains Higher Education Authority, Inc. (the “Authority”) is a not-for-profit corporation originally created under the Texas Non-Profit Corporation Act in May 1969 under the name of The Opportunity Plan Foundation, Inc. The Authority was reorganized on August 26, 1979 and its Articles of Incorporation were amended to change its name and purpose to the present name and purpose. The Authority’s purpose is to provide funds for the purchase of student loans at the post secondary level, and to provide for the servicing of such loans as required for continued participation in the student loan program.

The Authority currently owns student loans established by the Higher Education Act (“HEA”) under the Federal Family Education Loan Program (“FFELP”). Loans provided under FFELP include Subsidized and Unsubsidized Stafford (“Stafford”), Supplemental Loans for Students (“SLS”), Parent Loans for Undergraduate (“PLUS”) and Consolidation Loans (“Consolidated”).

A Board of Directors consisting of eleven directors governs the Authority. All directors are appointed by the governing body (the “Governing Body”) of the City of Hereford, Texas, upon nomination by the Authority. The Governing Body may also remove directors of the Authority. Directors serve two-year staggered terms of office. The members of the Board of Directors serve without compensation, except for reimbursement of expenses incurred in connection with the business of the Authority.

This report includes three consolidated financial statements of the Authority and its wholly owned subsidiary, Central Texas Student Loan Corporation, L.L.C. (“Central”), which was acquired by the Authority on June 22, 2005. These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as defined by the Governmental Accounting Standards Board. The consolidated statement of net assets presents the financial position of the Authority and its subsidiary at the end of the fiscal year and includes all assets and liabilities of the Authority and its subsidiary. The consolidated statement of revenues, expenses and changes in net assets presents the results of operations for the Authority and its subsidiary. The consolidated statement of cash flows provides a view of the sources and uses of the Authority and its subsidiary’s cash resources.

AUTHORITY ACTIVITY AND HIGHLIGHTS

The Authority purchases student loans from a variety of financial institutions and originates consolidation loans. Student loan acquisitions and originations of consolidation loans increased during 2006 and 2005 as follows:

	<u>2006</u>	<u>2005</u>
Student loan purchases and consolidations	\$ 462,616,000	\$ 402,200,000
Student loans acquired through acquisition of Central	<u>-</u>	<u>102,995,000</u>
	<u>\$ 462,616,000</u>	<u>\$ 505,195,000</u>

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
August 31, 2006 and 2005**

AUTHORITY ACTIVITY AND HIGHLIGHTS (continued)

Financing for the program is provided through the issuance of tax-exempt and taxable debt, line of credit and the recycling of funds. Debt issuance activity is as follows:

	<u>2006</u>	<u>2005</u>
Issuance of tax-exempt auction rate securities	\$ 192,750,000	\$ 64,775,000
Issuance of taxable auction rate securities	-	150,000,000
Securities acquired through acquisition of subsidiary	-	<u>135,305,000</u>
Total issuances of auction rate securities	<u>\$ 192,750,000</u>	<u>\$ 350,080,000</u>
Line of credit balance outstanding	<u>\$ -</u>	<u>\$ -</u>

CONDENSED FINANCIAL POSITION

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 324,684,668	\$ 279,635,504
Accrued interest receivable	30,755,553	20,425,633
Special allowance payments receivable	5,676,971	5,427,142
Student loans receivable	1,356,754,134	1,237,201,207
Other assets	<u>28,697,095</u>	<u>26,334,800</u>
Total Assets	<u>\$ 1,746,568,421</u>	<u>\$ 1,569,024,286</u>
Current liabilities	\$ 44,526,936	\$ 40,638,335
Long-term liabilities	<u>1,592,664,121</u>	<u>1,430,980,330</u>
Total Liabilities	<u>\$ 1,637,191,057</u>	<u>\$ 1,471,618,665</u>
Unrestricted net assets	<u>\$ 109,377,364</u>	<u>\$ 97,405,621</u>
Total Net Assets	<u>\$ 109,377,364</u>	<u>\$ 97,405,621</u>

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
August 31, 2006 and 2005**

**CONDENSED REVENUES, EXPENSES AND
CHANGE IN NET ASSETS**

	<u>2006</u>	<u>2005</u>
Revenues:		
Interest on investments	\$ 12,897,813	\$ 6,224,840
Interest on student loans	57,996,848	35,144,118
Special allowance payments	38,387,156	37,114,089
Other revenues	<u>1,305,681</u>	<u>2,602,775</u>
 Total Revenues	 <u>110,587,498</u>	 <u>81,085,822</u>
Expenses:		
Interest on bonds and notes	61,078,952	31,427,363
Loan servicing fees	13,844,388	13,678,956
Maintenance and operating expenses	5,325,442	4,362,063
Commitment fees	580,185	589,041
Trustee fees	238,512	202,843
Remarketing fees and auction rate fees	3,292,513	3,068,648
Consolidation fees	6,561,559	4,820,803
Debt forgiveness	1,690,174	1,723,511
Excess earnings expense	3,628,000	6,318,461
Other expenses	<u>2,376,030</u>	<u>1,833,700</u>
 Total Expenses	 <u>98,615,755</u>	 <u>68,025,389</u>
 Increase in Net Assets	 <u>\$ 11,971,743</u>	 <u>\$ 13,060,433</u>

AUTHORITY FINANCIAL HIGHLIGHTS

Total assets and liabilities for the fiscal year 2006 increased from the fiscal year 2005 as follows:

Increase in assets	\$ 177,547,135	11%
Increase in liabilities	\$ 165,572,392	11%
Increase in net assets	\$ 11,971,743	12%
 Increase in cash and cash equivalents	 \$ 45,049,164	 16%
Increase in student loans outstanding	\$ 119,552,927	10%
Increase in bonds and notes	\$ 159,075,000	11%

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
August 31, 2006 and 2005**

OPERATING ACTIVITIES

In 2006, total revenues for the Authority increased by \$29,501,676 or 36% from 2005. Revenues for the Authority are derived from interest earned on student loans, cash equivalents and investments. Also included in revenues are expense reimbursements for arbitrage rebate and excess earnings, which are adjusted each year to reflect the annual recalculation of these estimated liabilities.

	<u>2006</u>	<u>2005</u>
Variable rates on student loans:	2.875% to 12.00%	2.82% to 12.00%
Average yield on investments for year:	4.75%	1.70%

The variable student loan interest rates were set annually on July 1, based on the 91-day T-Bill rate. Interest rates on consolidation loans are fixed at time of disbursement. Most of the increase in revenues was due to the increase in rates on student loans and investments.

In 2006, total expenses increased by \$30,590,366 or 45% from 2005. The major categories of the Authority's operating expenses are interest on debt, loan administration and servicing fees, and provision for excess earnings. The increase in operating expenses was largely due to the increase in rates on bonds and notes. Additionally, as a result of increased loan consolidations, consolidation fees increased \$1,740,756 or 36% from 2005. Interest expense increased due to the increased amount of debt and increasing rates, as noted below.

	<u>2006</u>	<u>2005</u>
Average tax-exempt bond rate	3.30%	2.21%
Average taxable bond rate	4.79%	2.78%
Average line of credit rate	4.60%	2.86%

ECONOMIC FACTORS AND OUTLOOK

In the spring of 2007, the Authority plans to issue additional tax-exempt debt in a dollar amount based on the calculation from the Texas Bond Review Board.

As described further in Note 16, President Bush signed the Higher Education Reconciliation Act of 2005 ("HERA") on February 8, 2006. This legislation contained new student loan provisions, including setting of interest rates on FFELP loans at permanent rates fixed rates, beginning July 1, 2006, as follows:

Stafford Loans	6.80%
PLUS Loans	7.90%

CONSOLIDATED FINANCIAL STATEMENTS

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF NET ASSETS
August 31, 2006 and 2005**

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 324,684,668	\$ 279,635,504
Accrued interest receivable	30,755,553	20,425,633
Special allowance payments receivable	5,676,971	5,427,142
Prepaid expenses	243,039	218,876
Accounts receivable	802,398	601,500
Student loan notes receivable, current maturities	203,332,451	148,464,145
Total Current Assets	565,495,080	454,772,800
Long-Term Assets		
Investment, held to maturity	2,000,000	2,000,000
Student loan notes receivable, net of current maturities	1,153,421,683	1,088,737,062
Deferred loan acquisition premiums, net of accumulated amortization of \$27,885,956 and \$19,966,649, respectively	18,539,373	16,326,749
Deferred issuance costs, net of accumulated amortization of \$3,557,151 and \$3,238,250, respectively	6,187,390	5,811,503
Noncompete agreements, net of accumulated amortization of \$2,381,490 and \$1,930,213, respectively	924,895	1,376,172
Total Long-Term Assets	1,181,073,341	1,114,251,486
Total Assets	\$ 1,746,568,421	\$ 1,569,024,286
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 3,610,287	\$ 3,395,754
Accrued interest payable	10,101,649	6,122,581
Senior bonds and notes payable, current portion	30,815,000	18,315,000
Subordinate bonds and notes payable, current portion	-	12,805,000
Total Current Liabilities	44,526,936	40,638,335
Long-Term Liabilities		
Arbitrage rebate payable	407,300	241,665
Excess earnings payable	19,778,800	17,277,400
Senior bonds and notes payable, net of current portion	1,530,175,000	1,380,795,000
Subordinate bonds and notes payable, net of current portion	47,380,000	37,380,000
Less unamortized original issue discount, net	(5,076,979)	(4,713,735)
Total Long-Term Liabilities	1,592,664,121	1,430,980,330
Total Liabilities	1,637,191,057	1,471,618,665
Net Assets		
Unrestricted	12,750,680	14,470,226
Unrestricted - designated	96,626,684	82,935,395
Total Net Assets	109,377,364	97,405,621
Total Liabilities and Net Assets	\$ 1,746,568,421	\$ 1,569,024,286

See accompanying notes and independent auditors' report

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Years Ended August 31, 2006 and 2005**

	2006	2005
Revenues		
Interest on investments	\$ 12,897,813	\$ 6,224,840
Interest on student loans	57,996,848	35,144,118
Special allowance payments	38,387,156	37,114,089
Excess earnings reimbursement	1,126,600	2,022,479
Other income	179,081	580,296
Total Revenues	110,587,498	81,085,822
Expenses		
Interest on bonds and notes	61,078,952	31,427,363
Loan servicing fees	13,844,388	13,678,956
Maintenance and operating fees	5,325,442	4,362,063
Commitment fees	580,185	589,041
Amortization of deferred issuance costs	318,901	367,564
Amortization of noncompete agreements	451,277	460,213
Legal and accounting fees	395,170	283,300
Trustee fees	238,512	202,843
Remarketing and auction rate fees	3,292,513	3,068,648
Custodial fees	-	110,663
Lender fees	863,718	336,358
Consolidation fees	6,561,559	4,820,803
Debt forgiveness	1,690,174	1,723,511
Arbitrage rebate expense	166,681	90,500
Excess earnings expense	3,628,000	6,318,461
Bond rating fees	51,100	94,159
Dues & subscriptions	30,000	30,000
Texas Franchise taxes	43,200	41,984
Miscellaneous expense	55,983	18,959
Total Expenses	98,615,755	68,025,389
Increase in Net Assets	11,971,743	13,060,433
Net Assets at beginning of year	97,405,621	84,345,188
Net Assets at end of year	\$ 109,377,364	\$ 97,405,621

See accompanying notes and independent auditors' report

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2006 and 2005**

	2006	2005
Cash Flows From Operating Activities		
Receipt of student loan and investment interest	\$ 60,564,741	\$ 38,930,197
Student loan repayments	385,705,543	232,447,503
Purchases and consolidations of student loans	(506,948,644)	(401,777,572)
Receipt of special allowance payments	38,137,327	37,776,483
Payments of interest on bonds and notes	(57,099,884)	(28,692,883)
Loan acquisition premiums paid	(10,131,931)	(8,396,468)
Payment to vendors	(22,829,290)	(20,198,466)
Net Cash Used in Operating Activities	(112,602,138)	(149,911,206)
Cash Flows From Investing Activities		
Acquisition of Central, June 22, 2005	-	(10,238,867)
Receipt of Central cash and cash equivalents	-	33,841,417
Acquisition of noncompete agreement for Central	-	(1,206,385)
Net Cash Provided by Investing Activities	-	22,396,165
Cash Flows From Noncapital Financing Activities		
Proceeds from issuance of bonds	192,750,000	214,775,000
Additions to original issue discount	(728,910)	(844,667)
Proceeds from line of credit note	64,000,000	-
Repayment of bonds	(33,675,000)	(48,440,000)
Repayment of line of credit note	(64,000,000)	(4,235,000)
Deferred issuance costs paid	(694,788)	(626,270)
Net Cash Provided by Noncapital Financing Activities	157,651,302	160,629,063
Net Increase in Cash and Cash Equivalents	45,049,164	33,114,022
Cash and Cash Equivalents		
Beginning of year	279,635,504	246,521,482
End of year	\$ 324,684,668	\$ 279,635,504

See accompanying notes and independent auditors' report

(continued)

	<u>2006</u>	<u>2005</u>
Reconciliation of Increase in Net Assets to Net Cash Used in Operating Activities		
Increase in net assets	\$ 11,971,743	\$ 13,060,433
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Amortization of:		
Original issue discount	365,666	303,892
Deferred issuance costs	318,901	378,591
Noncompete agreements	451,277	460,213
Loan acquisition premiums	7,919,307	5,168,012
Debt forgiveness	1,690,174	1,723,511
Changes in operating assets and liabilities		
(Increase) decrease in accrued interest receivable	(10,329,920)	(2,438,761)
(Increase) decrease in student loan notes	(121,243,101)	(169,930,933)
(Increase) decrease in deferred acquisition premiums	(10,131,931)	(8,396,468)
(Increase) decrease in special allowance payments receivable	(249,829)	662,394
(Increase) decrease in prepaid expenses	(24,163)	(115,135)
(Increase) decrease in accounts receivable	(200,898)	(92,936)
Increase (decrease) in accounts payable	214,533	2,394,416
Increase (decrease) in accrued interest payable	3,979,068	2,734,480
Increase (decrease) in arbitrage rebate payable	165,635	90,500
Increase (decrease) in excess earnings payable	2,501,400	4,086,585
	<u>\$ (112,602,138)</u>	<u>\$ (149,911,206)</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Acquisition of Central:		
Cash purchase price	<u>\$ -</u>	<u>\$ 10,238,867</u>
Working capital acquired, net of cash and cash equivalents	\$ -	\$ 3,457,903
Fair value of other assets acquired	-	140,308,930
Long-term debt assumed	<u>-</u>	<u>(135,305,000)</u>
	<u>\$ -</u>	<u>\$ 8,461,833</u>
Supplemental Disclosures		
Interest paid	<u>\$ 57,099,884</u>	<u>\$ 28,332,352</u>

See accompanying notes and independent auditors' report

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 1 - DESCRIPTION OF ORGANIZATION

Organization

Panhandle-Plains Higher Education Authority, Inc. (the "Authority"), is a not-for-profit corporation organized on August 26, 1979, under the laws of the State of Texas and reports as a governmental entity. The Authority was established at the request of the sponsoring City of Hereford, Texas, for the purpose of providing funds for the purchase of student loans at the post-secondary level, and to provide for the servicing of such loans as required for continued participation in the Federally Insured Student Loan Program under the HEA of 1965, as amended. Funding for the Authority has been provided by the sale of tax exempt and taxable bonds and by the issuance of debt instruments, the proceeds of which are used to purchase student loans. The Authority is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Consolidation Policy

The consolidated financial statements include the accounts of the Authority and its wholly owned subsidiary, Central Texas Student Loan Corporation, L.L.C. ("Central"). Central also provides funds for the purchase of student loans at the post-secondary level and provides for the servicing of such loans. All material intercompany accounts and transactions are eliminated in consolidation.

Loan Service Providers

Panhandle-Plains Management and Servicing Corporation, dba Panhandle-Plains Student Loan Center (the "Center"), a Texas corporation, services student loans for the Authority. Pursuant to a servicing agreement with the Authority, the Center is responsible for student loan servicing, collecting, accounting, due diligence and reporting, as well as providing administrative headquarters and administrative support functions. As compensation for such services, the Center receives a monthly fee subject to biannual redetermination and additional servicing fees based on a percentage of student loan notes receivable outstanding at the end of the month. During 2006 and 2005, loan servicing fees incurred by the Authority and Central to the Center were \$13,844,388 and \$13,678,956, respectively.

Two sub-servicing centers, Affiliated Computer Services, Inc. and Nelnet, Inc. ("Subservicers"), also service student loans for the Authority. These Subservicers act as agents for the Authority's student loan program, primarily performing loan billing, collection, accounting, reporting, due diligence and administrative duties. Under the terms of the sub-servicing agreements, the Subservicers are held liable for losses resulting from their deficient loan servicing.

Trustees

Wells Fargo Bank Texas, NA and J.P. Morgan Trust Company, NA, (the Trustees), perform the duties involving the acquisition and holding of student loans in the Authority's name, the investment and disbursement of monies as directed by the Authority, and the servicing and redemption of the bonds and notes.

Custodians

The Authority and the Trustees have entered into separate custodian agreements with the Center and Subservicers. Under the agreements, the Center and Subservicers agree to have possession of the promissory notes and related documents evidencing the student loan notes, and will hold such notes on behalf of the Trustees.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, including functional allocations during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the excess earnings liability as described further in Note 13.

Measurement Focus, Basis of Accounting and Basis of Presentation

The Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements for enterprise funds as well as the following pronouncements unless those pronouncements conflict with or contradict GASB pronouncements, Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. Enterprise funds are used to account for the operations and financial position of a governmental entity that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the expenses of providing goods and services on a continuing basis be financed or recovered primarily through user charges.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with a maturity of one year or less when purchased are considered to be cash equivalents.

Fair Value of Financial Instruments

The following methods and assumptions were used by management in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying values reported approximate fair value due to the short maturities of these instruments.

Investment, held to maturity: The fair value of investment, held to maturity is estimated as its fair value, due to its variable market rate.

Student loans receivable: The fair values of student loans receivable have been estimated as their carrying values.

Bonds and notes payable: The fair values of bonds and notes payable are based on their carrying values due to their adjustable interest rates, which reflect current market rates.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loan Acquisition Premiums

Premiums on student loan portfolio purchases are amortized on the straight-line method over the average life of the portfolio purchased, which for the year ended August 31, 2006 has been estimated by the Authority to be approximately four years. Management believes that application of the straight-line method yields a result that approximates an amount derived from using the interest method. Amortization of loan acquisition premiums is recorded in interest income, as an adjustment to the yield on student loans.

Original Issue Discount and Deferred Issuance Costs

Discounts on bond issues and issuance costs connected with each series are amortized on the straight-line method over the life of the bonds, which range from one to thirty-five years. Management believes that application of the straight-line method yields a result that approximates an amount derived from using the interest method.

Designated Net Assets

Substantially all of the Authority's assets are designated by virtue of bond indenture provisions for the purpose of paying principal and interest on bonds and for future purchases of student loans. The general fund, cash operating accounts and prepaid expenses are not designated by bond indenture provisions.

Income Tax

The Corporation is exempt from federal income tax under IRS Code Section 501(c)(3).

Presentation

Certain changes in the presentation of the 2005 financial statements and notes have been made to correspond with the 2006 presentation.

NOTE 3 - CASH AND INVESTMENTS

The Authority adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures, effective August 31, 2006. This Statement establishes and modifies disclosure requirements related to investment credit risk, including custodial risk and concentrations of credit risk, interest rate risk and foreign currency risk, as well as deposit custodial credit risk and foreign currency risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Authorized investments, as specified in the Authority's investment policy, bond indentures and in accordance with Texas statutes, include United States and certain other governmental agency obligations, municipal obligations, certificates of deposit, repurchase agreements, bankers acceptances, money market funds, and commercial paper.

The Authority minimizes credit risk by continual oversight of the investment officer, who must follow the investment policy as approved by the Board of Directors, annually. The investment policy contains authorized investments, which meet trust indenture requirements and are approved by the Board of Directors.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 3 - CASH AND INVESTMENTS (continued)

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they a) are not covered by depository insurance and the deposits are uncollateralized, b) collateralized with securities held by the pledging financial institution or c) collateralized with securities held by the pledging financial institutions trust department or agent but not in the depositor-government's name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name.

Accounts are maintained at local and area banks and insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest and non-interest bearing accounts. To the extent such investments are not insured by an agency or instrumentality of the United States Government, they are to be secured as defined in the bond indenture. At August 31, 2006, the Authority's cash deposits of \$1,609,707 and \$458,190 were insured and collateralized with securities held by the pledging financial institutions. The deposit account for Central, with a bank balance of \$352,390, was covered by depository insurance, but uncollateralized.

Concentration of Credit Risk

Cash and cash equivalents as of August 31, 2006 was comprised of the following:

	<u>2006</u>
Cash - demand deposits	\$ 2,941,577
Repurchase agreements	180,873,133
Money market funds	135,099,873
Government agency investments	4,770,085
Certificate of deposit	<u>1,000,000</u>
Total cash and cash equivalents	<u>\$ 324,684,668</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the Authority did not hold investments with fair values that are highly sensitive to changes in interest rates.

The Authority minimizes interest rate risk by continual oversight of the investment officer, who must follow the investment policy as approved by the Board of Directors, annually. The investment policy contains authorized investments, which meet trust indenture requirements and are approved by the Board of Directors.

NOTE 4 - STUDENT LOAN NOTES RECEIVABLE

The student loan notes represent loans to students who, when the loans were originated, were enrolled in post-secondary institutions. In general, the notes bear interest at a fixed or variable rate which is payable by the student following a specified grace period after graduation or termination from the institution. The terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest. The loans in the portfolio at August 31, 2006 bear interest at annual rates ranging from 2.875% to 12.00%.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 4 - STUDENT LOAN NOTES RECEIVABLE (continued)

Student loan notes which do not conform to the terms of the purchase agreement between the Authority and the original lender may be returned to the lending institution for reimbursement of principal, interest and costs incurred while held by the Authority.

The U. S. Government pays the Authority and Central interest on certain student loans from the date of acquisition until the end of the grace period and, in addition for certain eligible loans, pays a special allowance at the end of each quarter representing supplemental interest on outstanding insured loans at an annual rate which is determined periodically and is based on the average interest rate for 91-day U. S. Treasury Bills or commercial paper.

Student loan notes purchased by the Authority and Central have been insured by the U. S. Government or guaranteed by the Texas Guaranteed Student Loan Corporation with which the Secretary of Education has an agreement under Section 428(b) of the HEA, and any other guarantor of student loans acceptable to the lender which has an agreement with the Secretary under Section 428(b) of the Act, provided applicable program requirements have been met by the original lender with respect to such loans. These original lenders have warranted to the Authority that the student loans have met these requirements and are valid obligations of the student borrowers. During the years ending August 31, 2006 and 2005, loan forgiveness was accounted for as described in Note 11.

NOTE 5 - LINE OF CREDIT

The Authority has a revolving line of credit for \$75,000,000 with Bank of America. The line of credit has interest at LIBOR plus 0.50% and matures March 2007. At August 31, 2006, there was no balance outstanding on the line of credit. The Authority is required to pay an unused commitment fee when the average daily principal amount advanced is less than \$56,250,000 during any quarterly period ending, at the rate of 0.125% per annum.

NOTE 6 - CHANGE IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended August 31, 2006:

	<u>August 31,</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>August 31,</u> <u>2006</u>	<u>Current</u> <u>Portion</u>
Notes payable	\$ -	\$ 64,000,000	\$64,000,000	\$ -	\$ -
Bonds payable	<u>1,449,295,000</u>	<u>192,750,000</u>	<u>33,675,000</u>	<u>1,608,370,000</u>	<u>30,815,000</u>
	<u>\$ 1,449,295,000</u>	<u>\$ 256,750,000</u>	<u>\$97,675,000</u>	<u>\$ 1,608,370,000</u>	<u>\$ 30,815,000</u>

NOTE 7 - BONDS AND NOTES PAYABLE

Bonds and notes payable have been issued and are outstanding under four separate trust indentures authorized by the Authority and Central, as follows:

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 7 - BONDS AND NOTES PAYABLE (continued)

1991 AB TRUST INDENTURE

Student Loan Revenue Bonds, Series 1991A, Series 1991B, Series 1992A, Series 1992B, Series 1993A Series 1993B, Series 1995A, Series 1997X, Senior Series 2003 A-1, Senior Series 2003 A-2, Senior Series 2003 A-3, Subordinate Series 2003 B-1, Senior Series 2004 A-1, Senior Series 2004 A-2, Senior Series 2004 A-3, Senior Series 2004 A-4, Senior Series 2005 A-1, Senior Series 2005 A-2, Senior Series 2005 A-4, Senior Series 2005 A-5 and Senior Series 2006 A-1:

On June 20, 1991, the Authority received the net proceeds of a \$40,300,000 bond issue, \$37,000,000 tax-exempt Series 1991A and \$3,300,000 tax-exempt Series 1991B. The proceeds of the bonds were used to acquire eligible loans made to eligible borrowers to finance a program of education at eligible institutions. In addition, proceeds of the bonds were used to make deposits to various funds and accounts created under the indenture and to pay certain fees and expenses incurred in connection with the issuance of the bonds. The bonds have a stated maturity date of June 1, 2021. The bonds bear interest at a variable rate that resets weekly. The high and low interest rates for the year ended August 31, 2006 were 4.04% and 2.40%, respectively.

The Authority received the net proceeds of a \$58,000,000 bond issue, \$56,500,000 tax-exempt Series 1992A and \$1,500,000 tax-exempt Series 1992B on April 16, 1992. These proceeds were used for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the costs of issuing the Series 1992 bonds. \$8,000,000 in principal amount of the Series 1992A bonds is scheduled to mature on June 1, 2008. The remaining \$48,500,000 of the Series 1992A and Series 1992B bonds are scheduled to mature June 1, 2021. The bonds bear interest at a variable rate that resets weekly. The high and low interest rates for the year ended August 31, 2006 were 4.04% and 2.40%, respectively.

The Authority received the net proceeds of a \$50,000,000 bond issue, \$49,000,000 tax-exempt Series 1993A and \$1,000,000 tax-exempt Series 1993B on April 23, 1993. The Series 1993 bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the costs of issuing the Series 1993 bonds. The bonds are scheduled to mature June 1, 2023. The bonds bear interest at a variable rate that resets weekly. The high and low interest rates for the year ended August 31, 2006 were 4.04% and 2.40%, respectively.

The Authority received the net proceeds of a \$50,000,000 bond issue, tax-exempt Series 1995A on May 10, 1995. The Series 1995A bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the Series 1995A bonds. The bonds are scheduled to mature June 1, 2025. The bonds bear interest at an auction rate based upon a thirty-five day auction period. The high and low interest rates for the year ended August 31, 2006 were 3.91% and 2.65%, respectively.

The Authority received the net proceeds of a \$35,000,000 bond issue, tax-exempt Series 1997X on April 9, 1997. The Series 1997X bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the Series 1997X bonds. The Bonds are scheduled to mature June 1, 2027. The bonds bear interest at an auction rate based upon a thirty-five day auction period. The high and low interest rates for the year ended August 31, 2006 were 3.95% and 2.65%, respectively.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 7 - BONDS AND NOTES PAYABLE (continued)

1991 AB TRUST INDENTURE (continued)

Student Loan Revenue Bonds, Series 1991A, Series 1991B, Series 1992A, Series 1992B, Series 1993A Series 1993B, Series 1995A, Series 1997X, Senior Series 2003 A-1, Senior Series 2003 A-2, Senior Series 2003 A-3, Subordinate Series 2003 B-1, Senior Series 2004 A-1, Senior Series 2004 A-2, Senior Series 2004 A-3, Senior Series 2004 A-4, Senior Series 2005 A-1, Senior Series 2005 A-2, Senior Series 2005 A-4, Senior Series 2005 A-5 and Senior Series 2006 A-1:

On February 26, 2003, the Authority received the net proceeds of a \$158,800,000 bond issue, \$74,400,000 taxable Senior Series 2003 A-1, \$74,400,000 taxable Senior Series 2003 A-2 and \$10,000,000 taxable Subordinate Series 2003 B-1. These bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the bonds. The bonds are scheduled to mature June 1, 2035. The bonds bear interest at an auction rate based upon a twenty-eight day auction period. The high and low interest rates for the year ended August 31, 2006 were 5.40% and 3.51%, respectively.

The Authority received the net proceeds of a \$44,400,000 bond issue, tax-exempt Senior Series 2003 A-3, on March 26, 2003. The Senior Series 2003 A-3 bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the Senior Series 2003 A-3 bonds. The bonds have a stated maturity of December 1, 2038. The bonds bear interest at an auction rate based upon a thirty-five day auction period. The high and low interest rates for the year ended August 31, 2006 were 4.00% and 2.50%, respectively.

On February 10, 2004, the Authority received the net proceeds of a \$188,600,000 bond issue, \$71,700,000 taxable Senior Series 2004 A-1, \$28,300,000 taxable Senior Series 2004 A-2, \$44,600,000 tax-exempt Senior Series 2004 A-3, and \$44,000,000 tax-exempt Senior Series 2004 A-4. These bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the bonds. The bonds have stated maturities ranging from June 1, 2036 through January 1, 2039. The 2004 A-1 and 2004 A-2 bonds bear interest at an auction rate based upon a twenty-eight day auction period. The high and low interest rates for the year ended August 31, 2006 were 5.35% and 3.57%, respectively. The 2004 A-3 and 2004 A-4 bonds bear interest at an auction rate based upon a thirty-five day auction period. The high and low interest rates for the year ended August 31, 2006 were 3.93% and 2.60%, respectively.

On March 30, 2005, the Authority received the net proceeds of a \$150,000,000 bond issue, taxable Senior Series 2005 A-1 and taxable Senior Series 2005 A-2. The bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the bonds. The bonds are scheduled to mature January 1, 2040. The bonds bear interest at an auction rate based upon a twenty-eight day auction period. The high and low interest rates for the year ended August 31, 2006 were 5.37% and 3.54%, respectively.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 7 - BONDS AND NOTES PAYABLE (continued)

1991 AB TRUST INDENTURE (continued)

Student Loan Revenue Bonds, Series 1991A, Series 1991B, Series 1992A, Series 1992B, Series 1993A Series 1993B, Series 1995A, Series 1997X, Senior Series 2003 A-1, Senior Series 2003 A-2, Senior Series 2003 A-3, Subordinate Series 2003 B-1, Senior Series 2004 A-1, Senior Series 2004 A-2, Senior Series 2004 A-3, Senior Series 2004 A-4, Senior Series 2005 A-1, Senior Series 2005 A-2, Senior Series 2005 A-4, Senior Series 2005 A-5 and Senior Series 2006 A-1:

On December 16, 2005, the Authority received the net proceeds of a \$140,300,000 bond issue, tax-exempt Senior Series 2005 A-4 and tax-exempt Senior Series 2005 A-5. The bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the bonds. The bonds are scheduled to mature January 1, 2040. The bonds bear interest at an auction rate based upon a thirty-five day auction period. The high and low interest rates for the year ended August 31, 2006 were 3.74% and 3.15%, respectively.

The Authority received the net proceeds of a \$52,450,000 bond issue, tax-exempt Senior Series 2006 A-1, on April 25, 2006. The Senior Series 2006 A-1 bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the Senior Series 2006 A-1 bonds. The bonds are schedule to mature December 1, 2040. The bonds bear interest at an auction rate based upon a thirty-five day auction period. The high and low interest rates for the year ended August 31, 2006 were 4.05% and 3.74%, respectively.

1993 CDE TRUST INDENTURE

Student Loan Revenue Bonds, Series 1993C, Series 1993D, Series 1993E, Series 1997 A-1, Series 1997 A-2, Senior Series 1999 A-1, Senior Series 1999 A-2, Senior Series 2001 A-1, Senior Series 2001 A-2, Senior Series 2001 A-3, Subordinate Series 2001 B-1, Senior Series 2001 A-4, Senior Series A-5 and Subordinate Series B-2:

On September 21, 1993, the Authority received net proceeds of a \$102,200,000 bond issue, \$47,800,000 tax-exempt Series 1993C, \$40,950,000 tax-exempt Series 1993D, and \$13,450,000 tax-exempt Series 1993E. The bonds were issued for the purpose of refunding all of the Authority's Series 1988A, 1988B, and Series 1988C bonds. During fiscal year 2005, all 1993C, 1993D and 1993E bonds have been redeemed.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 7 - BONDS AND NOTES PAYABLE (continued)

1993 CDE TRUST INDENTURE (continued)

Student Loan Revenue Bonds, Series 1993C, Series 1993D, Series 1993E, Series 1997 A-1, Series 1997 A-2, Senior Series 1999 A-1, Senior Series 1999 A-2, Senior Series 2001 A-1, Senior Series 2001 A-2, Senior Series 2001 A-3, Subordinate Series 2001 B-1, Senior Series 2001 A-4, Senior Series A-5 and Subordinate Series B-2:

The Authority received the net proceeds of a \$35,000,000 bond issue, tax-exempt Senior Series 1999 A-1, and \$165,000,000 bond issue, taxable Senior Series 1999 A-2, on February 18, 1999. The bonds were issued for the purpose of purchasing guaranteed student loans, providing funds for capitalized interest, operating costs and a reserve, and paying costs of issuance. The Series 1999 A-1 Bonds bear interest at an auction rate based on a thirty-five day auction period. The bonds are scheduled to mature on December 1, 2033. The high and low interest rates for the year ended August 31, 2006 were 3.85% and 2.64%, respectively. The Series 1999 A-2 Notes bear interest at the per annum rate equal to one-month LIBOR plus 0.25%, except that such rate may not exceed the maximum interest rate allowed by Texas law or 15% per annum. As of August 31, 2006, \$138,385,000 had been redeemed, leaving notes outstanding of \$25,615,000. The notes are scheduled to mature on September 1, 2013. The high and low interest rates for the year ended August 31, 2006 were 5.65% and 3.94%, respectively.

On May 9, 2001, the Authority received net proceeds of a \$163,800,000 bond issue, \$35,000,000 tax-exempt Senior Series 2001 A-1, \$5,300,000 tax-exempt Senior Series 2001 A-2, \$110,500,000 taxable Senior Series 2001 A-3, and \$13,000,000 taxable Subordinate Series 2001 B-1. The bonds were issued for the purpose of purchasing guaranteed student loans, providing funds for capitalized interest, operating costs and a reserve, paying costs of issuance, and refunding a portion of the Authority's bond indebtedness. The Series 2001 A-1 bonds bear interest at an auction rate based on a thirty-five day auction period. The high and low interest rates for the year ended August 31, 2006 were 3.75% and 2.60%, respectively. The Series 2001 A-3 and Series 2001 B-1 bear interest at an auction rate based on a twenty-eight day auction period. The Series 2001 A-1, Series 2001 A-3 and Series 2001 B-1 bonds are scheduled to mature on April 1, 2031. As of August 31, 2006, the Series 2001 A-2 bonds have been redeemed. The high and low interest rates for the year ended August 31, 2006 were 5.40% and 3.59%, respectively.

The Authority received the net proceeds of a \$100,000,000 bond issue, \$45,000,000 bond taxable Senior Series 2001 A-4, \$45,000,000, taxable Senior Series 2001 A-5, and \$10,000,000 taxable Subordinate Series 2001 B-2 on October 25, 2001. These bonds were issued for the purpose of providing funds to purchase student loans guaranteed under the HEA, to pay capitalized interest, operating costs, and costs of issuance, and to fund a debt service reserve fund. The Series 2001 A-4, Series 2001 A-5, and Series 2001 B-2 bear interest at an auction rate based upon a twenty-eight day auction period. All of these bonds are scheduled to mature on October 1, 2031. The high and low interest rates for the year ended August 31, 2006 were 5.40% and 3.55%, respectively.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 7 - BONDS AND NOTES PAYABLE (continued)

ABILENE TRUST INDENTURE

Student Loan Revenue Bonds, Series 1993A, Series 1993B, Series 1993C, Series 1995A, Series 1995B, Series 1997, Series 1998A, Series 1998B, Senior Series 2002 A-1 and Senior Series 2005 A-3:

On January 12, 2001, the Authority acquired the assets and assumed the liabilities of AHEA-1 L.L.C. The tax-exempt bonds that were assumed from AHEA-1 L.L.C. and subsequent redemptions are as follows:

<u>Series</u>	<u>Bonds Assumed</u>	<u>Redemptions</u>	<u>Bonds Outstanding as of 8-31-06</u>	<u>Maturity Dates</u>
1993A	\$ 880,000	\$ 880,000	\$ -	
1993B & C	13,280,000	11,380,000	1,900,000	7/1/2008
1995A	10,475,000	10,475,000	-	
1995B	24,400,000	-	24,400,000	7/1/2025
1997	35,000,000	-	35,000,000	7/1/2027
1998A	32,000,000	-	32,000,000	7/1/2028
1998B	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>	7/1/2013
Totals	<u>\$119,035,000</u>	<u>\$ 22,735,000</u>	<u>\$ 96,300,000</u>	

The Series 1993B and Series 1993C Bonds bear interest at various fixed rates as stated in the bond indenture. The Series 1995B, Series 1997, and Series 1998A Bonds bear interest based upon the final auction rate of a 35-day auction period as determined by the auction agent, Bankers Trust Company, New York, New York. The high and low interest rates for the year ended August 31, 2006 were 4.05% and 2.45%, respectively. The Series 1998B Bonds have a fixed rate of interest at 5.05%.

On February 21, 2002, the Authority received the net proceeds of \$38,200,000 tax-exempt Series 2002 A-1. The bonds were issued for the purpose of providing funds to purchase student loans guaranteed under the HEA, including by means of refunding all of the Panhandle-Plains Higher Education Authority, Inc. Student Loan Revenue Bonds, Series 1997Y and Series 1998A. The bonds were also issued to refund a portion of the Authority's outstanding student loan revenue bond indebtedness and to use funds set aside for their payment to purchase such loans, pay initial operating costs, and costs of issuance, and fund a debt service reserve fund. The bonds bear interest at an auction rate based upon a thirty-five day auction period. The bonds have stated maturities ranging from July 1, 2010 through January 1, 2032. The high and low interest rates for the year ended August 31, 2006 were 3.85% and 1.90%, respectively.

On April 21, 2005, the Authority received the net proceeds of \$64,775,000 of tax-exempt Senior Series 2005 A-3. The bonds were issued for the purpose of purchasing guaranteed student loans, setting aside certain amounts for deposit into various funds of the indenture, and paying the cost of issuing the bonds. The bonds bear interest at an auction rate based upon a thirty-five day auction period. The bonds are scheduled to mature January 1, 2040. The high and low interest rates for the year ended August 31, 2006 were 3.95% and 2.65%, respectively.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 7 - BONDS AND NOTES PAYABLE (continued)

CENTRAL TRUST INDENTURE

Student Loan Revenue Bonds, Subordinate Series 1993B, Senior Series 2000A, Senior Series 2002A, Senior Series 2003A, Subordinate Series 2003B and Senior Series 2004A:

On June 22, 2005, the Authority acquired bonds from the Central Texas Higher Education Authority, Inc. The tax-exempt bonds assumed and subsequent redemptions are as follows:

<u>Series</u>	<u>Bonds Assumed</u>	<u>Redemptions</u>	<u>Bonds Outstanding as of 8-31-06</u>	<u>Maturity Dates</u>
1993B	\$ 12,805,000	\$ 12,805,000	\$ -	
2000A	35,000,000	-	35,000,000	12/1/2034
2002A	35,000,000	-	35,000,000	12/1/2036
2003A	25,000,000	-	25,000,000	12/1/2037
2003B	10,000,000	-	10,000,000	12/1/2037
2004A	17,500,000	-	17,500,000	12/1/2038
Totals	<u>\$ 135,305,000</u>	<u>\$ 12,805,000</u>	<u>\$ 122,500,000</u>	

The Series 2000A, Series 2002A, Series 2003A, Series 2003B and Series 2004A bear interest at an auction rate based on a thirty-five day auction period. The high and low interest rates for the year ended August 31, 2006 were 4.15% and 2.46%, respectively.

The following represents the future contractual maturities of the Authority's bonds at August 31, 2006:

<u>Year Ended August 31</u>	<u>1991 AB Trust</u>	<u>1993 CDE Trust</u>	<u>Abilene Trust</u>	<u>Central Trust</u>	<u>Total</u>
2007	\$ -	\$ 30,445,000	\$ 370,000	\$ -	\$ 30,815,000
2008	8,000,000	-	1,530,000	-	9,530,000
2009	-	-	-	-	-
2010	2,600,000	-	2,000,000	-	4,600,000
2011	-	-	-	-	-
2012-2016	4,500,000	-	4,200,000	-	8,700,000
2017-2021	90,300,000	-	-	-	90,300,000
2022-2026	100,000,000	-	24,400,000	-	124,400,000
2027-2031	35,000,000	258,500,000	67,000,000	-	360,500,000
2032-2036	258,800,000	35,000,000	35,000,000	70,000,000	398,800,000
2037-2041	463,450,000	-	64,775,000	52,500,000	580,725,000
Totals	<u>\$ 962,650,000</u>	<u>\$ 323,945,000</u>	<u>\$ 199,275,000</u>	<u>\$ 122,500,000</u>	<u>\$ 1,608,370,000</u>

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 7 - BONDS AND NOTES PAYABLE (continued)

The annual requirements to pay principal and interest on bonds outstanding at August 31, 2006 are as follows:

<u>Year Ended August 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 30,815,000	\$ 69,963,000
2008	9,530,000	68,217,000
2009	-	67,848,000
2010	4,600,000	67,848,000
2011	-	67,678,000
2012-2016	8,700,000	67,678,000
2017-2021	90,300,000	67,317,000
2022-2026	124,400,000	64,193,000
2027-2031	360,500,000	59,700,000
2032-2036	398,800,000	42,794,000
2037-2041	<u>580,725,000</u>	<u>23,844,000</u>
Total Bonds	<u>\$ 1,608,370,000</u>	<u>\$ 667,080,000</u>

The Authority is required to maintain compensating cash or investment balances equal to a percentage of the principal amount of the bonds, as stipulated by each indenture. As of August 31, 2006, the related compensating balance was approximately \$27,402,000. Central is also expected to maintain compensating cash or investment balances equal to a percentage of the principal amount of the bonds, as stipulated by each indenture. As of August 31, 2006, the related compensating balance was approximately \$2,450,000. Additionally, under federal and bond indenture requirements, the Authority is required to maintain compensating cash or investment balances equal to the minimum liability for arbitrage rebate and excess earnings, as determined at the most recent calculation date. As of August 31, 2006, the related compensating balances for arbitrage rebate and excess earnings for the Authority were approximately \$191,000 and \$17,833,000, respectively.

All bonds are secured and payable solely from assets pledged under the indentures, which include student loan notes receivable, revenues, monies and investments held under the indentures' trust estates. The Authority is required to maintain compliance with all debt covenants as defined in the indentures, the most restrictive of which limits the Authority's maintenance and operating expenditures to specified limits.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

**NOTE 8 - STANDBY BOND PURCHASE AGREEMENT AND INSURANCE
REIMBURSEMENT AGREEMENT**

The Authority entered into a Standby Bond Purchase Agreement dated June 1, 2003 with Lloyds TSB Bank PLC (the Bank). This Agreement relates to the Authority's Student Loan Revenue Bonds, Series 1991A, Series 1991B, Series 1992A, Series 1992B, Series 1993A, and Series 1993B. The agreement, which is scheduled to mature on June 3, 2008, is for a maximum aggregate principal amount of the bonds outstanding of \$148,300,000. During the commitment period, the Bank agrees to purchase all eligible bonds tendered. The Authority pays a commitment fee of 0.25% per annum on the available commitment, payable in arrears quarterly.

The Authority entered into an Insurance Reimbursement Agreement dated June 1, 2003 with MBIA Insurance Corporation (MBIA). This Agreement relates to the Authority's Student Loan Revenue Bonds, Series 1991A, Series 1991B, Series 1992A, Series 1992B, Series 1993A, and Series 1993B. MBIA has agreed to deliver its financial guaranty insurance policy guaranteeing regularly scheduled principal and interest payments on the bonds without regard to any acceleration of the time of payment of the bonds.

NOTE 9 - REMARKETING AND AUCTION RATE AGREEMENTS

Citigroup Global Markets, Inc. and Wells Fargo Bank, Texas NA serve as the remarketing agent for the Authority on the Series 1991, Series 1992, and Series 1993 Bonds. The remarketing agent shall perform all of the obligations as set forth in the Restated and Amended Remarketing Agreement dated June 1, 2003.

The Authority has auction rate agreements on the Series 1995A, Series 1995B, Series 1997, Series 1997X, Series 1998AB, Series 1999 A-1, Series 2001 A-1, Series 2001 A-3, Series 2001 A-4, Series 2001 A-5, Series 2001 B-1, Series 2001 B-2, Series 2002 A1, Series 2003 A-1, Series 2003 A-2, Series 2003 A-3, Series 2003 B-1, Series 2004 A-1, Series 2004 A-2, Series 2004 A-3, Series 2004 A-4, Series 2005 A-1, Series 2005 A-2, Series 2005 A-3, Series 2005 A-4, Series 2005 A-5, Series 2006 A-1, Series 2000A, Series 2002A, Series 2003A, Series 2003B and Series 2004A Bonds. Bankers Trust Company, and Wells Fargo Bank Texas, NA serve as the auction agents.

NOTE 10 - CALCULATION AGENT AGREEMENT

Citigroup Global Markets, Inc. serves as the calculation agent for the Authority on the Series 1999A-1 Bonds and the series 1999A-2 Notes.

NOTE 11 - DEBT FORGIVENESS/LOAN WRITE-OFF

The Authority has a policy of debt forgiveness on student loans that once the outstanding principal balance of a loan is less than \$500, that debt is forgiven and the loan is written-off. The debt forgiveness helps to reduce excess earnings as described in Note 13. In accordance with this policy, a total of \$1,690,174 and \$1,723,511 of student loans were forgiven and written-off during the year ending August 31, 2006 and 2005, respectively.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 12 - ARBITRAGE REBATE

Rebate of arbitrage is required by Section 148(f)(2) of the Internal Revenue Code. The rebate is payable to the United States Treasury and is calculated as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if such nonpurpose investments were invested at a rate equal to the yield on the bond issue, plus any income attributable to the excess. The rebate amount is required to be paid in installments at least once every five years. The last rebate installment is required to be paid not later than 60 days after the day on which the last bond of the issue is redeemed.

NOTE 13 - EXCESS EARNINGS LIABILITY

The excess earnings liability has been estimated as described in the Regulations under Internal Revenue Code Section 148(f). Excess earnings are calculated as the excess amount earned on all program investments (student loans) over the amount which would have been earned if such program investments were yielding a rate of return equal to 1.5% above the yield on the bond issue, excluding special allowance payments, for bonds outstanding on June 30, 1993 (the 1992 Regulations) and 2.0% above the yield on the bond issue, including special allowance payments, for bonds issued after June 30, 1993 (the 1993 Regulations). Payment of excess earnings is due as of the date the bonds are discharged. The estimated liability is subject to change due to bond and student loan activity prior to the bonds being discharged.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*, requires the disclosure of estimated fair values for financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Quoted market prices, when available, are used as the measure of fair value. Because no quoted market prices exist for a significant part of the Company's financial instruments, the fair value of such instruments have been derived based on management's assumptions used, principally the timing of future cash flows and a current discount rate.

Because assumptions are inherently subjective in nature, the net realizable value could be materially different from the estimates presented below. Accordingly, the aggregate fair value amounts presented most certainly do not represent management's estimation of the underlying value of the Company.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following are the estimated fair values of the Authority's consolidated financial instruments followed by a general description of the methods and assumptions used to estimate such fair values (in thousands):

Financial Assets	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
Cash and cash equivalents	\$ 324,684,668	\$ 324,684,668	\$ 279,635,504	\$ 279,635,504
Investment, held to maturity	2,000,000	2,000,000	2,000,000	2,000,000
Student loans receivable	1,356,754,134	1,356,754,134	1,237,201,207	1,237,201,207
Bonds and notes payable	1,608,370,000	1,608,370,000	1,449,295,000	1,449,295,000

NOTE 15 - SUBSEQUENT EVENTS

Subsequent to August 31, 2006, \$30,445,000 of bonds payable was redeemed by the Authority, including \$25,615,000 of Series 1999 A-2 Bonds and \$4,830,000 of Series 1997 A-2 Bonds.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

During the normal course of business, the Authority makes commitments with various banks and other student loan originators to purchase student loan notes.

Prior to October 30, 2004, the Department of Education ("DOE") guaranteed a minimum yield of 9.50% in connection with loans made from proceeds of certain tax-exempt bonds. On October 30, 2004, President Bush signed the Taxpayer-Teacher Protection Act of 2004, a new law that amends the HEA. The Taxpayer-Teacher Protection Act of 2004 restricts the situations in which lenders are entitled to a minimum yield of 9.50% in connection with loans made from the proceeds of certain tax-exempt bonds. Specifically, the DOE will no longer guarantee a minimum yield of 9.50% for a loan financed with qualifying tax-exempt bonds if the underlying bond matures, is retired, defeased or refunded or if the loan is refinanced with funds obtained from certain bonds or is sold or transferred to another holder. The Taxpayer-Teacher Protection Act of 2004 was made permanent as part the Higher Education Reconciliation Act of 2005 ("HERA") on February 8, 2006.

On February 8, 2006, the President signed HERA, which legislation was included as Title VII of the Deficit Reduction Act of 2005 (S. 1932), an omnibus budget bill that cut nearly \$40 billion in spending over five years, with \$12 billion coming from federal student loan programs. The vast majority of the savings are generated by requiring lenders to rebate Floor Income under the new loans issued after April 1, 2006. The major new student loan provisions include the following:

- Lenders rebate Floor Income on new loans after April 1, 2006.
- Borrower origination fees are gradually reduced to zero on FFELP by 2010 and to 1% in Direct Loan program by 2010.

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005**

NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued)

- Lender reinsurance is reduced to 99% with Exceptional Performer designation for claims filed after July 1, 2006 and 97% without designation on loans disbursed after July 1, 2006.
- Eliminates in-school consolidation loans as of July 1, 2006.
- Recycling of 9.50% loans is prohibited for loan holders with more than \$100 million in 9.50% loans, as of date of enactment, and other 9.50% reforms enacted in 2004 are made permanent.
- The limitation on SAP for PLUS loans made after January 1, 2000 is repealed, effective April 1, 2006.
- Graduate and professional students become eligible to take out PLUS loans.

HERA does not change the interest rates on Stafford loans, which under legislation enacted in 2002, are scheduled to become fixed at 6.80% for all loans disbursed after July 1, 2006. Under the previous legislation, the PLUS rate was scheduled to become fixed at 7.90% after July 1, 2006. HERA raises this rate to 8.50% for FFELP PLUS loans. Due to a drafting error in the bill, the PLUS rate for the FDLP was not changed and remains at 7.90% in the statute. The rates for Consolidation loans are unchanged by the HERA; the formula remains the weighted average of the rates on the underling loans, rounded up to the nearest eighth. HERA reauthorized the student loan programs through 2012.

SUPPLEMENTAL INFORMATION – 2006 ONLY

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**COMBINING SCHEDULE OF STATEMENT
OF NET ASSETS INFORMATION
August 31, 2006**

	<u>1991AB Trust</u>	<u>1993CDE Trust</u>	<u>Abilene Trust</u>	<u>General Fund</u>	<u>Lines of Credit</u>	<u>Authority Total</u>	<u>Central</u>
Assets							
Cash and cash equivalents	\$ 185,860,528	\$ 58,278,811	\$ 58,293,599	\$ 7,168,528	\$ 1	\$ 309,601,467	\$ 15,083,201
Accrued interest receivable	19,116,895	3,880,470	4,188,731	41,464	-	27,227,560	3,527,993
Special allowance payments receivable	3,830,291	1,135,718	461,161	-	-	5,427,170	249,801
Prepaid expenses	135,269	28,095	58,620	4,934	-	226,918	16,121
Accounts receivable	616,975	7,085	110,000	61,353	-	795,413	6,985
Investment, held to maturity	-	-	-	2,000,000	-	2,000,000	-
Student loan notes receivable	816,400,945	273,266,944	153,922,845	-	-	1,243,590,734	113,163,400
Deferred loan acquisition premiums, net	12,039,021	900,216	2,659,378	398,575	-	15,997,190	2,542,183
Deferred issuance costs, net	3,616,320	590,971	495,636	-	-	4,702,927	1,484,463
Investment in subsidiary	-	-	-	12,041,628	-	12,041,628	-
Noncompete agreement, net	-	-	-	924,895	-	924,895	-
Total Assets	<u>\$ 1,041,616,244</u>	<u>\$ 338,088,310</u>	<u>\$ 220,189,970</u>	<u>\$ 22,641,377</u>	<u>\$ 1</u>	<u>\$ 1,622,535,902</u>	<u>\$ 136,074,147</u>
Liabilities							
Accounts payable	\$ 2,167,044	\$ 662,102	\$ 414,617	\$ 50,988	\$ -	\$ 3,294,751	315,536
Accrued interest payable	6,281,570	1,350,700	1,318,996	-	-	8,951,266	1,150,383
Arbitrage rebate payable	154,600	1,200	184,900	-	-	340,700	66,600
Excess earnings payable	16,476,500	427,400	2,874,900	-	-	19,778,800	-
Senior bonds payable	952,650,000	300,945,000	194,895,000	-	-	1,448,490,000	112,500,000
Subordinate bonds payable	10,000,000	23,000,000	4,380,000	-	-	37,380,000	10,000,000
Less unamortized original issue discount, net	(3,481,922)	(1,169,829)	(425,228)	-	-	(5,076,979)	-
Total Liabilities	<u>984,247,792</u>	<u>325,216,573</u>	<u>203,643,185</u>	<u>50,988</u>	<u>-</u>	<u>1,513,158,538</u>	<u>124,032,519</u>
Net Assets							
Member's Equity	-	-	-	-	-	-	12,041,628
Unrestricted	385,093	919,136	526,822	22,590,389	1	12,750,680	-
Unrestricted - designated	56,983,359	11,952,601	16,019,963	-	-	96,626,684	-
Total Net Assets	<u>57,368,452</u>	<u>12,871,737</u>	<u>16,546,785</u>	<u>22,590,389</u>	<u>1</u>	<u>109,377,364</u>	<u>12,041,628</u>
Total Liabilities and Net Assets	<u>\$ 1,041,616,244</u>	<u>\$ 338,088,310</u>	<u>\$ 220,189,970</u>	<u>\$ 22,641,377</u>	<u>\$ 1</u>	<u>\$ 1,622,535,902</u>	<u>\$ 136,074,147</u>

See accompanying notes and independent auditors' report

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**COMBINING SCHEDULE OF STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSET INFORMATION
Year Ended August 31, 2006**

	1991AB Trust	1993CDE	Abilene Trust	General Fund	Lines of Credit	Authority Total	Central
Revenues							
Interest on investments	\$ 7,932,100	\$ 1,761,123	\$ 2,178,333	\$ 191,279	\$ 29,488	\$ 12,092,323	\$ 805,490
Interest on student loans	32,526,772	14,459,339	7,111,653	(499,786)	137,353	53,735,331	4,261,517
Special allowance payment	25,986,900	6,363,586	3,557,378	-	-	35,907,864	2,479,292
Excess earnings reimbursement	583,100	6,800	536,700	-	-	1,126,600	-
Equity in earnings of subsidiary	-	-	-	884,291	-	884,291	-
Other income	2,581	-	-	165,275	-	167,856	11,225
Total Revenues	<u>67,031,453</u>	<u>22,590,848</u>	<u>13,384,064</u>	<u>741,059</u>	<u>166,841</u>	<u>103,914,265</u>	<u>7,557,524</u>
Expenses							
Interest on bonds and notes	35,073,297	14,699,765	6,623,445	-	377,656	56,774,163	4,304,789
Loan servicing fees	9,588,825	2,216,889	1,252,530	-	80,173	13,138,417	705,971
Maintenance and operating fees	2,996,450	808,792	819,004	1,200	-	4,625,446	699,996
Commitment fees	495,317	-	-	84,868	-	580,185	-
Amortization of deferred issuance	173,705	96,260	10,303	-	-	280,268	38,633
Amortization of noncompete	-	-	-	451,277	-	451,277	-
Legal and accounting fees	103,992	30,350	67,736	98,969	-	301,047	94,123
Trustee fees	81,609	54,251	63,035	2,000	-	200,895	37,617
Remarketing and auction rate fees	1,859,649	665,162	438,640	-	-	2,963,451	329,062
Lender fees	549,310	217,888	92,091	-	-	859,289	4,429
Consolidation fees	3,887,268	1,790,832	420,305	-	84,257	6,182,662	378,897
Debt forgiveness	1,580,396	8,298	97,874	-	-	1,686,568	3,606
Taxes	-	-	-	-	-	-	43,200
Arbitrage rebate expense	154,600	(22,254)	21,200	-	-	153,546	13,135
Excess earnings expense	2,924,700	-	703,300	-	-	3,628,000	-
Bond rating fees	26,500	-	-	24,600	-	51,100	-
Dues & subscriptions	-	-	-	30,000	-	30,000	-
Miscellaneous expense	132	-	-	36,076	-	36,208	19,775
Total Expenses	<u>59,495,750</u>	<u>20,566,233</u>	<u>10,609,463</u>	<u>728,990</u>	<u>542,086</u>	<u>91,942,522</u>	<u>6,673,233</u>
Increase (Decrease) in Net Assets	7,535,703	2,024,615	2,774,601	12,069	(375,245)	11,971,743	884,291
Net Assets at Beginning of Year	49,832,749	10,847,122	13,772,184	22,953,557	9	97,405,621	11,157,337
Fund transfers	-	-	-	(375,237)	375,237	-	-
Net Assets at End of Year	<u>\$ 57,368,452</u>	<u>\$ 12,871,737</u>	<u>\$ 16,546,785</u>	<u>\$ 22,590,389</u>	<u>\$ 1</u>	<u>\$ 109,377,364</u>	<u>\$ 12,041,628</u>

See accompanying notes and independent auditors' report

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF STATEMENTS OF NET ASSETS
August 31, 2006**

Assets	Total	Eliminating Entries	Authority	Central
Current Assets				
Cash and cash equivalents	\$ 324,684,668	\$ -	\$ 309,601,467	\$ 15,083,201
Accrued interest receivable	30,755,553	-	27,227,560	3,527,993
Special allowance payments receivable	5,676,971	-	5,427,170	249,801
Prepaid expenses	243,039	-	226,918	16,121
Accounts receivable	802,398	-	795,413	6,985
Student loan notes receivable, current maturities	203,332,451	-	186,538,610	16,793,841
Total Current Assets	<u>565,495,080</u>	<u>-</u>	<u>529,817,138</u>	<u>35,677,942</u>
Long-Term Assets				
Investment, held to maturity	2,000,000	-	2,000,000	-
Student loan notes receivable, net of current maturities	1,153,421,683	-	1,057,052,124	96,369,559
Deferred loan acquisition premiums, net	18,539,373	-	15,997,190	2,542,183
Deferred issuance costs, net	6,187,390	-	4,702,927	1,484,463
Noncompete agreements, net	924,895	-	924,895	-
Investment in subsidiary	-	(12,041,628)	12,041,628	-
Total Long-Term Assets	<u>1,181,073,341</u>	<u>(12,041,628)</u>	<u>1,092,718,764</u>	<u>100,396,205</u>
Total Assets	<u>\$ 1,746,568,421</u>	<u>\$ (12,041,628)</u>	<u>\$ 1,622,535,902</u>	<u>\$ 136,074,147</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 3,610,287	\$ -	\$ 3,294,751	\$ 315,536
Accrued interest payable	10,101,649	-	8,951,266	1,150,383
Senior bonds and notes payable, current portion	30,815,000	-	30,815,000	-
Subordinate bonds and notes payable, current portion	-	-	-	-
Total Current Liabilities	<u>44,526,936</u>	<u>-</u>	<u>43,061,017</u>	<u>1,465,919</u>
Long-Term Liabilities				
Arbitrage rebate payable	407,300	-	340,700	66,600
Excess earnings payable	19,778,800	-	19,778,800	-
Senior bonds and notes payable, net of current portion	1,530,175,000	-	1,417,675,000	112,500,000
Subordinate bonds and notes payable, net of current portion	47,380,000	-	37,380,000	10,000,000
Less unamortized original issue discount, net	(5,076,979)	-	(5,076,979)	-
Total Long-Term Liabilities	<u>1,592,664,121</u>	<u>-</u>	<u>1,470,097,521</u>	<u>122,566,600</u>
Total Liabilities	<u>1,637,191,057</u>	<u>-</u>	<u>1,513,158,538</u>	<u>124,032,519</u>
Net Assets				
Member's equity	-	(12,041,628)	-	12,041,628
Unrestricted	12,750,680	-	12,750,680	-
Unrestricted - designated	96,626,684	-	96,626,684	-
Total Net Assets	<u>109,377,364</u>	<u>(12,041,628)</u>	<u>109,377,364</u>	<u>12,041,628</u>
Total Liabilities and Net Assets	<u>\$ 1,746,568,421</u>	<u>\$ (12,041,628)</u>	<u>\$ 1,622,535,902</u>	<u>\$ 136,074,147</u>

See accompanying notes and independent auditors' report

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Year Ended August 31, 2006**

	<u>Total</u>	<u>Eliminating Entries</u>	<u>Authority</u>	<u>Central</u>
Revenues				
Interest on investments	\$ 12,897,813	\$ -	\$ 12,092,323	\$ 805,490
Interest on student loans	57,996,848	-	53,735,331	4,261,517
Special allowance payment	38,387,156	-	35,907,864	2,479,292
Excess earnings reimbursement	1,126,600	-	1,126,600	-
Equity in earnings of subsidiary	-	(884,291)	884,291	-
Other income	179,081	-	167,856	11,225
Total Revenues	<u>110,587,498</u>	<u>(884,291)</u>	<u>103,914,265</u>	<u>7,557,524</u>
Expenses				
Interest on bonds and notes	61,078,952	-	56,774,163	4,304,789
Loan servicing fees	13,844,388	-	13,138,417	705,971
Maintenance and operating fees	5,325,442	-	4,625,446	699,996
Commitment fees	580,185	-	580,185	-
Amortization of deferred issuance costs	318,901	-	280,268	38,633
Amortization of noncompete agreements	451,277	-	451,277	-
Legal and accounting fees	395,170	-	301,047	94,123
Trustee fees	238,512	-	200,895	37,617
Remarketing and auction rate fees	3,292,513	-	2,963,451	329,062
Lender fees	863,718	-	859,289	4,429
Consolidation fees	6,561,559	-	6,182,662	378,897
Debt forgiveness	1,690,174	-	1,686,568	3,606
Arbitrage rebate expense	166,681	-	153,546	13,135
Excess earnings expense	3,628,000	-	3,628,000	-
Bond rating fees	51,100	-	51,100	-
Dues & subscriptions	30,000	-	30,000	-
Texas Franchise taxes	43,200	-	-	43,200
Miscellaneous expense	55,983	-	36,208	19,775
Total Expenses	<u>98,615,755</u>	<u>-</u>	<u>91,942,522</u>	<u>6,673,233</u>
Increase in Net Assets	11,971,743	(884,291)	11,971,743	884,291
Net Assets at Beginning of Year	<u>97,405,621</u>	<u>(11,157,337)</u>	<u>97,405,621</u>	<u>11,157,337</u>
Net Assets at End of Year	<u>\$ 109,377,364</u>	<u>\$ (12,041,628)</u>	<u>\$ 109,377,364</u>	<u>\$ 12,041,628</u>

See accompanying notes and independent auditors' report

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF STATEMENTS OF CASH FLOWS
Year Ended August 31, 2006**

	<u>Total</u>	<u>Eliminating Entries</u>	<u>Authority</u>	<u>Central</u>
Cash Flows From Operating Activities				
Receipt of student loan and investment interest	\$ 60,564,741	-	\$ 56,183,109	\$ 4,381,632
Student loan repayments	385,705,543	-	352,187,463	33,518,080
Purchases and consolidations of student loans	(506,948,644)	-	(462,029,755)	(44,918,889)
Receipt of special allowance payments	38,137,327	-	35,471,109	2,666,218
Payments of interest on bonds and notes	(57,099,884)	-	(53,055,552)	(4,044,332)
Loan acquisition premiums paid	(10,131,931)	-	(8,477,119)	(1,654,812)
Payments to vendors	(22,829,290)	-	(22,006,450)	(822,840)
	<u>(112,602,138)</u>	<u>-</u>	<u>(101,727,195)</u>	<u>(10,874,943)</u>
Net Cash Provide by (Used for) Operating Activities				
Cash Flows From Noncapital Financing Activities				
Proceeds from issuance of bonds	192,750,000	-	192,750,000	-
Additions to original issue discount	(728,910)	-	(728,910)	-
Proceeds from line of credit note	64,000,000	-	64,000,000	-
Repayment of bonds	(33,675,000)	-	(20,870,000)	(12,805,000)
Repayment of line of credit note	(64,000,000)	-	(64,000,000)	-
Deferred issuance costs paid	(694,788)	-	(694,788)	-
	<u>157,651,302</u>	<u>-</u>	<u>170,456,302</u>	<u>(12,805,000)</u>
Net Cash Provided by Noncapital Financing Activities				
Net Increase (Decrease) in Cash and Cash Equivalents	45,049,164	-	68,729,107	(23,679,943)
Cash and Cash Equivalents				
Beginning of year	279,635,504	-	240,872,360	38,763,144
End of year	<u>\$ 324,684,668</u>	<u>\$ -</u>	<u>\$ 309,601,467</u>	<u>\$ 15,083,201</u>

See accompanying notes and independent auditors' report

**PANHANDLE-PLAINS HIGHER EDUCATION
AUTHORITY, INC. AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF STATEMENTS OF CASH FLOWS
Year Ended August 31, 2006**

	<u>Total</u>	<u>Eliminating Entries</u>	<u>Authority</u>	<u>Central</u>
(continued)				
Reconciliation of Operating Income to Net Cash Used in Operating Activities				
Increase in net assets	\$ 11,971,743	\$ (884,291)	\$ 11,971,743	\$ 884,291
Adjustments to reconcile increase in net assets to net cash used in operating activities				
Amortization of:				
Original issue discount	365,666	-	365,666	-
Deferred issuance costs	318,901	-	280,268	38,633
Noncompete agreements	451,277	-	451,277	-
Loan acquisition premiums	7,919,307	-	6,473,213	1,446,094
Debt forgiveness	1,690,174	-	1,686,568	3,606
Equity in earnings of subsidiary	-	884,291	(884,291)	-
Changes in operating assets and liabilities				
(Increase) decrease in accrued interest receivable	(10,329,920)	-	(9,644,545)	(685,375)
(Increase) decrease in student loan notes receivable	(121,243,101)	-	(109,842,292)	(11,400,809)
(Increase) decrease in deferred acquisition premiums	(10,131,931)	-	(8,477,119)	(1,654,812)
(Increase) decrease in special allowance payment	(249,829)	-	(436,755)	186,926
(Increase) decrease in prepaid expenses	(24,163)	-	(27,359)	3,196
(Increase) decrease in accounts receivable	(200,898)	-	(702,477)	501,579
Increase (decrease) in accounts payable	214,533	-	686,397	(471,864)
Increase (decrease) in accrued interest payable	3,979,068	-	3,718,611	260,457
Increase (decrease) in arbitrage rebate payable	165,635	-	152,500	13,135
Increase (decrease) in excess earnings payable	2,501,400	-	2,501,400	-
Net Cash Used in Operating Activities	<u>\$ (112,602,138)</u>	<u>\$ -</u>	<u>\$ (101,727,195)</u>	<u>\$ (10,874,943)</u>

See accompanying notes and independent auditors' report