Financial Statements and Schedule of Expenditures of Federal Awards

Higher Education Loan Authority of the State of Missouri
As of and for the Years Ended June 30, 2014 and 2013
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Higher Education Loan Authority of the State of Missouri

Financial Statements and Schedule of Expenditures of Federal Awards

As of and for the Years Ended June 30, 2014 and 2013

Contents

Building a better working world

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Report of Independent Auditors

Members of
The Higher Education Loan Authority of the State of Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Higher Education Loan Authority of the State of Missouri (the Authority), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Authority as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4-23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2014, as required by U.S. Office of Management and Budget Circular A-133 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated September 12, 2014, on our consideration of the Authority'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 the 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 Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

September 12, 2014

The Management's Discussion and Analysis of the financial performance of the Higher Education Loan Authority of the State of Missouri (the Authority) is required supplementary information. This discussion and analysis provides an analytical overview of the Authority's condensed financial statements and should be read in conjunction with the financial statements that follow.

The Authority

The Authority is recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education (the Department). The Authority is a leading holder and servicer of student loans with nearly $28.5 billion in student loan assets serviced as of June 30, 2014.

The Authority was created by the General Assembly of the State of Missouri through passage of House Bill (HB) 326, signed into law on June 15, 1981, in order to ensure that all eligible post-secondary education students have access to guaranteed student loans. The legislation was amended, effective August 28, 1994, effective August 28, 2003, and again effective May 2, 2008, to provide the Authority with generally expanded powers to finance, originate, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act.

The passage of HB 221, effective August 28, 2003, allowed the Authority to originate Parent Loans for Undergraduate Students (PLUS loans) and extended the date for repayment of bonds issued by the Authority from 30 to 40 years. The bill also repealed sections of law setting restrictions on variable rate unsecured loans. The repeal of variable rate restrictions allowed the Authority to restructure the rates assessed for the Supplemental and Qualified Institution Loan Programs.

The passage of Senate Bill (SB) 389, effective August 28, 2007, further amended the Authority's purpose in order to support the efforts of public colleges and universities to create and fund capital projects and also to support the Missouri Technology Corporation's ability to work with colleges and universities in identifying opportunities for commercializing technologies, transferring technologies, and developing, recruiting, and retaining entities engaged in innovative technologies. In addition, powers of the Authority were amended to include fund transfers to the Lewis and Clark Discovery Fund and authorization for the Authority to participate in any type of financial aid program that provides grants and scholarships to students.

The Authority (continued)

The enactment of SB 967 on May 2, 2008, allowed the Authority to originate Stafford loans; however, according to SB 967, "the Authority's origination of Stafford loans under the Federal Family Education Loan Program (FFELP) shall not exceed ten percent of the previous year's total Missouri FFELP volume as determined by the Student Market Measure report, data from the U.S. Department of Education or other reputable sources." The Authority disbursed just under $1.9 million of Stafford loans during fiscal year 2011. The Authority made no disbursements in fiscal years 2012, 2013, or 2014 due to the elimination of FFELP as discussed below.

The Authority is governed by a seven-member Board, five of whom are appointed by the Governor of the State, subject to the advice and consent of the State Senate, and two others who are designated by statute – the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. Raymond H. Bayer, Jr., appointed by the Board during fiscal year 2007, serves as Executive Director and Chief Executive Officer of the Authority.

The Authority has not originated FFELP loans since July 1, 2010. This is due to the enactment of the federal Health Care and Education Reconciliation Act of 2010 (HCERA) on March 30, 2010, including the Student Aid and Fiscal Responsibility Act (SAFRA), which eliminated FFELP effective July 1, 2010, and prohibited the origination of new FFELP loans after June 30, 2010. As of July 1, 2010, all loans made under the Higher Education Act are originated under the Federal Direct Student Loan Program (Direct Loan Program). The terms of existing FFELP loans are not materially affected by the HCERA. However, the Authority has a contract with the Department to service Direct Loans in accordance with the HCERA, which requires the Department to contract with each eligible and qualified not-for-profit (NFP) servicer to service loans. On April 29, 2010, the Department began the process to identify eligible NFP servicers by issuing a Sources Sought Notice (Solicitation Number: NFP-SS-2010) (the Sources Sought Notice) requesting that interested entities submit information to the Department demonstrating eligibility as an eligible NFP servicer under the criteria set forth in the HCERA.

The Authority responded to the Sources Sought Notice and was among the first 12 NFP servicers that the Department determined met the NFP servicer eligibility criteria under the HCERA. On September 29, 2010, the Department issued a Solicitation (NFP-RFP-2010) (the Solicitation)

The Authority (continued)

seeking proposals from eligible NFP servicers to contract with the Department to service federal assets, including Direct Loan accounts. On November 24, 2010, the Authority submitted a proposal to the Department responding to the Solicitation and asking for permission to proceed to execute a Memorandum of Understanding with the Department. On February 2, 2011, the Department published a determination that the Authority was permitted to enter into a Memorandum of Understanding to pursue an Authorization to Operate (ATO) and a contract award as an NFP servicer. The Pennsylvania Higher Education Assistance Agency (PHEAA) was identified as a key subcontractor for this arrangement. On March 30, 2011, the Authority entered into a Memorandum of Understanding with the Department. The Authority was awarded an ATO on September 22, 2011, and a servicing contract to become an NFP servicer to service federal assets, including Direct Loans, on September 27, 2011. The Authority has also entered into a "teaming arrangement" with 13 other NFP servicers (the MOHELA team) and, pursuant to the terms of the Solicitation, the MOHELA team is entitled to receive a minimum of 1.4 million federal asset accounts for servicing. As of June 30, 2014, the MOHELA team is servicing over 1.1 million federal asset accounts, representing over $25.7 billion in student loans.

In addition to a federal loan servicing contract, at June 30, 2014, the Authority serviced nearly $2.8 billion of its own student loans that will provide the Authority ongoing revenue streams for many years to come. This legacy portfolio and its related revenue have and continue to assist the Authority in a gradual and smooth transition to a federal asset servicing business model.

On December 23, 2011, The Consolidation Appropriation Act of 2012 was signed into law, which, in part, allowed FFELP loan holders to elect to substitute one-month LIBOR for the 90-day AA Financial Commercial Paper (90-day CP) rate for the special allowance program (SAP) index. This was a one-time opportunity, and the Authority made the election as required by April 1, 2012, which was effective for the quarter ending June 30, 2012. The election applied to all Authority-owned FFELP loans first disbursed after January 1, 2000, except those held in the 12th General Bond Resolution because the third-party bond insurer would not consent to the index change. The Department approved the Authority's LIBOR election on April 6, 2012. On May 22, 2013, the Authority refinanced all FFELP loans held under the 12th General Bond Resolution into the 2013-1 LFRN; therefore, as of the quarter ended June 30, 2013, all Authority-owned FFELP loans disbursed after January 1, 2000 are indexed to one-month LIBOR.

The Authority (continued)

The Authority owns and services student loans made pursuant to the Higher Education Act under FFELP, including:

(a) Subsidized Stafford loans – loans to students meeting certain financial needs tests for which the federal government makes interest payments available to reduce student interest cost during periods of enrollment

(b) Unsubsidized Stafford loans – loans to students made without regard to financial need for which the federal government does not make such interest payments

(c) PLUS loans – loans to parents of dependent undergraduate and graduate students, or to graduate or professional students

(d) Consolidation loans – loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans

The Authority also previously owned consolidated Health Education Assistance Loans (HEAL) established by the Public Health Service Act and insured through the Department of Health and Human Services. In addition, the Authority is the lender and servicer for supplemental loans, which are also known as private or alternative loans. These supplemental loans were previously made available predominantly to students in the Midwest who reached the maximum available funding under FFELP. There are several types of loans under the supplemental programs, including those for borrowers attending eligible undergraduate, technical, graduate, law, medical, and pharmacy schools. Supplemental loans are not guaranteed by the federal government.

The Authority suspended its supplemental loan programs during fiscal year 2008 due in part to credit market disruptions, which made financing these loans more difficult. In addition to increasing delinquencies and defaults in the Authority's existing portfolio, the creation of the Federal Grad PLUS program increased the risk profile of future supplemental loans, which were then made predominantly to undergraduate students as opposed to graduate and professional students.

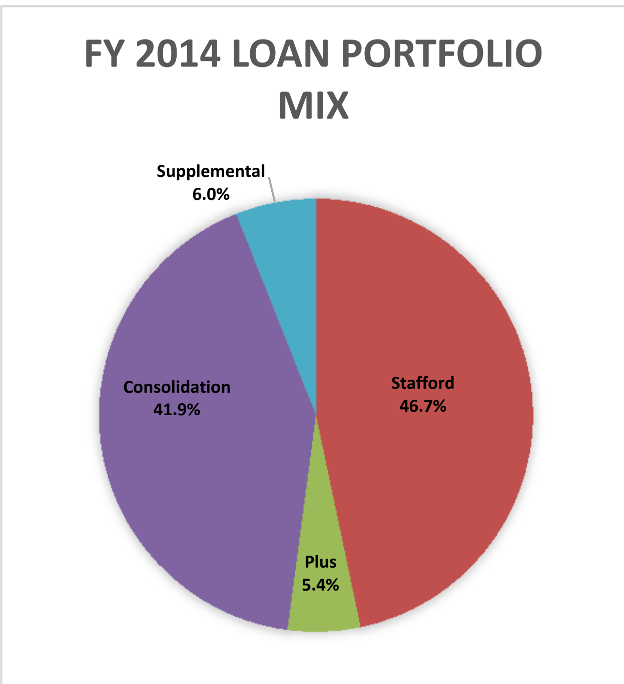
The Authority (continued)

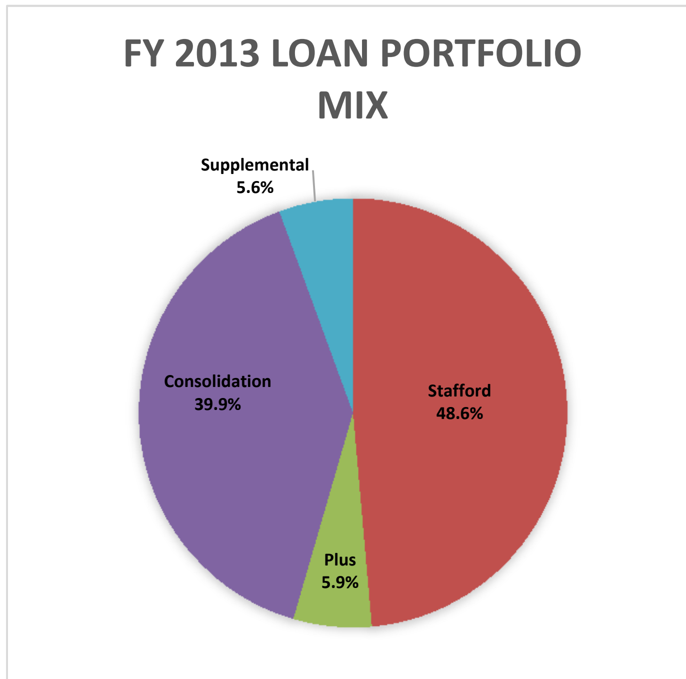
The Authority purchased $32.8 million of gross principal in student loans from a variety of financial institutions during fiscal year 2014. This compares to $166.5 million of gross principal purchased during fiscal year 2013 and $351.9 million of gross principal purchased during fiscal year 2012, representing an 80% decrease for fiscal year 2014 compared to a 53% decrease for fiscal year 2013. For fiscal year 2014, the Authority purchased $8.6 million in loans from lender partners. The remaining $24.2 million consisted of $4.6 million in rehabilitated loans purchased from the Missouri guaranty agency at a discount and $19.6 million in repurchases from various guarantors of loans that had previously been in a bankruptcy status as required by federal law. The totals above include $8.6 million in supplemental loans purchased during fiscal year 2014. The Authority concluded FFELP loan servicing for its lender partners in November 2013, which resulted in the Authority discontinuing its collection of this servicing fee income. In fiscal year 2014, the Authority's lender servicing fee income was $11 thousand, which was down from $0.3 million in fiscal year 2013. In addition, in fiscal year 2014, the Authority recognized $27.1 million in servicing fees from its federal servicing contract after fees paid to subcontractor team members, compared to $20.0 million in fiscal year 2013.

The net loan activity of new purchases less existing loan principal decreases through borrower and claim payments, cancellation activity, loan consolidations, including the special consolidation loan program and loan sales; resulted in a decrease of 13% from $3.2 billion to $2.8 billion in the student loan portfolio from fiscal year 2013 to fiscal year 2014 as compared to a 11% decrease from $3.6 billion to $3.2 billion from fiscal year 2012 to fiscal year 2013.

The Authority (continued)

As of June 30, 2014 and 2013, the gross student loan portfolio held by the Authority was as follows:





The Authority did not issue any new debt during fiscal year 2014. During fiscal year 2013, the Authority utilized the LIBOR floating rate note (LFRN) market to refinance FFELP loans held in the 11th and 12th General Bond Resolutions and to purchase loans from its lender partners and the Authority's Operating Fund. On May 22, 2013, the Authority issued $956.2 million in LFRNs under the 2013-1 Trust Indenture to refinance $762.1 million in loans from the 11th General Bond Resolution, $46.7 million in loans from the 12th General Bond Resolution, as well as $144.5 million to purchase loans from a lender partner and $1.6 million to purchase loans from the Authority's Operating Fund. On May 10, 2012, the Authority issued $256.1 million in LFRNs under the 2012-1 Trust Indenture to refinance loans from the Straight-A Conduit and line of credit and to purchase loans from the Authority's Operating Fund.

The Authority (continued)

The Authority continues to focus on the development of creative solutions to support the Authority's mission. In the past, the Authority has offered various rate reduction programs to borrowers who establish payments through automatic deduction, as well as various loan forgiveness programs. Beginning in fiscal year 2009, the Authority modified its borrower benefits to comply with new requirements related to the federal Ensuring Continued Access to Student Loans Act (ECASLA) programs. As a result, borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction. In fiscal year 2011, the Authority contributed $30.0 million in funds for the State of Missouri's need-based scholarship program, the Access Missouri Financial Assistance Program (Access Missouri). In addition, in fiscal year 2012, the Authority provided for the contribution of an additional $30.0 million to Access Missouri and $1.0 million to a new state scholarship program titled Advanced Placement Incentive Grants. For fiscal year 2013, the Authority contributed an additional $5.0 million to Access Missouri. The Authority reserves the right to modify these programs as needed. In addition, since its inception, the Authority has granted over $48.6 million in loan forgiveness for a variety of student borrowers, including teachers, Pell Grant recipients, and those in military service. The Authority has also been providing scholarship and grant funding through the Missouri Scholarship and Loan Foundation by donating $5.7 million in fiscal year 2014, $5.8 million in fiscal year 2013 and $0.2 million in fiscal year 2012.

On June 11, 2010, the Authority's Board approved the creation of the Missouri Scholarship Foundation, appointed the initial board of directors, and provided initial funding of $100. The Missouri Scholarship Foundation was incorporated as a Missouri nonprofit corporation for the primary purposes of receiving gifts and grants, raising funds, accepting transfers and contributions, and using the resulting funds for (1) administering grant, scholarship, and related programs on behalf of the Authority and other entities and (2) assisting students who are residents of the State of Missouri and students who attend post-secondary institutions located or based in the State of Missouri to gain access to and finance their post-secondary education.

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are

The Authority (continued)

originated and serviced by the Authority. The Authority charges origination and servicing fees to the Foundation in accordance with the servicing agreement approved by both entities. These fees were immaterial for fiscal year 2014, as it was the initial year of the program.

As of June 30, 2014, the Foundation had $10.6 million in total assets, which was up from $5.1 million at June 30, 2013. The Foundation's assets primarily continue to be held in cash as the cash balance at 2014 fiscal year end was $10.3 million compared to $5.1 million at 2013 fiscal year end. The Foundation's operating revenue in fiscal year 2014 of $5.7 million was down slightly from $5.8 in fiscal year 2013. All Foundation revenues were from contributions from the Authority in both fiscal years. The Foundation's expenses were down significantly from $1.1 million in fiscal year 2013 to $0.1 million in fiscal year 2014 as the Foundation shifted from a grant program to a loan program. The Foundation's net position at 2014 fiscal year end was $10.6 million compared to $5.0 million at 2013 fiscal year end.

Financial Analysis

This report includes three financial statements: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. The statements of net position present the financial position of the Authority at the end of the fiscal year and include all assets and liabilities of the Authority. The statements of revenues, expenses, and changes in net position present the Authority's changes in financial position. The statements of cash flows provide a view of the sources and uses of the Authority's cash resources.

Financial Analysis (continued)

Condensed financial information and a brief synopsis of the variances follow:

Condensed Statements of Net Position
(In thousands)

	2014	2013	2012
Capital assets	**$ 25,640**	$ 26,876	$ 19,150
Other than capital assets	**2,929,990**	3,396,644	4,019,853
Total assets	**$ 2,955,630**	$ 3,423,520	$ 4,039,003
Current liabilities	**$ 289,862**	$ 319,308	$ 284,254
Long-term liabilities	**2,381,599**	2,827,452	3,480,220
Total liabilities	**$ 2,671,461**	$ 3,146,760	$ 3,764,474
Net investment in capital assets	**$ 25,408**	$ 25,949	$ 18,845
Restricted for debt service	**208,314**	206,974	199,290
Unrestricted	**50,447**	43,837	56,394
Total net position	**$ 284,169**	$ 276,760	$ 274,529

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In thousands)

	2014	2013	2012
Interest on student loans and interest subsidy	**$ 154,292**	$ 169,027	$ 193,142
Special allowance	**(64,041)**	(68,036)	(81,243)
Investment income and other	**27,221**	20,954	7,099
Total operating revenues	**117,472**	121,945	118,998
Bond expenses	**31,706**	42,873	50,017
Student loan expenses	**16,574**	17,751	25,225
General and administrative expenses	**56,925**	49,290	36,041
Total operating expenses	**105,205**	109,914	111,283
Operating income	**12,267**	12,031	7,715
Nonoperating expenses	**(4,858)**	(9,800)	(19,807)
Change in net position	**$ 7,409**	$ 2,231	$ (12,092)

Financial Position

Total assets decreased $467.9 million compared to a decrease in liabilities of $475.3 million, resulting in an increase to the Authority's net position of $7.4 million in fiscal year 2014. This increase compares favorably to an increase in net position of $2.2 million in fiscal year 2013. The improvement in the change in net position in fiscal year 2014 is primarily due to a $6.8 million increase in net servicing revenues which is predominantly from the Authority's federal contract. Also contributing to the improvement was a $6.0 million reduction in bond interest expense, a $5.0 million reduction in the amount contributed to the State of Missouri for Access Missouri and a reduction in cost of issuance expenses of $4.6 million. These improvements in the change in net position were partially offset by an increase in general and administrative expenses of $7.6 million and a decrease in net student loan revenues of $10.7 million during fiscal year 2014.

Net investment in capital assets decreased by $0.5 million in fiscal year 2014 to $25.4 million from $25.9 million in fiscal year 2013 as depreciation and retirements outpaced funded capital acquisitions. Restricted net position increased by $1.3 million from $207.0 million in fiscal year 2013 to $208.3 million in fiscal year 2014, while unrestricted net position increased by $6.6 million from $43.8 million in fiscal year 2013 to $50.4 million in fiscal year 2014.

Capital Activities

During fiscal year 2014, the Authority completed its installation of a new phone system, which went live on February 27, 2014, at a cost of $2.3 million. In addition, the Authority had capital additions and improvements of $0.5 million at the Chesterfield servicing headquarters, $0.1 million at the Columbia servicing center, $0.1 million in capital additions to the newly leased Washington DC federal contract's office, $0.8 million in technology expansion and hardware and software investment, as well as $0.1 million to purchase new fleet vehicles.

During fiscal year 2013, the Authority had $10.0 million in capital additions and improvements, including $4.9 million in improvements to the new Columbia loan servicing facility, $3.3 million in improvements for the Chesterfield servicing headquarters, and $1.8 million toward the purchase and implementation of a new phone system. In fiscal year 2014 and 2013, these additions and improvements were partially offset by depreciation and disposals. Please refer to Note 5, Capital Assets, for more information.

Financial Position (continued)

Other than Capital Assets

In the condensed statements of net position, other than capital assets includes the following (in thousands):

	2014	2013	2012
Cash and cash equivalents	**$ 103,297**	$ 133,211	$ 339,120
Investments	**6,203**	–	–
Student loans receivable, net	**2,756,962**	3,189,991	3,585,048
Accrued interest receivable	**53,296**	62,147	81,563
Miscellaneous receivables and prepaid expenses	**6,026**	6,840	9,305
Pension asset	**4,206**	4,455	4,817
Total other than capital assets	**$ 2,929,990**	$ 3,396,644	$ 4,019,853

Cash and cash equivalents decreased by $29.9 million or 22% in fiscal year 2014, as compared to a decrease of $205.9 million or 61% in fiscal year 2013. Please refer to the statements of cash flows included in the financial statements for detail on the Authority’s cash activities.

Gross student loans receivable decreased 13% from $3.2 billion at June 30, 2013 to $2.8 billion at June 30, 2014, as compared to an 11% decrease from $3.6 billion at June 30, 2012 to $3.2 billion at June 30, 2013. The fiscal year 2014 decline is primarily related to the net of the purchase activity of $32.8 million less loan principal reductions of $464.6 million during fiscal year 2014, as well as a small loan sale of $0.5 million. The fiscal year 2013 decline is primarily related to the net of the purchase activity of $166.5 million less loan principal reductions of $551.4 million during fiscal year 2013, as well as a small loan sale of $10.8 million. A key contributor of loan principal reductions in fiscal year 2013 was the Special Direct Consolidation Loan Program, which resulted in $103.8 million in principal prepayments. The Special Direct Consolidation Loan Program, which was announced by President Obama on October 25, 2011, authorized the Department to offer a special consolidation loan to eligible borrowers from January 1, 2012 through June 30, 2012. To be eligible, borrowers had to have at least one loan held by the Department and at least one FFELP loan held by a commercial entity. While the Special Direct Consolidation Program ended June 30, 2012, applications could still be processed after June 30, 2012 provided that an application was received prior to June 30, 2012. Student loans receivable presented in the table above are net of unamortized loan premiums, unamortized loan discounts, and the allowance for loan losses.

Financial Position (continued)

Accrued interest receivable decreased by $8.9 million or 14% during fiscal year 2014, as compared to a decrease of $19.4 million or 24% during fiscal year 2013. The decrease in both years was a direct result of the decrease in student loans receivable as a whole.

Miscellaneous receivables and prepaid expenses decreased from $6.8 million at June 30, 2013 to $6.0 million at June 30, 2014, due to a $1.0 million reduction in arbitrage rebate refunds receivable and a $0.5 million reduction in prepaid bond interest, which was offset in part by increases of $0.3 million in other prepaid expenses, $0.2 million in servicing fees receivable and $0.2 million in other receivables. Miscellaneous receivables and prepaid expenses decreased from $9.3 million at June 30, 2012 to $6.8 million at June 30, 2013, primarily due to the Authority's federal servicing contract and the fact that the Department only owed the Authority for one month of servicing fees at June 30, 2013 compared to two months at June 30, 2012.

The Authority's pension asset decreased by $0.3 million and $0.4 million during fiscal years 2014 and 2013, respectively. Please refer to Note 8 for more information on the Authority's pension asset.

Liabilities

In fiscal year 2014, current liabilities decreased $29.4 million from June 30, 2013 primarily due to a decrease in current bonds payable of $25.6 million. Long-term liabilities decreased by $445.9 million or 16% as the Authority repaid bonds with available cash as required by the respective bond trusts. The Authority did not issue any new bonds during fiscal year 2014.

For fiscal year 2013, current liabilities increased $35.1 million from June 30, 2012 primarily due to an increase in current bonds payable of $65.5 million. This was a result of the Authority refinancing the remaining bonds outstanding under the 11th General Bond Resolution, for which principal payments were due several years into the future, with the 2013-1 LFRNs, $90.2 million of which is classified as current at June 30, 2013. This increase was partially offset by a $22.7 million decrease in special allowance subsidy payable, a $4.2 million decrease in other liabilities, a $2.6 million decrease in arbitrage rebate payable, and a $0.9 million decrease in

Financial Position (continued)

accrued interest payable. Long-term liabilities decreased by $652.8 million or 19% as the Authority repaid over $1.5 billion in bonds during fiscal year 2013. This decrease was partially offset by $956.2 million in LFRN bond issuance in May 2013.

In March 2012, Standard & Poor's Rating Services lowered ratings on seven classes of bonds under the 12th General Bond Resolution from "A (sf)" to "BB (sf)" and removed the Credit Watch negative. Only four of these seven classes of bonds, or $125.3 million, were outstanding at June 30, 2014. The result of the downgrade to the 12th General Bond Resolution was an increased debt service cost spread of 0.25% on the taxable bonds, as well as the loss of a LIBOR limiter, which limited the periodic rate paid by certain taxable bonds on an ongoing basis. In addition, the downgrade caused an increase in the applicable percentage multiplier from 175% to 265% on the tax-exempt bonds, all of which were redeemed in fiscal year 2013.

Operating Results

The improvement in the change in net position in fiscal year 2014 is primarily due to a $6.8 million increase in net servicing revenues which is predominantly from the Authority's federal contract. Also contributing to the improvement was a $6.0 million reduction in bond interest expense, a $5.0 million reduction in the amount contributed to the State of Missouri for Access Missouri and a reduction in cost of issuance expenses of $4.6 million. These improvements in the change in net position were partially offset by an increase in general and administrative expenses of $7.6 million and a decrease in net student loan revenues of $10.7 million during fiscal year 2014.

For fiscal year 2013, change in net position increased to $2.2 million from ($12.1) million in fiscal year 2012 primarily due to a reduction in the amount contributed to Access Missouri from $30.0 million in 2012 to $5.0 million in 2013, a $14.4 million increase in net servicing fees, a $7.1 million decrease in bond-related expenses, and a $4.8 million reduction in the provision for loan losses. The improvements in the change in net position were partially offset by a $13.2 million increase in general and administrative expenses and a $10.9 million decrease in net student loan revenues. Adjusting for non-operating revenues and expenses, the Authority's change in net position for fiscal year 2013 would have increased to $12.0 million.

Operating Results (continued)

Operating Revenues

Total operating revenues decreased 3.7% from fiscal year 2013 to fiscal year 2014 as compared to a 2.0% increase from fiscal year 2012 to fiscal year 2013. The primary reason for the decrease in fiscal year 2014 was a $13.1 million reduction in net interest on student loans. Also contributing to the decline were reductions of $1.6 million in interest subsidy, $0.3 million in other revenue and $0.2 million in investment income. These declines were in part offset by increases in net loan servicing fees of $6.8 million and an improvement of $4.0 million in special allowance. Net student loan revenues declined mainly due to a $433.0 million reduction in gross student loans outstanding, as well as a slight reduction in the one-month LIBOR rate, and the continuing shift in the portfolio mix to a higher percentage of lower yielding post-October 1, 2007 loans. The reduction in interest subsidy is a result of the ongoing decrease in the level of lower yielding loans in an in-school or in-grace status from 2% ($74.6 million) of the portfolio at June 30, 2013 to 1.0% ($37.0 million) of the portfolio at June 30, 2014. The improvement in special allowance recognized in fiscal year 2014 was mainly due to the reduction in student loans owned. Also contributing slightly to the improvement in special allowance was the reduction of in-school and in-grace loans.

In-school and in-grace status Stafford loans have a 0.60% lower yield to the Authority than in-repayment Stafford loans. Slightly offsetting this improvement was an increase in the percentage of loans subject to the rebate of excess special allowance payments, as well as a minimal decline in the 90-day CP/one-month LIBOR rates during fiscal year 2014.

The primary reason for the increase in fiscal year 2013 was an increase in net servicing fees revenue of $14.4 million, which included a $15.0 million increase in net servicing fees from the Authority's federal contract, partially offset by a $0.6 million decrease in lender servicing fees. Offsetting the increase in net servicing fees revenue was a reduction in net student loan revenues of $10.9 million, including a $19.6 million decrease in interest on student loans, a $4.5 million decline in interest subsidy, and a $13.2 million improvement in negative special allowance. Net student loan revenues declined mainly due to a $395.7 million reduction in gross student loans outstanding, as well as a slight reduction in the one-month LIBOR rate, and the continuing shift in the portfolio mix to a higher percentage of lower yielding post-October 1, 2007 loans. The reduction in interest subsidy is a result of the ongoing decrease in the level of lower yielding loans in an in-school or in-grace status from 4% ($132.1 million) of the portfolio at June 30, 2012 to 2% ($74.6 million) of the portfolio at June 30, 2013. The improvement in special

Operating Results (continued)

allowance recognized in fiscal year 2013 was mainly due to the reduction in student loans owned. Also contributing slightly to the improvement in special allowance was the reduction of in-school and in-grace loans. In-school and in-grace status Stafford loans have a 0.60% lower yield to the Authority than in-repayment Stafford loans. Slightly offsetting this improvement was an increase in the percentage of loans subject to the rebate of excess special allowance payments, as well as a minimal decline in the 90-day CP/one-month LIBOR rates during fiscal year 2013.

Examples of the rates driving student loans and net student loan revenues follow in the next several paragraphs.

Fixed rate unsubsidized Stafford loans made on or after July 1, 2006 and subsidized Stafford loans made between July 1, 2006 and June 30, 2008, in all loan statuses bear interest at 6.8%. Fixed rate subsidized Stafford loans made between July 1, 2008 and June 30, 2009, bear interest at 6.0%, while the same loans made between July 1, 2009 and June 30, 2010, bear interest at 5.6%. Subsidized and unsubsidized Stafford loans made on or after July 1, 1998 and before July 1, 2006, that are in a status other than in-school, in-grace, or deferment bear interest at a rate equivalent to the 91-day U.S. Treasury Bill (91-day T-Bill) rate plus 2.30%, with a maximum rate of 8.25%. Stafford loans made within the same period that are in an in-school, in-grace, or deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. The variable rate loans are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2014 was 0.05%, which set the rates on these loans at 2.35% and 1.75%, respectively. The rates on the same loans during fiscal year 2013 were 2.39% and 1.79%, respectively, and during fiscal year 2012 were 2.36% and 1.76%, respectively.

PLUS loans first disbursed on or after July 1, 2006 bear interest at a fixed rate of 8.5%. Variable rate PLUS loans made on or after July 1, 1998 bear interest at a rate equivalent to the 91-day T-Bill plus 3.10%, with a maximum rate of 9.0%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2014 was 0.05%, which set the rate on these loans at 3.15%, as compared to 3.19% for fiscal year 2013 and 3.16% for fiscal year 2012. Consolidation loans for which the application was received by an eligible lender on or after October 1, 1998 bear interest at a rate

Operating Results (continued)

equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

Special allowance is paid to or rebated by the Authority on the spread between student loan borrower interest rates and the one-month LIBOR, 90-day CP, or 91-day T-Bill rates. For example, federal law requires the Authority to charge a parent an 8.5% interest rate on a PLUS loan originated after July 1, 2006, which the Authority collects from the parent borrower. However, the Authority only earns a yield on that loan at the one-month LIBOR rate plus 1.94%. The one-month LIBOR rate for the quarter ended June 30, 2014 was just 0.15%, which means the Authority’s annual yield for that quarter was only 2.09%. The Authority is required to rebate the additional interest paid by the borrower of 6.41% (8.5% – 2.09%) to the Department through the rebate of excess special allowance, which is often referred to as negative special allowance.

Operating Expenses

Total operating expenses realized a 4.3% decrease or $4.7 million from fiscal year 2013 to fiscal year 2014 as compared to a 1.2% decrease or $1.4 million from fiscal year 2012 to fiscal year 2013, as bond-related expenses and student loan-related expenses declined by $11.2 million and $1.2 million, respectively, and general and administrative expenses increased by $7.6 million.

The primary reasons for the decrease in operating expenses in fiscal year 2014 were a $6.0 million decrease in interest expense and a $4.6 million decrease in cost of issuance. Interest expense decreased from $37.0 million in fiscal year 2013 to $31.0 million in fiscal year 2014, which represents a decrease of 16%. The decrease in bond interest expense is primarily a result of the $471.4 million decrease in the outstanding debt of the Authority, as well as a small decrease in the weighted-average interest rates on the Authority’s debt. The Authority continued to experience various interest rate spikes on its debt in fiscal year 2014 due to the failure of the auction rate market, which at times set those bonds to bear interest at the maximum rates under the bond documents. However, the amount of outstanding auction rate securities continued to decline from $146.6 million at June 30, 2013 to $125.3 million at June 30, 2014. The decrease in bond interest expense was complemented by reductions of $0.5 million in bond maintenance fees, and a $0.1 million reduction in credit support. As a result, total bond-related expenses declined significantly to $31.7 million in fiscal year 2014. Comparatively, interest expense decreased from $42.3 million in fiscal year 2012 to $37.0 million in fiscal year 2013, which

Operating Results (continued)

represents a decrease of 13%. The decrease in bond interest expense is primarily a result of the $587.3 million decrease in the outstanding debt of the Authority, as well as a slight decrease in the weighted-average interest rates on the Authority's debt. The Authority continued to experience various interest rate spikes on its debt in fiscal year 2013 due to the failure of the auction rate market, which at times set those bonds to bear interest at the maximum rates under the bond documents. However, the amount of outstanding auction rate securities continued to decline from $499.8 million at June 30, 2012 to $146.6 million at June 30, 2013. The decrease in bond interest expense was complemented by reductions of $1.1 million in bond maintenance fees and a $0.5 million decline in cost of issuance. As a result, total bond-related expenses declined significantly to $42.9 million in fiscal year 2013.

Total student loan-related expenses decreased from $17.8 million in fiscal year 2013 to $16.6 million in fiscal year 2014, which represents a 6.6% decrease. The decrease is mainly due to a $1.3 million decrease in consolidation rebate fees from $14.3 million in fiscal year 2013 to $13.0 million in fiscal year 2014. The decrease in consolidation rebate fees was due to a $118.7 million decline in the Authority's outstanding consolidation student loan principal. Also contributing to the decline in student loan-related expenses was $0.5 million decline in arbitrage rebate-related expenses. This overall decline was offset in part by a $0.6 million increase in the provision for loan losses. During fiscal year 2014, the Authority continued to experience increases in delinquencies in its supplemental loan portfolio as the percentage of supplemental loans over 120 days past due increased to 16.7% at June 30, 2014 from 15.0% at June 30, 2013. During fiscal year 2014, the Authority charged off an additional $2.1 million in supplemental loans, net of recoveries, that were over 270 days past due. In the FFELP portfolio, the Authority charged off $4.1 million.

Arbitrage rebate liability is calculated based upon the earnings of the use of proceeds from tax-exempt debt. The arbitrage rebate expense was ($522) thousand, as refund claims received during fiscal year 2014 exceeded current year expenses of $0. The arbitrage rebate expense was ($47) thousand during fiscal year 2013 as refund claims accrued exceeded current year expenses.

General and administrative expenses, which include salaries and employee benefits, postage and forms, computer services, professional fees, occupancy expense, depreciation and amortization,

Operating Results (continued)

and other operating expenses, increased by $7.6 million or 15.5% as compared to an increase of $13.2 million or 37% in fiscal year 2013. General and administrative expenses increased due to the increase in the volume of student loans the Authority is servicing under its federal contract and the Authority's extensive efforts associated with its No Borrower Left Behind Initiative. The Authority began fiscal year 2014 servicing approximately 1.3 million borrower accounts and peaked at nearly 1.6 million borrower accounts during the year. The primary increase in general and administrative expenses can be attributed to the $2.8 million increase in salaries and employee benefits, which was due to an increase in the average number of employees in fiscal year 2014 to 434 from 416 in fiscal year 2013 as well as increase of over 2,500 in overtime hours in fiscal year 2014. Also contributing to the increase were a $1.0 million increase in computer services, a $1.4 million increase in postage and forms, a $0.8 million increase in depreciation and amortization, a $0.2 million increase in professional services, a $0.3 million increase in occupancy expense and a $1.3 million increase in other operating expenses. The increases in computer services and postage and forms in fiscal year 2014 were also a direct result of the Authority's increased federal loan servicing activity.

Non-operating Revenues and Expenses

During fiscal year 2014, the Authority utilized cash in the 12th General to make a $50 thousand open market purchase and cancellation of bonds at a discount. The Authority did not extinguish bonds at a discount during fiscal year 2013.

The Authority recognized $900 thousand as a reduction of expense as a result of the reversal of some of the previously recorded Advanced Placement Incentive Grants as the Authority has only paid $100 thousand toward that scholarship and this is consistent with the current state appropriation for this fund. The Authority contributed $50 thousand and $5.0 million to Access Missouri during fiscal year 2014 and 2013, respectively.

Contributions to the Missouri Scholarship and Loan Foundation totaled $5.7 million in fiscal year 2014, representing a slight decrease of $0.1 million from contributions of $5.8 million in fiscal year 2013. Contributions to the Missouri Scholarship Foundation increased in fiscal year 2013 by $5.6 million from fiscal year 2012 contributions of $0.2 million. In addition to the above non-operating items, the Authority also recognized $950 thousand in non-operating revenue from a legal settlement in fiscal year 2013.

Continuing Developments

Lewis and Clark Discovery Initiative

On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the Initiative) became law. The legislation, known as SB 389 (the LCDI Legislation) directs the Authority to distribute $350.0 million into a fund in the State Treasury known as the Lewis and Clark Discovery Fund (the Fund) by September 30, 2013, in varying increments, unless otherwise approved by the Authority and the Missouri Commissioner of the Office of Administration. Investment earnings on the Fund are credited against subsequent payments by the Authority. In addition, the LCDI Legislation provides that the Authority may delay payments if the Authority determines that any such distribution may materially adversely affect the service and benefits provided to Missouri students or residents in the ordinary course of the Authority’s business, the borrower benefit programs of the Authority, or the economic viability of the Authority. The General Assembly has appropriated amounts to be deposited in the Fund for certain capital projects at public colleges and universities. The law provides that following the initial distribution by the Authority, the Missouri Director of Economic Development shall allocate to and reserve for the Authority in 2007 and the next 14 years, at least 30% of Missouri’s tax-exempt, private activity bond cap allocation. The amount of this allocation may be reduced for 2014 and later years by the percentage of the $350.0 million not paid by the Authority to the Fund by the end of the preceding year.

On September 7, 2007, the Members of the Authority’s Board approved a resolution to fund the initial payment of $230.0 million and on September 14, 2007, in accordance with the Board’s Resolution, the Authority sent a $230.0 million wire to the Missouri State Treasury. Subsequently, the Members of the Authority’s Board approved resolutions to fund additional payments, net of interest income earned on the funds on deposit with the State Treasurer, of $3.9 million. The Fund has also earned interest income of $10.9 million since inception. For each quarterly payment due subsequent to September 30, 2008 through the year ended June 30, 2013, the Board did not authorize a payment to the Fund. The remaining unfunded amount of the LCDI was $105.1 million as of June 30, 2014.

Continuing Developments (continued)

During fiscal years 2011, 2012, and 2013, the Authority received two-year, three-year, and one-year extensions, respectively, from the Commissioner of the Office of Administration on the payment of LCDI funds to September 30, 2019. The extensions were approved as a part of the Authority's agreement to provide $30.0 million, $30.0 million, and $5.0 million for need-based scholarships under the Access Missouri Financial Assistance Program during the 2011, 2012, and 2013 fiscal years, respectively.

The Authority will continue analyzing and determining on an annual basis what, if any, distribution the Authority should make to the LCDI Fund. The Authority is unsure whether it will be able to make any significant future distributions required by the LCDI Legislation. Any such distributions by the Authority could substantially decrease the amount of its capital and, accordingly, erode its funds for new programs and contingencies related to current operations.

The Authority accounts for the funding of the LCDI in accordance with GASB Statement No. 33 as a voluntary non-exchange transaction, because the Authority will provide value to the Fund in excess of the value received in return. The Authority does not record a liability for the unfunded amount of the LCDI because the time requirement of the final funding has not been met and payment of the unfunded amount has not been deemed probable as of June 30, 2014.

Higher Education Loan Authority of the State of Missouri

Statements of Net Position
(Dollars in Thousands)

	As of June 30, 2014 Authority	As of June 30, 2014 Component Unit Foundation	As of June 30, 2013 Authority	As of June 30, 2013 Component Unit Foundation
Assets:				
Current assets:				
Cash and cash equivalents:				
Restricted	**$ 82,596**	**$ –**	$ 97,383	$ –
Unrestricted	**20,701**	**10,260**	35,828	5,077
Total cash and cash equivalents	**103,297**	**10,260**	133,211	5,077
Investments – restricted	**6,203**	**–**	–	–
Student loans receivable	**298,832**	**3**	322,178	–
Accrued interest receivable:				
Interest subsidy – U.S. Department of Education	**3,692**	**–**	3,976	–
Student loans receivable (less allowance for doubtful amounts, $916 in 2014 and $1,208 in 2013)	**49,604**	**–**	58,171	–
Total accrued interest receivable	**53,296**	**–**	62,147	–
Miscellaneous receivables and prepaid expenses	**5,385**	**–**	6,597	–
Due from Authority	**–**	**220**	–	–
Total current assets	**467,013**	**10,483**	524,133	5,077
Long-term assets:				
Student loans receivable (less allowance for doubtful loans, $18,427 in 2014 and $21,112 in 2013)	**2,458,130**	**124**	2,867,813	–
Pension asset	**4,206**	**–**	4,455	–
Prepaid expenses	**641**	**–**	243	–
Capital assets, at cost less accumulated depreciation and amortization of $10,942 in 2014 and $9,228 in 2013	**25,640**	**–**	26,876	–
Total long-term assets	**2,488,617**	**124**	2,899,387	–
Total assets	**$ 2,955,630**	**$ 10,607**	$ 3,423,520	$ 5,077
Liabilities and net position:				
Current liabilities:				
Bonds payable	**$ 266,381**	**$ –**	$ 291,952	$ –
Accrued interest payable	**1,509**	**–**	2,674	–
Special allowance subsidy payable	**15,121**	**–**	16,577	–
Due to Foundation	**220**	**–**	–	–
Other liabilities	**6,631**	**8**	8,105	81
Total current liabilities	**289,862**	**8**	319,308	81
Long-term liabilities:				
Bonds payable	**2,381,599**	**–**	2,827,452	–
Total liabilities	**2,671,461**	**8**	3,146,760	81
Net position:				
Net investment in capital assets	**25,408**	**–**	25,949	–
Restricted for debt service	**208,314**	**–**	206,974	–
Unrestricted	**50,447**	**10,599**	43,837	4,996
Total net position	**284,169**	**10,599**	276,760	4,996
Total liabilities and net position	**$ 2,955,630**	**$ 10,607**	$ 3,423,520	$ 5,077

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Revenues, Expenses, and Changes in Net Position
(Dollars in Thousands)

	For the Year Ended June 30, 2014		For the Year Ended June 30, 2013	
	Authority	**Component Unit Foundation**	**Authority**	**Component Unit Foundation**
Operating revenues, net:				
Interest on student loans, net	**$ 139,135**	**$ –**	$ 152,224	$ –
U.S. Department of Education:				
Interest subsidy	**15,157**	**–**	16,803	–
Special allowance	**(64,041)**	**–**	(68,036)	–
Investment income	**37**	**–**	276	–
Servicing fees	**33,090**	**–**	30,335	–
Less: Subcontractor fees	**(5,935)**	**–**	(10,017)	–
Contributions from Authority	**–**	**5,710**	–	5,750
Other	**29**	–	360	–
Total operating revenues, net	**117,472**	**5,710**	121,945	5,750
Operating expenses:				
Interest expense	**31,008**	**–**	36,973	–
Cost of issuance	**–**	**–**	4,626	–
Bond maintenance fees	**471**	**–**	923	–
Credit support	**227**	**–**	351	–
Total bond-related expenses	**31,706**	**–**	42,873	–
Consolidation rebate fees	**13,009**	**–**	14,279	–
Arbitrage rebate	**(522)**	**–**	(47)	–
Provision for loan losses	**4,087**	**–**	3,519	–
Total student loan-related expenses	**16,574**	**–**	17,751	–
Salaries and employee benefits	**30,260**	**–**	27,460	–
Postage and forms	**7,152**	**–**	5,754	–
Computer services	**7,677**	**–**	6,725	–
Professional fees	**2,256**	**71**	2,079	–
Occupancy expense	**935**	**–**	670	–
Depreciation and amortization	**2,947**	**–**	2,188	–
Grants	**–**	**33**	–	1,052
Other operating expenses	**5,698**	**3**	4,414	–
Total general and administrative expenses	**56,925**	**107**	49,290	1,052
Total operating expenses	**105,205**	**107**	109,914	1,052
Operating income	**12,267**	**5,603**	12,031	4,698
Non-operating revenues (expenses):				
Gain on extinguishment of debt	**2**	**–**	**–**	–
Advanced Placement Incentive Grants	**900**	**–**	**–**	–
Miscellaneous income	**–**	–	950	–
Access Missouri Financial Assistance Program	**(50)**	–	(5,000)	–
Contributions to Foundation	**(5,710)**	–	(5,750)	–
Total non-operating revenues (expenses)	**(4,858)**	**–**	(9,800)	–
Change in net position	**7,409**	**5,603**	2,231	4,698
Net position, beginning of year	**276,760**	**4,996**	274,529	298
Net position, end of year	**$ 284,169**	**$ 10,599**	$ 276,760	$ 4,996

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Cash Flows
(Dollars in Thousands)

For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Student loan and interest purchases	**$ (32,681)**	$ (172,158)
Proceeds from sale of student loans and interest	**520**	11,124
Student loan repayments	**608,515**	715,738
Payments to employees	**(29,399)**	(26,857)
Payments to vendors	**(43,827)**	(51,882)
Net settlement of government interest	**(50,056)**	(67,627)
Cash received for servicing fees	**32,891**	33,997
Cash received for arbitrage rebate fees	**1,507**	–
Reimbursement for start-up costs	**–**	292
Net cash provided by operating activities	**487,470**	442,627
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	**–**	956,200
Repayment of bonds	**(471,614)**	(1,543,695)
Interest paid on debt	**(31,479)**	(37,545)
Cash paid for bond issuance costs	**(10)**	(4,626)
Payments for scholarships and grants	**(50)**	(5,000)
Contributions to Foundation	**(5,488)**	(4,800)
Net cash used in noncapital financing activities	**(508,641)**	(639,466)
Cash flows from capital and related financing activities:		
Purchase of capital assets	**(2,555)**	(9,070)
Proceeds from sale of capital assets	**10**	–
Net cash used in capital and related financing activities	**(2,545)**	(9,070)
Cash flows from investing activities:		
Purchase of investments	**(6,203)**	–
Interest received on investments	**5**	–
Net cash (used in) provided by investing activities	**(6,198)**	–
Change in cash and cash equivalents	**(29,914)**	(205,909)
Cash and cash equivalents, beginning of year	**133,211**	339,120
Cash and cash equivalents, end of year	**$ 103,297**	$ 133,211

Higher Education Loan Authority of the State of Missouri

Statements of Cash Flows (continued)

(Dollars in Thousands)

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 12,267**	$ 12,031
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**2,947**	2,188
Provision for loan losses	**4,087**	3,519
Loss on sale of capital assets	**139**	70
Other noncash operating expenses	**–**	13
Interest expense	**31,008**	36,973
Cost of issuance expense	**–**	4,626
Change in assets and liabilities:		
Decrease in student loans receivable	**428,943**	391,537
Decrease in accrued interest receivable	**8,851**	19,416
Decrease in miscellaneous receivables and prepaid expenses	**307**	2,290
Decrease in pension asset	**249**	362
Decrease in arbitrage rebate payable	**–**	(2,637)
Decrease in due to Foundation	**(2)**	–
Decrease in special allowance subsidy payable and other liabilities	**(1,326)**	(27,761)
Total adjustments	**475,203**	430,596
Net cash provided by operating activities	**$ 487,470**	$ 442,627
Noncash investing, capital, and financing activities:		
Outstanding liabilities, including retainage payable, related to capital assets	**$ 232**	$ 926

See notes to financial statements.

1. Description of the Organization

Legislation, which was signed into law on June 15, 1981 by the Governor of the State of Missouri and became effective on September 28, 1981, created the Higher Education Loan Authority of the State of Missouri (the Authority) for the purpose of providing a secondary market for loans made under the Federal Family Education Loan Program (FFELP) provided for by the Higher Education Act. The legislation was amended, effective August 28, 1994, effective August 28, 2003, and again effective May 2, 2008, to provide the Authority with generally expanded powers to finance, originate, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act. The Authority is assigned to the Missouri Department of Higher Education; however, by statute, the State of Missouri is in no way financially accountable for the Authority. Student loan revenue bonds outstanding are payable as specified in the resolutions authorizing the sale of bonds. The bonds are not payable from funds received from taxation and are not debts of the State of Missouri or any of its other political subdivisions.

The Authority was historically one of the lenders for supplemental loans made available to students in the Midwestern region who had reached the maximum amount available under FFELP. The balance of these loans outstanding is approximately 5% of the total loan receivable balance as of June 30, 2014. During fiscal year 2008, the Authority discontinued originating supplemental and FFELP consolidation loans.

On March 30, 2010, the President signed into law The Health Care and Education Reconciliation Act of 2010, which included the Student Aid and Fiscal Responsibility Act (SAFRA). Effective July 1, 2010, the legislation eliminated the authority to provide new loans under FFELP and required that all new federal loans be made through the Direct Loan Program. The new law does not alter or affect the terms and conditions of existing FFELP loans. The Authority continues to service and purchase FFELP loans.

After restructuring operations to reflect the change in law, in September 2011, the Authority was awarded a Federal Servicing contract with the U.S. Department of Education (the Department) and given the specified initial allotment of 100,000 federal accounts for servicing. In accordance with the solicitation, the Authority also began partnering with other nonprofit loan servicing organizations (NFP servicers or subcontractors) that were eligible to receive the initial allotment of 100,000 federal accounts but did not have a servicing contract with the Department. Under

1. Description of the Organization (continued)

agreements signed with these subcontractors, the Authority will service each entity's initial allocation of federal accounts and provide the subcontractor with a portion of the revenues in exchange. At June 30, 2014, the Authority was servicing federal accounts for thirteen subcontractors.

Discretely Presented Component Unit – Missouri Scholarship Foundation

On June 11, 2010, the Authority's Board approved the creation of the Missouri Scholarship Foundation, appointed the initial board of directors, and provided initial funding of $100. The Missouri Scholarship Foundation was incorporated as a Missouri nonprofit corporation for the primary purposes of receiving gifts and grants, raising funds, accepting transfers and contributions, and using the resulting funds for (1) administering grant, scholarship, and related programs on behalf of the Authority and other entities and (2) assisting students who are residents of the State of Missouri and students who attend post-secondary institutions located or based in the State of Missouri to gain access to and finance their post-secondary education.

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Authority. The Authority charges origination and servicing fees to the Foundation in accordance with the servicing agreement approved by both entities. These fees were minimal for fiscal year 2014 as it was the initial year of the program.

The Foundation has been approved by the Internal Revenue Service (IRS) as a tax-exempt 501(c)(3) entity for federal tax purposes. All significant contributions received by the Foundation are expected to be made by the Authority.

The Bylaws of the Foundation call for the Foundation to be governed by a Board of three to thirteen Directors. Directors are appointed by the existing Board of Directors of the Foundation after the proposed appointments are submitted to the Authority for approval. The Authority is

1. Description of the Organization (continued)

responsible for approving or disapproving proposed appointees to the Board of Directors. Any Director elected by the Board of Directors can be removed without cause by the Authority. The current Foundation Directors include the Authority's Executive Director, the Authority's General Counsel, the Authority's Director of Business Development and Government Relations, and the Deputy Commissioner of Higher Education from the Missouri Department of Higher Education. The Executive Director of the Authority serves as a voting member of the Board ex officio. The Authority must approve any amendments to the Bylaws or Articles of Incorporation of the Foundation. The Foundation may only appoint an executive director, responsible for overseeing the Foundation's day-to-day operations, with the approval of the Authority.

The Foundation can be dissolved by its own Board of Directors with approval from the Authority. Upon dissolution, any remaining assets would be reverted to the Authority. The Authority does not have the unilateral authority to dissolve the Foundation; dissolution first requires the action of its own Board of Directors.

Since the Authority approves the appointment of the Foundation's Board of Directors and is able to impose its will on the Foundation, the Foundation is considered a component unit of the Authority and is discretely presented alongside the Authority's financial statements.

Effective beginning with the year ended June 30, 2014, the Foundation changed from a December 31 fiscal year-end to a June 30 fiscal year-end to better align with the financial reporting and presentation of the Authority. The period being presented for the Foundation is the year ended June 30, 2014 and June 30, 2013, to be comparative with the Authority.

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The financial statements of the Authority and the Foundation are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

2. Summary of Significant Accounting Policies (continued)

The Authority'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 financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. The Authority is engaged only in business-type activities, and therefore, government-wide financial statements are not presented.

In accordance with its bond and other borrowing resolutions, the Authority utilizes fund accounting principles, whereby each fund is a separate set of self-balancing accounts. The assets of each bond fund are restricted pursuant to the bond resolutions. To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, the Authority records financial activities in the various operating and bond-related funds (see Note 10). Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund. For financial statement presentation purposes, the funds have been aggregated into a single enterprise fund.

Adoption of New Accounting Standards

During fiscal year 2014, the Authority adopted the following GASB Statements:

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* – This Statement replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The adoption of this Statement had no impact on current financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. In addition, this Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees and requires new information to be disclosed by governments that receive nonexchange financial guarantees. The adoption of this Statement had no impact on current financial statements.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the Authority's financial statements 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 statement of net position dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the allowance for doubtful loans and calculations of current and long-term student loans receivable and current and long-term bonds payable.

Cash Equivalents

Both the Authority and the Foundation consider all investment securities with original maturities of less than 90 days at the date of purchase to be cash equivalents. All cash equivalents that are held by a trustee in accordance with the provisions of bond indentures or other financing agreements are classified as restricted. See Note 3 for more information.

Investments

Investments are reported at fair value based on observable prices in active markets. Restricted investments include those that are held by a trustee in accordance with the provisions of bond indentures or other financing agreements. See Note 3 for more information.

Student Loans Receivable

The Authority's student loans receivable consist of FFELP and supplemental loans, which are stated at the principal amount outstanding adjusted for premiums, discounts, and an allowance for doubtful amounts. The related interest income generated from the loans is decreased by premium amortization expense and increased by accretion of discounts on student loans. Premiums and discounts on student loans are recognized over the estimated remaining life of loans purchased using a method that approximates the effective interest method. During the years ended June 30, 2014 and 2013, the estimated remaining life of loans purchased was three years. The Authority recognizes premiums and discounts on pools of loan purchases with less than $40 of initial premiums or discounts to interest revenue at the time of purchase.

2. Summary of Significant Accounting Policies (continued)

The Foundation's student loans receivable consist of outstanding loans under MOFELP as described in Note 1.

Accrued Interest Receivable

Interest on student loans is accrued based upon the actual principal amount outstanding. The Department makes quarterly interest payments on subsidized FFELP loans until the student is required, under the provisions of the Higher Education Act, to begin repayment. Repayment must begin generally within six months after the student completes his or her 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. The Department also makes quarterly interest payments on subsidized FFELP loans that are in an eligible income-driven repayment plan or an eligible deferment status. The amount of accrued interest received by the Authority is reduced by amounts due to the Department for negative special allowance as described below.

Allowance for Doubtful Amounts

The Authority has established an allowance for doubtful amounts that is an estimate of probable losses incurred in the FFELP and supplemental loan portfolios at the statement of net position dates. Estimated probable losses are expensed through the provision for loan losses in the period that the loss event occurs. Estimated probable losses contemplate expected recoveries. When a charge-off event occurs, the carrying value of the loan is charged to the allowance for doubtful loans. The amount attributable to expected recoveries remains in the allowance for doubtful loans until received.

Supplemental Loans

The supplemental loans in the Authority's portfolio present the greatest risk of loan loss because the loans are either self-insured or insured by a third party as opposed to FFELP loans, which are insured by the Department. As such, in evaluating the adequacy of the allowance for doubtful loans on the supplemental loan portfolio, the Authority considers several factors, including the loan's insured status, the seasoning of the loan, whether the loan was provided to a graduate or undergraduate student, and the age of the receivable.

2. Summary of Significant Accounting Policies (continued)

The Authority estimates its inherent loss default rates in the supplemental loan portfolio as a percentage of the original disbursed principal balance. The growth rates of the default rate over the prior years are also computed. Then, the segmented portfolio is analyzed to determine if the loans, by repayment year, have seasoned or require a reserve for additional probable losses. Reserve adjustments are modeled to adjust for insured loans, loans with collection agencies, and loans that have emerged from bankruptcy. Insured loans are guaranteed at 95%; therefore, all insured loans are analyzed separately from the uninsured supplemental loan portfolio. Supplemental loan principal is charged off against the allowance when the loan exceeds 270 days delinquency. Subsequent recoveries on loans charged off are recorded directly to the allowance based on the total principal outstanding.

The allowance associated with the accrued interest and fees receivable on supplemental loans is calculated in a manner that is consistent with the method used to calculate the allowance for doubtful loans on the supplemental loan portfolio as described above.

FFELP Loans

The Authority's methodology for estimating the allowance for loan losses in the FFELP portfolio incorporates both quantitative and qualitative factors. Historical data on defaults and write-offs experienced are utilized to project inherent losses that have occurred in the FFELP portfolio. Estimated defaults are multiplied by a percentage, consisting of the weighted-average non-guarantee rate adjusted for trending, to determine the allowance for loan losses required on the outstanding principal balances of FFELP loans. Because accrued interest receivable on FFELP loans is insured at the same percentages as the related principal on those loans, the reserve percentage on FFELP principal is applied to the accrued interest on FFELP loans to determine the estimated allowance for accrued interest receivable. The allowance for accrued late fees on FFELP loans, which are uninsured, is determined by applying historical rates of late fee write-offs experienced for each FFELP loan type.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Miscellaneous Receivables and Prepaid Expenses

At June 30, 2014 and 2013, miscellaneous receivables and prepaid expenses consist of the following:

	2014	2013
Prepaid bond interest	**$ 648**	$ 1,150
Other prepaid expenses	**2,044**	1,756
Arbitrage rebate refunds receivable	**–**	985
Servicing fees receivable	**2,614**	2,417
Other receivables	**720**	532
Total miscellaneous receivables and prepaid expenses	**$ 6,026**	$ 6,840
Current portion	**$ 5,385**	$ 6,597
Long-term portion	**641**	243
Total	**$ 6,026**	$ 6,840

Capital Assets

Capital assets consist of land, buildings and improvements, office furniture and equipment, and software assets. The Authority's policy is to capitalize all assets purchased with an initial individual cost of $10 or more and an estimated useful life of more than one year. Capital assets are reported at cost, net of accumulated depreciation and amortization, and net of estimated impairments, if any. The Authority reviews capital assets for impairment in accordance with GASB Codification section 1400, *Reporting Capital Assets*. Depreciation is charged to operations on the straight-line method over the estimated useful lives of the related assets as follows:

Asset Category	**Estimated Useful Life**
Buildings and improvements	3 – 30 years
Furniture and equipment	3 – 7 years
Software assets	3 – 7 years

2. Summary of Significant Accounting Policies (continued)

Special Allowance Payable

The Authority as a loan owner does not necessarily earn what a borrower pays. The Department provides a special allowance to student loan owners participating in FFELP. Special allowance was designed to ensure loan owners earn a market rate of interest by making up the difference between what a borrower pays in interest (borrower rate) under federal law and what a loan owner earns (lender yield) on the loan under federal law. On December 23, 2011, The Consolidation Appropriation Act of 2012 was signed into law, which, in part, allowed FFELP loan holders to elect to substitute one-month LIBOR for the 90-day AA Financial Commercial Paper (90-day CP) rate for the special allowance program (SAP) index. This was a one-time opportunity, and the Authority made the election as required by April 1, 2012, which was effective for the quarter ending June 30, 2012. The election applied to all Authority-owned FFELP loans first disbursed after January 1, 2000, except those held in the 12th General Bond Resolution because the third-party bond insurer would not consent to the index change. On May 22, 2013, the Authority refinanced all FFELP loans held under the 12th General Bond Resolution into the 2013-1 LIBOR floating rate notes. As of the quarter ended June 30, 2013, all Authority-owned FFELP loans disbursed after January 1, 2000 are indexed to one-month LIBOR.

The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the one-month LIBOR or 90-day CP, to the average daily unpaid principal balance and capitalized interest of the student loans held by the Authority. For loans first disbursed prior to January 1, 2000, the 91-day Treasury bill rate is used rather than the one-month LIBOR or 90-day CP rates. The special allowance is accrued as earned or payable. Borrower interest rates for Stafford and Parent Loans for Undergraduate Students (PLUS) loans first disbursed between July 1, 1998 and June 30, 2006 were variable rates set annually based on the 91-day Treasury bill plus a spread between 1.70% and 3.10%. Lender yields on many of those same loans (loans first disbursed between January 1, 2000 and April 1, 2006) adjust quarterly based on the one-month LIBOR or 90-day CP rates plus a spread between 1.74% and 2.64%; however, the borrower rate serves as the “floor” for the lender yield. Loans first disbursed in these time periods can only earn positive special allowance due to the “floor” income feature. For loans first disbursed after April 1, 2006, federal law changed, removing the “floor” income feature, which allows the lender yield to float down below the borrower rate. In these situations, the loan owner earns less than the borrower pays in interest causing negative

2. Summary of Significant Accounting Policies (continued)

special allowance, which must be rebated to the Department. This situation was magnified by additional changes in federal law that implemented fixed borrower interest rates from 6.8% to 8.5% for loans first disbursed after July 1, 2006. Furthermore, for loans first disbursed after October 1, 2007, the lender's spread over the 90-day CP rate was reduced by 0.40% to 0.70%. The Authority's total special allowance was negative in fiscal years 2014 and 2013, due to the Authority's loan portfolio mix and the low one-month LIBOR and 90-day CP rates.

Net Position

The net position of the Authority is classified into three components: net investment in capital assets, restricted for debt service, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any liabilities attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on the use of net position are externally imposed by outside parties. For the Authority, restricted net position consists of the minimum collateral requirements discussed in Note 6, net of related liabilities, as defined in the bond resolutions. Unrestricted net position includes net position that does not meet the definition of either "net investment in capital assets" or "restricted." For the Authority, unrestricted net position includes that which is available for the operations of the Authority (in the Authority's Operating Fund) or above the minimum collateral level required by the Bond Fund in which it is maintained. Removal of unrestricted net position from the Bond Funds is typically subject to the approval of one or more of the following: credit rating agencies, bond insurers, bondholders, and the trustee. Furthermore, extensive financial analysis is required and performed by the Authority and the approving party prior to the approval and removal of net position.

Operating Revenues and Expenses

Operating revenues and expenses consist of those items earned or incurred in carrying out the primary purposes of the Authority, which are to acquire, service, and finance student loans. Therefore, operating revenues generally include net interest earned on student loans and fees earned from servicing loans owned by other entities. Operating expenses include expenses related to bonds and other financings outstanding, student loans, and other general and administrative expenses necessary to carry out the Authority's operations.

2. Summary of Significant Accounting Policies (continued)

When an expense is incurred for purposes for which both restricted and unrestricted resources are available for use, it is the policy of both the Authority and the Foundation to first apply expense to restricted resources, then unrestricted resources.

Servicing Fee Revenue

The Authority services federal accounts owned by the Department under the Direct Loan Program and serviced student loans owned by third-party lending institutions until November 2013. Fees charged for these services are classified as servicing fees in the statements of revenues, expenses, and changes in net position and are recognized as the services are performed.

Subcontractor Fees

As described in Note 1, the Authority has entered into agreements with its subcontractors whereby the Authority will service each subcontractor's allotment of federal accounts provided by the Department. The Authority provides each subcontractor a portion of the revenues earned from the Department on the subcontractor's designated federal accounts, in accordance with the terms of each agreement. The amounts provided to the subcontractors are expensed as subcontractor fees when incurred.

Interest Expense

Interest expense primarily includes interest accrued on bonds and other borrowings, as well as broker dealer fees, auction agent fees, and amortization of bond discount.

Bond Maintenance Fees

Bond maintenance fees consist primarily of rating agency fees, trustee fees, and custodian fees.

2. Summary of Significant Accounting Policies (continued)

Consolidation Rebate Fees

The Authority must remit a rebate fee for all of its federal consolidation loans made on or after October 1, 1993 to the Department on a monthly basis. This fee is equal to 1.05% per annum of the unpaid principal balance and accrued interest on the loans. For loans made from applications received during the period beginning October 1, 1998 through January 31, 1999, inclusive, this fee is equal to 0.62% per annum of the unpaid principal and accrued interest on the loans. This fee is not and cannot be charged to the borrower.

Arbitrage Rebate

In accordance with Section 148 and the regulations thereunder of the Internal Revenue Code of 1986, as amended, the Authority is required to pay to the U.S. Treasury certain amounts related to the Authority's tax-exempt bond issues. The amount required to be paid represents the excess of amounts earned over the interest cost of the tax-exempt borrowings.

On March 20, 2012, the IRS announced a voluntary closing agreement program (VCAP), which was open through July 31, 2012, to all sponsors of tax-exempt student loan securitizations that may have compliance issues related to the reallocation of qualified student loans under the Internal Revenue Code. The Authority submitted a proposal to the IRS under the VCAP on June 30, 2012.

The IRS and the Authority executed the VCAP on March 13, 2013. The closing agreement required the Authority to pay a total settlement amount to the IRS of $3,575, which included the Authority's taxpayer exposure liability in addition to the traditional arbitrage rebate amounts due on the covered bonds. The portion of the settlement attributable to the Authority's taxpayer exposure liability was paid from the Operating Fund. The agreement provided that the Authority would have no additional liability for yield reduction payments or rebate amounts with respect to the covered bonds.

During the year ended June 30, 2012, the Authority filed refund claims totaling $1,507 for arbitrage payments made to the IRS in prior years. Of this amount, the Authority recognized $985 as arbitrage refunds receivable as of June 30, 2013. This revenue was partially off-set by the Authority's arbitrage rebate expense of $938 for the year ended June 30, 2013. The final refund claim for $522 was received and recognized in the financial statements for the year ended June 30, 2014.

2. Summary of Significant Accounting Policies (continued)

Gain on Extinguishment of Debt

Gain on extinguishment of debt represents the net result of the purchase and extinguishment of previously issued bonds utilizing available cash held under the 12^{th} General Bond Resolution. Gains resulting from the purchase and extinguishment of bonds at a discount to carrying value are offset by any expenses directly associated with those transactions. Gain on extinguishment of debt is included in non-operating revenues, as this is not a normal part of the Authority's principal activities.

Risk Management

The Authority is exposed to various risks of loss, including property loss, torts, cyber liability, errors and omissions, and employee injuries. Coverage for these various risks of loss is obtained through commercial insurance, which is purchased in amounts that are sufficient to cover the Authority's risk of loss. There has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk. Settlements have not exceeded insurance coverage for the past three fiscal years. The Authority will record an estimated loss related to a loss contingency as an expense and a liability if it meets the following requirements: (1) information available before the financial statements are issued 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.

Income Taxes

The Authority and the Foundation are tax-exempt organizations under the provisions of the Internal Revenue Code and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

Reclassifications

Certain amounts presented in the financial statements in the prior year have been reclassified to conform with the current year presentation.

(Dollars in Thousands)

3. Cash, Cash Equivalents, and Investments

The Authority

State law limits investments of the Authority to any obligations of the State of Missouri, the U.S. government, or any instrumentality thereof; certificates of deposit or time deposits of federally insured banks, federally insured savings and loan associations, or insured credit unions; and, with respect to moneys pledged or held under a trust estate or otherwise available for the owners of bonds or other forms of indebtedness, any investment authorized under the bond resolution governing the security of payment of such obligations or repurchase agreements for the specified investments.

While the bond investment provisions vary by trust estate, allowable investments generally include U.S. Treasury obligations and certain of the following based on maturity and rating: U.S. government agency and sponsored agency obligations, bank deposits, repurchase agreements, reverse repurchase agreements, investment agreements, guaranteed investment contracts, money market funds, commercial paper, and tax-exempt bonds.

At June 30, 2014 and 2013, the cash, cash equivalent, and investment balances of the Authority consisted of the following:

	2014	2013
Cash on deposit	**$ 27,683**	$ 40,966
Money market mutual funds	**75,614**	92,245
Commercial paper	**6,203**	–
Total cash, cash equivalents, and investments	**$ 109,500**	$ 133,211

Custodial Credit Risk – Deposits – For a deposit, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may be lost. As it relates to cash deposits held in the Authority's Operating Fund, the Authority's policy is that deposits should either be insured or collateralized with investments that are permissible under the Authority's state statutes.

At June 30, 2014, the Authority's cash deposits were fully insured by Federal Deposit Insurance Corporation (FDIC) insurance or secured by an irrevocable standby letter of credit issued by the Federal Home Loan Bank of Atlanta in favor of the Authority.

3. Cash, Cash Equivalents, and Investments (continued)

At June 30, 2013, the Authority's cash deposits were fully insured by FDIC insurance or collateralized with securities held by a third-party custodian in the Authority's name. At June 30, 2013, the Authority had a Tri-Party Collateral Management Agreement with Bank of America for deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels. Bank of New York Mellon served as the custodian for the collateral pledged under the agreement. Eligible collateral security types under the agreement included U.S. Treasury securities, U.S. agency securities, and general obligation bonds of the State of Missouri.

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy addressing custodial credit risk for investments. At June 30, 2014, the Authority's investments in commercial paper were held by the counterparty's trust department, but not in the Authority's name.

Interest Rate Risk and Credit Risk – Although the Authority does not have formal policies addressing interest rate risk and credit risk, limitations on investment maturities and credit ratings are specified in each of the Authority's bond documents. These investment provisions vary by trust estate. At June 30, 2014 and 2013, the Authority's investments in money market mutual funds had credit ratings of AAAm and maturities of less than one year. At June 30, 2014, the Authority's investments in commercial paper were rated A-1+ and also had maturities of less than one year.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. Concentration of credit risk is required to be disclosed for an investment in any one issuer that represents 5.00% or more of total investments. At June 30, 2014, the Authority's investments in commercial paper issued by U.S. Bank N.A. represented 7.58% of the Authority's total investments.

At June 30, 2014 and 2013, the Authority's money market mutual funds and commercial paper investments were held by a trustee in special trust accounts that were established in accordance with the various bond resolutions and indentures of the Authority.

3. Cash, Cash Equivalents, and Investments (continued)

The following special trust accounts have been established for bonds issued under the 12th General Bond Resolution:

Revenue Accounts – The Revenue Accounts are used to account for all funds received by the Authority. Generally, amounts in the Revenue Accounts are used to (a) make principal and interest payments on the bonds, (b) reinstate the Reserve Accounts as required, (c) pay negative special allowance, and (d) pay program expenses.

Reserve Accounts – The Authority has purchased a noncancelable surety bond in lieu of cash deposits for the Reserve Account in the 12th General Bond Resolution in accordance with the bond provisions. The amount of this surety bond was $2,430 and $2,844 at June 30, 2014 and 2013, respectively. Such surety bond expires on the earlier of the bond maturity date or the date in which the Authority satisfies all required payments related to the bond obligations.

The following special trust accounts have been established for the LIBOR floating rate notes issued under the 2009-1, 2010-1, 2010-2, 2010-3, 2011-1, 2012-1, and 2013-1 Trusts:

Collection Funds – The Collection Funds are used to (a) account for receipt of borrower payments, (b) receive investment income, (c) pay servicing and administration fees, consolidation rebate fees, and trustee fees, (d) make principal and interest payments on the bonds, and (e) reinstate the Reserve Funds and the Rebate Funds as required.

Reserve Funds – Under the terms of certain bond provisions, minimum amounts are required to be maintained in the Reserve Funds for each related bond issue. The total of these minimum requirements at June 30, 2014 and 2013 was $6,944 and $7,864, respectively.

Capitalized Interest Funds – The Capitalized Interest Funds are used to pay certain service, administrative, and other fees not available to be paid from the Collection Funds.

Department Rebate Funds – The Department Rebate Funds are used to pay negative special allowance.

Acquisition Fund – The Acquisition Fund is used initially to account for loans purchased by the trust and to pay costs of issuance due within 60 days of closing.

(Dollars in Thousands)

3. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2014 and 2013, the Authority's cash, cash equivalents, and investments were segregated as follows:

	2014	2013
Special trust accounts:		
Restricted:		
Revenue accounts	**$ 3,077**	$ 1,249
Collection funds	**64,014**	71,868
Reserve funds	**6,944**	7,864
Capitalized interest funds	**–**	2,450
Department rebate funds	**7,782**	6,695
Acquisition fund	**–**	2,119
Total special trust accounts	**81,817**	92,245
Operating fund:		
Unrestricted	**20,701**	35,828
Restricted – due to special trust accounts	**6,982**	5,138
Total operating fund	**27,683**	40,966
Total cash, cash equivalents, and investments	**$ 109,500**	$ 133,211

The Foundation

In addition to the allowable investments of the Authority, the Foundation is authorized to invest in equity securities and certain alternative investments including hedge funds, managed futures funds, commodities, private equity funds, and REITs, as specified in the Foundation's investment policy. The Foundation may also invest in derivatives and structured products with approval from the Foundation's Board.

As shown on the statements of net position, at June 30, 2014 and 2013, the Foundation had cash balances of $10,260 and $5,077, respectively, which consisted of cash on deposit at two financial institutions.

(Dollars in Thousands)

3. Cash, Cash Equivalents, and Investments (continued)

Custodial Credit Risk – Deposits – The Foundation does not have a policy addressing custodial credit risk for deposits. At June 30, 2014, $9,765, of the Foundation's bank balance of $10,265 was uninsured and uncollateralized. At June 30, 2013, $4,577 of the Foundation's bank balance of $5,077, was uninsured and uncollateralized.

4. Student Loans Receivable

Upon default, unpaid principal and accrued interest on FFELP student loans receivable are guaranteed by the federal government at the following rates:

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

Unpaid principal and accrued interest on FFELP student loans are also guaranteed at 100% in the event of bankruptcy, death, or discharge.

The Authority's supplemental loans receivable are not federally insured. The Authority has purchased insurance from a third party on a portion of its supplemental loan portfolio, which insures 95% of the unpaid principal and accrued interest upon default.

(Dollars in Thousands)

4. Student Loans Receivable (continued)

Student loans receivable at June 30, 2014 and 2013 are as follows:

	2014	2013
Total guaranteed FFELP loans	**$ 2,629,793**	$ 3,052,629
Supplemental loans:		
Third-party insured	**5,116**	6,788
Self-insured	**140,480**	151,686
Total supplemental loans	**145,596**	158,474
Allowance for doubtful loans	**(18,427)**	(21,112)
Total student loans receivable	**$ 2,756,962**	$ 3,189,991
Weighted-average interest rate – end of year	**5.13%**	5.10%

The Authority's yield on federal student loans receivable is set by federal law and is generally variable based on the one-month LIBOR, 90-day CP, or 91-day Treasury bill rates, plus a factor.

These yields are based on the type of loan, the date of loan origination, and, in some cases, the method of financing. Consolidation loans, Stafford loans, and PLUS loans originated after July 1, 2006 have a fixed rate for the borrower. The Authority's yield on supplemental loans is a variable rate, based on either the Treasury bill or the prime rate, plus a factor, depending on when the loan originated and the creditworthiness of the borrower and co-signor.

The activity for the allowance for doubtful loans for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Beginning balance	**$ 21,112**	$ 24,374
Provision for loan losses	**4,087**	3,519
Write-offs of loans	**(9,178)**	(8,927)
Recoveries	**2,406**	2,146
Ending balance	**$ 18,427**	$ 21,112

(Dollars in Thousands)

5. Capital Assets

Capital asset activity for the year ended June 30, 2014, is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 3,556	$ –	$ –	$ –	$ 3,556
Construction in progress	2,065	970	–	(2,846)	189
Depreciable capital assets:					
Buildings and improvements	19,280	72	–	198	19,550
Furniture and equipment	10,687	838	(1,402)	2,648	12,771
Software assets	516	–	–	–	516
Total depreciable capital assets	30,483	910	(1,402)	2,846	32,837
Less accumulated depreciation and amortization:					
Buildings and improvements	(4,646)	(724)	–	–	(5,370)
Furniture and equipment	(4,402)	(2,119)	1,233	–	(5,288)
Software assets	(180)	(104)	–	–	(284)
Total accumulated depreciation and amortization	(9,228)	(2,947)	1,233	–	(10,942)
Net depreciable capital assets	21,255	(2,037)	(169)	2,846	21,895
Total capital assets, net	$ 26,876	$ (1,067)	$ (169)	$ –	$ 25,640

(Dollars in Thousands)

5. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2013, is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 3,556	$ –	$ –	$ –	$ 3,556
Construction in progress	1,788	9,693	–	(9,416)	2,065
Depreciable capital assets:					
Buildings and improvements	12,843	136	–	6,301	19,280
Furniture and equipment	8,108	167	(703)	3,115	10,687
Software assets	516	–	–	–	516
Total depreciable capital assets	21,467	303	(703)	9,416	30,483
Less accumulated depreciation and amortization:					
Buildings and improvements	(4,125)	(521)	–	–	(4,646)
Furniture and equipment	(3,459)	(1,564)	621	–	(4,402)
Software assets	(77)	(103)	–	–	(180)
Total accumulated depreciation and amortization	(7,661)	(2,188)	621	–	(9,228)
Net depreciable capital assets	13,806	(1,885)	(82)	9,416	21,255
Total capital assets, net	$ 19,150	$ 7,808	$ (82)	$ –	$ 26,876

(Dollars in Thousands)

6. Financings

The following table displays the aggregate changes in bonds payable for the year ended June 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
Auction Rate Securities, taxable, due February 2025 – June 2046, with variable interest rates ranging from 1.716% – 2.593% at June 30, 2014 and 1.727% – 2.640% at June 30, 2013	**$ 146,575**	**$ –**	**$ (21,300)**	**$ 125,275**	**$ –**
LIBOR Floating Rate Notes, taxable, due January 2026 – June 2036, with variable interest rates ranging from 0.702% – 1.277% at June 30, 2014 and 0.829% – 1.323% at June 30, 2013	**2,977,255**	**–**	**(450,316)**	**2,526,939**	**266,573**
	$ 3,123,830	**$ –**	**$ (471,616)**	**$ 2,652,214**	**$ 266,573**
Less: Unamortized bond discount	**(4,426)**	**–**	**192**	**(4,234)**	**(192)**
Total Bonds Payable, net	**$ 3,119,404**	**$ –**	**$ (471,424)**	**$ 2,647,980**	**$ 266,381**

During the year ended June 30, 2014, reductions in the auction rate securities resulted from the Authority's bond redemptions and purchase and subsequent extinguishment of bonds. Reductions in the LIBOR floating rate notes consisted of regular repayments.

(Dollars in Thousands)

6. Financings (continued)

The following table displays the aggregate changes in bonds payable for the year ended June 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
Auction Rate Securities, taxable, due February 2025 – June 2046, with variable interest rates ranging from 1.727% – 2.640% at June 30, 2013 and 0.000% – 1.743% at June 30, 2012	$ 395,325	$ –	$ (248,750)	$ 146,575	$ –
Auction Rate Securities, tax-exempt, due February 2025 – July 2029, with variable interest rates ranging from 0.059% – 0.928% at June 30, 2012	104,450	–	(104,450)	–	–
LIBOR-Indexed Rate Notes, taxable, due September 2016, with variable interest rates ranging from 0.369% – 0.372% at June 30, 2012	750,000	–	(750,000)	–	–
LIBOR Floating Rate Notes, taxable, due August 2019 – June 2036, with variable interest rates ranging from 0.829% – 1.323% at June 30, 2013 and 1.067% – 1.517% at June 30, 2012	2,461,550	956,200	(440,495)	2,977,255	292,144
	$ 3,711,325	$ 956,200	$ (1,543,695)	$ 3,123,830	$ 292,144
Less: Unamortized bond discount	(4,619)	–	193	(4,426)	(192)
Total Bonds Payable, net	$ 3,706,706	$ 956,200	$ (1,543,502)	$ 3,119,404	$ 291,952

During the year ended June 30, 2013, reductions in the auction rate securities resulted from the Authority's purchase and subsequent extinguishment of those bonds. The LIBOR-indexed rate notes were refunded with proceeds from the issuance of the 2013-1 LIBOR floating rate notes. Reductions in the LIBOR floating rate notes consisted of regular repayments.

6. Financings (continued)

Auction Rate Securities

At June 30, 2014 and 2013, total auction rate securities represented 5% of total outstanding bonds payable. Auction rate securities bear interest at the applicable auction rate as determined by a bidding process every 28 or 35 days, as stipulated in the related bond agreement. Starting in November 2007 and continuing through June 30, 2014, the auction rate notes experienced failures in the bidding process. The auction rate notes are not putable. During fiscal years 2014 and 2013, due to the failures in the auction market, the interest rates were calculated based upon the rate provisions as stipulated in the bond agreements and amended by supplemental resolutions agreed to by the Authority. The interest rates continued to reprice every 28 or 35 days under a failed auction but were determined based upon a 91-day Treasury bill indexed rate for taxable debt or an S&P Municipal Bond 7-day Intermediate Grade indexed rate (formerly based upon a JJ Kenny indexed rate) for tax-exempt debt, taken into consideration with the annual average auction rate as of the current repricing date.

LIBOR Floating Rate Notes

At June 30, 2014 and 2013, LIBOR floating rate notes represented 95% of total outstanding bonds payable. Five of the Authority's LIBOR floating rate note trusts reprice every three months at rates equal to three-month LIBOR plus a spread ranging from 0.60% to 1.05%. The remaining two LIBOR floating rate note trusts reprice every month at rates equal to one-month LIBOR plus a spread of either 0.55% or 0.83%. Principal payments are required to be made either monthly or quarterly based on available funds less required fees and transfers as stipulated in the bond documents.

(Dollars in Thousands)

6. Financings (continued)

The following is a summary of debt service requirements at June 30, 2014:

	Principal	Interest	Total
Fiscal Years			
2015	$ 266,573	$ 26,431	$ 293,004
2016	296,265	23,684	319,949
2017	306,653	20,743	327,396
2018	305,913	17,755	323,668
2019	278,760	14,901	293,661
Total fiscal years 2015 – 2019	1,454,164	103,514	1,557,678
2020 – 2024	714,334	48,097	762,431
2025 – 2029	369,335	13,570	382,905
2030 – 2034	98,006	2,753	100,759
2035 – 2039	–	1,405	1,405
2040 – 2044	–	1,405	1,405
2045 – 2046	16,375	538	16,913
	$ 2,652,214	$ 171,282	$ 2,823,496

The principal requirements included in the table above for the LIBOR floating rate notes are based on scheduled borrower repayments of the student loans in those trusts. The interest requirements in the table above were prepared using the applicable variable rates in effect at June 30, 2014. The debt service requirements presented in the table above may differ significantly from the actual amounts of principal and interest paid in future periods.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Authority under certain conditions as set forth in the bond agreements. In addition, at June 30, 2013, $118,300 of the bonds were subordinate to the remainder of the corresponding outstanding bonds. There was no subordinate debt at June 30, 2014.

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including moneys and securities therein. For bonds outstanding under the 12th General Bond Resolution, the Authority has purchased insurance policies from AMBAC Indemnity, which are

6. Financings (continued)

issued to the insurance trustees as beneficiaries for the respective bondholders. The purpose of the insurance policies is to guarantee payment of the bonds upon maturity or earlier redemption. The bond agreements contain certain covenants that, among other requirements, include maintaining minimum collateral levels. The Authority maintains a minimum amount of assets pledged to meet the collateral requirements specified in the various bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2014 and 2013, was $2,888,098 and $3,359,064, respectively.

At June 30, 2014 and 2013, the Authority was in compliance with all financial covenants and requirements of its debt agreements. In the prior year, the Authority reported that it was not in compliance with the covenant within the 12th General Bond Resolution requirement that the supplemental loan cumulative default rate not exceed 10% of all supplemental loans in repayment status under the 12th General Bond Resolution. The Authority revisited the debt agreements and found that the calculation could include the principal outstanding at June 26, 2006, additional loans purchased and capitalized interest subsequent to June 26, 2006 into the supplemental loan cumulative default rate calculation. The recalculation for June 30, 2013 resulted in a supplemental loan cumulative default rate of 7.9%, instead of 12.8% as stated in the prior year, which is below the 10% limit. The supplemental loan cumulative default rate as of June 30, 2014 was 8.3%.

2013-1 LIBOR Floating Rate Notes

On May 22, 2013, the Authority issued $956,200 in LIBOR floating rate notes to (i) refinance the 11th General Bond Resolution trust estate, (ii) refinance all FFELP loans held under the 12th General Bond Resolution trust estate, (iii) purchase FFELP loans from one of its lender partners, and (iv) purchase loans from the Authority's Operating Fund. The notes were issued in one series at one-month LIBOR plus 0.55% with a final maturity date of May 25, 2032. The notes have an expected weighted-average life of 5.28 years based on a 4.00% CPR for consolidation loans and a 6% CPR for non-consolidation loans. The trust had a starting parity of approximately 103.00%. Releases from the trust are permitted when the parity ratio exceeds 110.00%.

(Dollars in Thousands)

6. Financings (continued)

A portion of the cash proceeds from the issuance of the 2013-1 LIBOR floating rate notes were deposited in an irrevocable trust with an escrow agent to advance refund $750,000 of LIBOR-indexed rate notes that were outstanding under the 11th General Bond Resolution. As a result, these bonds were considered defeased as of June 30, 2013. Accordingly, neither the escrow account assets nor the liability for the defeased bonds have been included in the statement of net position as of June 30, 2013. In July 2013, the defeased bonds were paid in full with the funds held in escrow.

7. Contracts, Commitments, and Contingencies

The Authority has three major contracts and various minor contracts to utilize electronic data processing systems and other computer services. The contracts provide for monthly charges based on the number of student loan accounts serviced or system usage. Charges incurred under these contracts totaled $7,797 and $6,924, for the years ended June 30, 2014 and 2013, respectively.

In October 2013, the Authority executed a five-year operating lease agreement for office space in Washington, D.C. The lease term began in January 2014 and rent expense totaled $50 for the year ended June 30, 2014. Under the terms of the lease agreement, the monthly base rent will be increased by 2% each year. In addition, after the first lease year, rent will be adjusted annually for the Authority’s pro rata share of the landlord’s increase in real estate taxes, operating expenses, and utilities. Future minimum lease payments under this operating lease as of June 30, 2014, are as follows:

Fiscal Year	**Amount**
2015	**$ 107**
2016	**109**
2017	**111**
2018	**114**
2019	**67**
Total future minimum lease payments	**$ 508**

7. Contracts, Commitments, and Contingencies (continued)

The Authority is involved, from time to time, in various claims and lawsuits incidental to the ordinary course of its business. While the ultimate outcome of litigation cannot be predicted with certainty, management, based on its understanding of the facts, does not believe the ultimate resolution of these matters will have a material adverse effect on the Authority's financial position or results of operations.

As a participant in FFELP and a servicer of federal assets, the Authority is subject to various federal program requirements and regulations. Management believes the Authority to be in substantial compliance with the requirements of these programs and that the effects of any noncompliance would not be material to the financial statements of the Authority.

8. Employee Benefits

401(k) Plan

The Authority maintains a single-employer defined contribution plan, the Higher Education Loan Authority of the State of Missouri 401(k) Plan (the 401(k) Plan), for all employees who are at least 21 years of age, work in excess of 1,000 hours per plan year, and have been employed at least one year by the Authority. Investment management is performed by Edward Jones, and recordkeeping is provided by ADP. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. The Authority contributes an amount equal to 100% of the first 8% contributed by the employee. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five-year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. The Authority may make a non-matching contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Authority when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During the fiscal years ended June 30, 2014 and 2013, the Authority contributed $598 and $558 and employees contributed $682 and $744 to the 401(k) Plan, respectively.

8. Employee Benefits (continued)

Pension Plan

The Authority offers a noncontributory single-employer defined benefit pension plan, the Higher Education Loan Authority of the State of Missouri Pension Plan (the Pension Plan), which provides retirement, disability, and death benefits to Pension Plan members and beneficiaries. Pension Plan provisions were established by the Authority and may be amended by the Authority's Board of Directors. Substantially all employees of the Authority are covered by the Pension Plan. Pension benefits are based upon the employee's length of service and average compensation. Employees vest in the Pension Plan after five years of service. The Pension Plan is administered by PNC Institutional Investments and PNC Bank, National Association (Administrator). A report of the Pension Plan may be obtained by writing to the Authority's Pension Plan Administrator, 633 Spirit Drive, Chesterfield, MO 63005-1243 or by calling (636) 733-3700.

Pension Plan assets are invested primarily in debt and equity securities at the discretion of the Administrator. Those securities are valued at market value. The investment objective of the Pension Plan is to ensure that assets will be available to meet the Pension Plan's benefit obligations. The expected return on the Pension Plan's assets is based on the historical and anticipated returns for each asset category. At June 30, 2014, the funds were invested 49:47:4 equity securities to debt securities to cash and cash equivalents. At June 30, 2013, the funds were invested 50:48:2 equity securities to debt securities to cash and cash equivalents.

Funding Policy – The Authority's policy is to contribute annually not less than the actuarially determined minimum required contribution calculated using the aggregate actuarial cost method. There are no annual maximum contribution rates. Employees of the Authority do not make contributions to the Pension Plan.

During the current year, the Authority contributed the actuarially determined minimum required funding. The annual required contributions for the years ended June 30, 2014, 2013, and 2012, were determined as part of the July 1, 2013, 2012, and 2011, actuarial valuations, respectively.

8. Employee Benefits (continued)

Funded Status and Funding Progress – The following table displays the funded status of the Pension Plan as of July 1, 2013, the most recent actuarial valuation date:

Actuarial Valuation Date	Actuarial Value of Assets Available for Benefits (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2013	$ 31,488	$ 31,618	$ 130	99.6%	$ 20,304	0.6%

* For purposes of this schedule, the AAL is determined using the entry age actuarial cost method. Note that the Annual Required Contribution (ARC) is calculated using the aggregate actuarial cost method.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(Dollars in Thousands)

8. Employee Benefits (continued)

Annual Pension Cost and Net Pension Obligation – The following tables present information regarding the Authority's net pension obligation (asset), annual pension cost, and the significant actuarial assumptions used to determine those amounts as of June 30, 2014, 2013, and 2012:

	Pension Plan		
	2014	**2013**	**2012**
Net pension obligation (NPO):			
NPO, beginning of year	**$ (4,455)**	$ (4,817)	$ (5,056)
Annual pension cost (APC)	**3,511**	3,103	1,633
Contributions for year	**(3,262)**	(2,741)	(1,394)
NPO, end of year	**$ (4,206)**	$ (4,455)	$ (4,817)
The negative NPO represents a pension asset.			
Components of annual pension cost:			
Annual required contribution (ARC)	**$ 3,262**	$ 2,876	$ 1,394
Interest on NPO	**(301)**	(337)	(354)
Adjustment to ARC	**550**	564	593
APC	**$ 3,511**	$ 3,103	$ 1,633
Percentage of APC contributed	**93%**	88%	85%
Major assumptions:			
Investment return	**6.75%**	7.0%	7.0%
Inflation rate	**2.5**	4.0	4.0
Discount rate used for amortization of NPO	**4.0**	3.0	3.0
Salary scale	**5.0**	5.0	5.0
Actuarial cost method	**Aggregate***	Aggregate*	Aggregate*
Amortization period (years)	**10.0**	10.0	10.0
Amortization method	Level percentage of payroll, open		
Mortality table	RP-2000 Mortality table projected to 2013	1994 Group Annuity Mortality table	1994 Group Annuity Mortality table

* The aggregate actuarial cost method is used to determine the ARC of the Authority. Because this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status of the plan.

9. Student Loan Purchase Commitments

At June 30, 2013, the Authority had contractual commitments to purchase $7,986 in supplemental loans that it was servicing on behalf of two of its lender partners. The Authority completed these purchases during fiscal year 2014 and had no outstanding contractual commitments to purchase supplemental student loans as of June 30, 2014.

Under the provisions of the Higher Education Act, the Authority is required to repurchase FFELP student loans for which a bankruptcy claim has been paid if the borrower's bankruptcy is subsequently dismissed by the court or, as a result of the bankruptcy hearing, the student loan is considered non-dischargeable and the borrower remains responsible for repayment of the student loan.

10. Segment Information

A segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or an other stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required by an external party to be accounted for separately. During the fiscal years ended June 30, 2014 and 2013, the Authority had eight segments and nine segments, respectively, that met the reporting requirements of GASB Statement No. 34, as amended by GASB Statement No. 37. In addition to its segments, the Authority presents summary financial information for the Operating Fund, which is used to record administrative transactions and revenue streams related to student loans not associated with bond issues.

The outstanding debt of the Authority at June 30, 2014 consisted of student loan revenue bonds issued in accordance with the 12th General Bond Resolution and related supplemental resolutions adopted by the Board of Directors in various years from 1995 through 2006, as well as student loan revenue bonds issued in accordance with seven Trust Indentures (collectively, the trust estates) adopted by the Board of Directors from fiscal year 2010 through fiscal year 2013. The bond documents provide that the bonds are payable exclusively from the eligible loans pledged under the respective resolutions and indentures, amounts deposited in the accounts pledged under the resolutions and indentures, and all other revenues and recoveries of principal from the loans purchased with the bond proceeds. All of the Authority's bonds are limited obligations of the Authority, which are payable solely from the respective trust estates. As a result, there is no cross-collateralization with other trust estates or the operating funds of the Authority. In the case

10. Segment Information (continued)

of all but one of the trust estates, bondholders have no recourse against any party, including the Authority, if the trust estate is insufficient for repayment of the notes. In the case of the 12^{th} General Bond Resolution, bondholders have no recourse against the Authority, but they do have recourse to the 12^{th} General Bond Resolution bond insurer as to the payment of principal and interest on the bonds. Furthermore, the Authority's bonds are not insured or guaranteed by any government agency or instrumentality, including the Authority, the State of Missouri, or any political subdivision thereof. As a result of the preceding, it is possible that a trust estate segment can show a negative restricted net position balance as no operating funds of the Authority will pay the deficit.

(Dollars in Thousands)

10. Segment Information (continued)

Summary financial information of the Authority's segments and Operating Fund as of June 30, 2014 and 2013, is as follows:

	2014									
	Bond Funds									
	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Net Position										
Assets:										
Current assets	$ 36,928	$ 14,271	$ 64,942	$ 72,723	$ 44,678	$ 51,435	$ 28,371	$ 118,853	$ 34,812	$ 467,013
Long-term assets	101,769	109,150	376,125	404,531	257,486	317,413	142,095	736,488	43,560	2,488,617
Total assets	$ 138,697	$ 123,421	$ 441,067	$ 477,254	$ 302,164	$ 368,848	$ 170,466	$ 855,341	$ 78,372	$ 2,955,630
Liabilities:										
Current liabilities	$ 58	$ 9,992	$ 45,096	$ 50,167	$ 30,548	$ 38,700	$ 21,010	$ 88,766	$ 5,525	$ 289,862
Long-term liabilities	125,275	100,695	353,044	377,784	245,426	305,558	141,901	731,916	–	2,381,599
Interfund payable (receivable)	(299)	(196)	(781)	(1,135)	(668)	(663)	(735)	(2,416)	6,893	–
Total liabilities	125,034	110,491	397,359	426,816	275,306	343,595	162,176	818,266	12,418	2,671,461
Net position:										
Net investment in capital assets	–	–	–	–	–	–	–	–	25,408	25,408
Restricted for debt service	3,762	12,930	43,708	50,438	26,858	25,253	8,290	37,075	–	208,314
Unrestricted	9,901	–	–	–	–	–	–	–	40,546	50,447
Total net position	13,663	12,930	43,708	50,438	26,858	25,253	8,290	37,075	65,954	284,169
Total liabilities and net position	$ 138,697	$ 123,421	$ 441,067	$ 477,254	$ 302,164	$ 368,848	$ 170,466	$ 855,341	$ 78,372	$ 2,955,630

(Dollars in Thousands)

10. Segment Information (continued)

	2013										
	Bond Funds										
	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Net Position											
Assets:											
Current assets	$ –	$ 35,190	$ 14,763	$ 72,665	$ 80,289	$ 50,534	$ 59,115	$ 32,744	$ 131,206	$ 47,627	$ 524,133
Long-term assets	–	118,119	123,441	436,090	475,644	302,842	375,479	175,322	859,498	32,952	2,899,387
Total assets	$ –	$ 153,309	$ 138,204	$ 508,755	$ 555,933	$ 353,376	$ 434,594	$ 208,066	$ 990,704	$ 80,579	$ 3,423,520
Liabilities:											
Current liabilities	$ –	$ 293	$ 9,874	$ 49,474	$ 55,194	$ 33,740	$ 43,942	$ 24,290	$ 93,705	$ 8,796	$ 319,308
Long-term liabilities	–	146,575	115,792	410,207	453,444	293,282	365,984	176,205	865,963	–	2,827,452
Interfund payable (receivable)	–	(135)	(222)	(795)	(650)	(604)	(546)	(380)	(835)	4,167	–
Total liabilities	–	146,733	125,444	458,886	507,988	326,418	409,380	200,115	958,833	12,963	3,146,760
Net position:											
Net investment in capital assets	–	–	–	–	–	–	–	–	–	25,949	25,949
Restricted for debt service	–	4,406	12,760	49,869	47,945	26,958	25,214	7,951	31,871	–	206,974
Unrestricted	–	2,170	–	–	–	–	–	–	–	41,667	43,837
Total net position	–	6,576	12,760	49,869	47,945	26,958	25,214	7,951	31,871	67,616	276,760
Total liabilities and net position	$ –	$ 153,309	$ 138,204	$ 508,755	$ 555,933	$ 353,376	$ 434,594	$ 208,066	$ 990,704	$ 80,579	$ 3,423,520

(Dollars in Thousands)

10. Segment Information (continued)

	2014									
	Bond Funds									
	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Revenues, Expenses, and Changes in Net Position										
Operating revenues	$ 8,273	$ 3,914	$ 14,372	$ 15,246	$ 7,800	$ 10,047	$ 4,259	$ 26,900	$ 26,661	$ 117,472
Operating expenses	1,188	3,744	12,403	12,753	7,900	10,008	3,920	21,696	31,593	105,205
Operating income (loss)	7,085	170	1,969	2,493	(100)	39	339	5,204	(4,932)	12,267
Non-operating revenues (expenses)	2	–	–	–	–	–	–	–	(4,860)	(4,858)
Income (loss) before transfers	7,087	170	1,969	2,493	(100)	39	339	5,204	(9,792)	7,409
Interfund transfers	–	–	(8,130)	–	–	–	–	–	8,130	–
Change in net position	7,087	170	(6,161)	2,493	(100)	39	339	5,204	(1,662)	7,409
Net position, beginning of year	6,576	12,760	49,869	47,945	26,958	25,214	7,951	31,871	67,616	276,760
Net position, end of year	$ 13,663	$ 12,930	$ 43,708	$ 50,438	$ 26,858	$ 25,253	$ 8,290	$ 37,075	$ 65,954	$ 284,169

(Dollars in Thousands)

10. Segment Information (continued)

	2013										
	Bond Funds										
	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Revenues, Expenses, and Changes in Net Position											
Operating revenues	$ 23,038	$ 10,856	$ 4,441	$ 16,333	$ 17,503	$ 9,191	$ 11,872	$ 5,495	$ 2,981	$ 20,235	$ 121,945
Operating expenses	15,847	1,015	4,462	15,343	16,043	10,023	12,762	5,251	9,072	20,096	109,914
Operating income (loss)	7,191	9,841	(21)	990	1,460	(832)	(890)	244	(6,091)	139	12,031
Non-operating revenues (expenses)	–	–	–	–	–	–	–	–	–	(9,800)	(9,800)
Income (loss) before transfers	7,191	9,841	(21)	990	1,460	(832)	(890)	244	(6,091)	(9,661)	2,231
Interfund transfers	(69,378)	105	3	(3,158)	31	37	48	39	37,962	34,311	–
Change in net position	(62,187)	9,946	(18)	(2,168)	1,491	(795)	(842)	283	31,871	24,650	2,231
Net position, beginning of year	62,187	(3,370)	12,778	52,037	46,454	27,753	26,056	7,668	–	42,966	274,529
Net position, end of year	$ –	$ 6,576	$ 12,760	$ 49,869	$ 47,945	$ 26,958	$ 25,214	$ 7,951	$ 31,871	$ 67,616	$ 276,760

(Dollars in Thousands)

10. Segment Information (continued)

	2014									
	Bond Funds									
	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Cash Flows										
Net cash flows from operating activities	$ 25,516	$ 15,954	$ 63,595	$ 83,949	$ 52,095	$ 68,512	$ 38,903	$ 144,146	$ (5,200)	$ 487,470
Net cash flows from non-capital financing activities	(23,687)	(16,442)	(66,354)	(85,526)	(54,097)	(69,800)	(39,163)	(148,034)	(5,538)	(508,641)
Net cash flows from capital and related financing activities	–	–	–	–	–	–	–	–	(2,545)	(2,545)
Net cash flows from investing activities	–	(290)	(1,191)	(1,246)	(765)	(874)	(383)	(1,449)	–	(6,198)
Net increase (decrease) in cash and cash equivalents	1,829	(778)	(3,950)	(2,823)	(2,767)	(2,162)	(643)	(5,337)	(13,283)	(29,914)
Cash and cash equivalents, beginning of year	1,249	4,203	17,636	18,877	12,953	9,281	5,131	22,915	40,966	133,211
Cash and cash equivalents, end of year	$ 3,078	$ 3,425	$ 13,686	$ 16,054	$ 10,186	$ 7,119	$ 4,488	$ 17,578	$ 27,683	$ 103,297

(Dollars in Thousands)

10. Segment Information (continued)

	2013										
	Bond Funds										
	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Cash Flows											
Net cash flows from operating activities	$ 850,412	$ 83,341	$ 19,900	$ 90,086	$ 103,265	$ 67,457	$ 89,906	$ 52,898	$ (928,673)	$ 14,035	$ 442,627
Net cash flows from non-capital financing activities	(999,808)	(111,758)	(21,737)	(101,224)	(115,500)	(74,651)	(96,190)	(60,336)	951,588	(9,850)	(639,466)
Net cash flows from capital and related financing activities	–	–	–	–	–	–	–	–	–	(9,070)	(9,070)
Net increase (decrease) in cash and cash equivalents	(149,396)	(28,417)	(1,837)	(11,138)	(12,235)	(7,194)	(6,284)	(7,438)	22,915	(4,885)	(205,909)
Cash and cash equivalents, beginning of year	149,396	29,666	6,040	28,774	31,112	20,147	15,565	12,569	–	45,851	339,120
Cash and cash equivalents, end of year	$ –	$ 1,249	$ 4,203	$ 17,636	$ 18,877	$ 12,953	$ 9,281	$ 5,131	$ 22,915	$ 40,966	$ 133,211

11. Future Accounting Pronouncements

The GASB has issued the following Statements that will be effective in future years as described below. The Authority has not yet determined the impact of implementing these new pronouncements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of this Statement will improve accounting and financial reporting by state and local governments for pensions and will also improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement is effective for the Authority beginning in fiscal year 2015.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations (including a variety of transactions referred to as mergers, acquisitions, and transfers of operations) and disposals of government operations that have been transferred or sold. This Statement is effective for the Authority beginning in fiscal year 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This Statement is required to be implemented simultaneously with the provisions of GASB Statement No. 68 and is effective for the Authority beginning in fiscal year 2015.

Higher Education Loan Authority of the State of Missouri

Required Supplementary Information
Schedule of Funding Progress
(Unaudited)(Dollars in Thousands)

As of and for the Years Ended June 30, 2014, 2013, and 2012

Actuarial Valuation Date	**Actuarial Value of Assets Available for Benefits (a)**	**Actuarial Accrued Liability (AAL)* (b)**	**Unfunded AAL (UAAL) (b-a)**	**Funded Ratio (a/b)**	**Annual Covered Payroll (c)**	**UAAL as a Percentage of Covered Payroll ((b-a)/c)**
7/1/2013	$ 31,488	$ 31,618	$ 130	99.6%	$ 20,304	0.6%
7/1/2012	$ 27,711	$ 28,614	$ 903	96.8%	$ 18,607	4.9%
7/1/2011	$ 26,964	$ 24,434	$ (2,530)	110.4%	$ 10,694	N/A

*The Annual Required Contribution (ARC) is calculated using the aggregate actuarial cost method. Information in this schedule is calculated using the entry age actuarial cost method as a surrogate for the funding progress of the plan

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Report of Independent Auditors 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*

Members of
The Higher Education Loan Authority of the State of Missouri

We have audited, 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, the financial statements of the business-type activities of Higher Education Loan Authority of the State of Missouri (the "Authority") and the aggregate discretely presented component unit, which comprise the statements of net position as of June 30, 2014 and 2013, 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, and have issued our report thereon dated September 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority'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. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority'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 direct and 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 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 communication is not suitable for any other purpose.

Ernst & Young LLP

September 12, 2014

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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Members of
The Higher Education Loan Authority of the State of Missouri

Report on Compliance for Each Major Federal Program

We have audited the Higher Education Loan Authority of the State of Missouri's (the Authority's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authoriy's major federal programs for the year ended June 30, 2014. The Authoriy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

September 12, 2014

Higher Education Loan Authority of the State of Missouri

Schedule of Expenditures of Federal Awards
(Dollars in Thousands)

For the Year Ended June 30, 2014

Federal Grantor/Program Title	**Federal CFDA Number**	**Federal Expenditures**
U.S. Department of Education – Federal Family Education Loans (Lenders) – interest on student loans	84.032L	$ 15,157
		Outstanding Balance at June 30, 2014
Total Guaranteed Loans of the Authority at June 30, 2014 –		
Guaranteed student loans:		
Federal Family Education Loans (Lenders)	84.032L	$ 2,629,793

See accompanying notes to schedule of expenditures of federal awards.

Higher Education Loan Authority of the State of Missouri

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

1. Description of Programs

U.S. Department of Education

The Federal Family Education Loans (Lenders) program (FFELP) enables the Higher Education Loan Authority of the State of Missouri (the Authority) to receive interest on subsidized guaranteed student loans during the period a student is attending school or during certain other allowable deferment periods.

2. Summary of Significant Accounting Policies

The accounting policies of the federal award program of the Authority conform to accounting principles generally accepted in the United States of America. The following is a summary of the Authority's significant accounting policies for federal programs.

Basis of Accounting

The Authority maintains its schedule of expenditures of federal awards on an accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

Federal Revenues

The FFELP interest income is used primarily for the purchase of student loans and the administration of the student loan programs.

3. Continuing Compliance Requirements

Guaranteed student loans impose no continuing compliance requirements other than to repay the loans and are not considered federal awards expended.

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Higher Education Loan Authority of the State of Missouri

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

Section I – Summary of Auditor's Results
Financial Statements Section:
Type of auditor's report issued (unmodified, qualified, adverse or disclaimer) – Unmodified
Internal control over financial reporting:

Material weakness(es) identified?	_____ **yes**	X **no**
Significant deficiency(ies) identified?	_____ **yes**	X **none reported**
Noncompliance material to financial statements noted?	_____ **yes**	X **no**

Federal Awards Section:
Internal control over major programs:

Material weakness(es) identified?	_____ **yes**	X **no**
Significant deficiency(ies) identified?	_____ **yes**	X **none reported**

Type of auditor's report issued on compliance for major programs (unmodified, qualified, adverse or disclaimer): Unmodified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	_____ **yes**	X **no**

Identification of major programs:

CFDA Number(s)	**Name of Federal Program or Cluster**
84.032L	Federal Family Education Loans (Lenders)

Dollar threshold used to distinguish between Type A and Type B programs – $454,710

Auditee qualified as low-risk auditee?	X **yes**	_____ **no**

Section II – Financial Statement Findings Section
No matters are reportable.

Section III – Federal Award Findings and Questioned Costs Section
No matters are reportable.

Higher Education Loan Authority of the State of Missouri

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2014

Federal Award Findings and Questioned Costs – Year Ended June 30, 2013

There were no findings or questioned costs for the year ended June 30, 2013.

Federal Award Findings and Questioned Costs – Year Ended June 30, 2012

There were no findings or questioned costs for the year ended June 30, 2012.

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