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, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

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Report of Independent Auditors

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

We have audited the accompanying statements of net assets of the Higher Education Loan Authority of the State of Missouri (the Authority) as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year ended June 30, 2012. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the Authority for the year ended June 30, 2011, were audited by other auditors whose report dated September 20, 2011, expressed an unqualified opinion on those statements and included an explanatory paragraph that disclosed the Authority's revised methodology of estimating the allowance for loan loss due to increased delinquencies and other factors.

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. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Higher Education Loan Authority of the State of Missouri as of June 30, 2012, and the changes in financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 14, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 3 through 21 and the Schedule of Funding Progress on page 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other 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, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst + Young LLP

September 14, 2012

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis
(Unaudited)

As of and for the Years Ended June 30, 2012 and 2011

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 Authority is a leading holder and servicer of student loans with over $17 billion in student loan assets serviced as of June 30, 2012.

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 compared to $155 million for fiscal year 2010. The Authority made no disbursements in fiscal year 2012.

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 U.S. Department of Education (the Department) to service Direct Loans in accordance with the HCERA, which requires the Secretary 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 Department has and is expected to continue to allocate at least 100,000 borrower accounts to each qualified NFP servicer.

The Authority (continued)

The Authority responded to the Sources Sought Notice and was among the first twelve 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) 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 Student Loans on September 27, 2011. The Authority has also entered into a "teaming arrangement" with seven other NFP servicers and, pursuant to the terms of the Solicitation, the MOHELA team is entitled to receive a minimum of 800,000 federal asset accounts for servicing. As of July 31, 2012, the MOHELA team has received over 807,000 federal asset accounts for servicing, which represents over $14 billion in student loans. The Authority has also entered into agreements with three additional NFP servicers which are awaiting Department approval. If approved, this would increase the members of the MOHELA team to eleven, which would entitle the team to receive a minimum of 1.1 million federal asset accounts for servicing.

In addition to a federal loan servicing contract, the Authority also still services nearly $3.6 billion of its own student loans and $221 million in lender partner owned loans that will provide the Authority ongoing revenue streams. 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.

The Authority (continued)

On December 23, 2011, The Consolidation Appropriation Act of 2012 was signed into law, which in part, allowed FFELP loan holders to substitute one-month LIBOR for the 90-day AA Financial Commercial Paper Rate (90-day CP) for the special allowance program (SAP) index. This was a one-time opportunity and MOHELA made the election as required by April 1, 2012, which was effective for the quarter ending June 30, 2012. The election applies to all MOHELA held 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.

The Authority owns and services student loans made pursuant to the Higher Education Act under FFELP. Loans previously authorized under FFELP include: (a) loans to students meeting certain financial needs tests with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment (Subsidized Stafford Loans); (b) loans to students made without regard to financial need with respect to which the federal government does not make such interest payments (Unsubsidized Stafford Loans and, collectively with Subsidized Stafford Loans, Stafford Loans); (c) loans to parents of dependent undergraduate and graduate students, or to graduate or professional students (PLUS Loans); and (d) loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans (Consolidation 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 program 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 make 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 $351.9 million of gross principal in student loans from a variety of financial institutions during fiscal year 2012. This compares to $758.8 million of gross principal purchased or originated during fiscal year 2011 and $938.5 million of gross principal during fiscal year 2010, representing a 54% decrease for fiscal year 2012 compared to a 19% decrease for fiscal year 2011. For fiscal year 2012, the Authority purchased $318.1 million in loans from lender partners and guarantors. The remaining $33.8 million consisted of $18.4 million rehabilitated loans purchased from the Missouri guaranty agency at a discount and $15.4 million in repurchases from various guarantors of loans that had previously been in a bankruptcy status as required by federal law. The Authority purchased $0.1 million in supplemental loans during fiscal year 2012. The Authority also continued to collect servicing fee income from its lender partners for serviced loans that, in the past, would have been purchased. In fiscal year 2012, the Authority's income was supplemented by $0.9 million in lender servicing fee income, which was down from $2.8 million in fiscal year 2011. In addition, in fiscal year 2012, the Authority received $5.0 million in servicing fees from its federal servicing contract after fees paid to subcontractor team members. In fiscal year 2011, the Authority received approximately $19.8 million in revenues associated with the sale of loans to the Department through the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) Federal Loan Participation Purchase Program compared to no revenues in fiscal year 2012, as the program ended in fiscal year 2011.

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 5% from $3.8 billion to $3.6 billion in the student loan portfolio from fiscal year 2011 to fiscal year 2012 as compared to an 11% decrease from $4.2 billion to $3.8 billion from fiscal year 2010 to fiscal year 2011. As of June 30, 2012, the student loan portfolio held by the Authority is made up of approximately 39.4% Consolidation Loans, 48.3% Stafford Loans, 6.9% PLUS Loans, and 5.4% Supplemental Loans. The Authority had no HEAL Loans remaining as of June 30, 2012. This compares to 39.1% Consolidation Loans, 47.8% Stafford Loans, 7.5% PLUS Loans, 5.6% Supplemental Loans, and less than 0.1% HEAL Loans as of June 30, 2011.

The Authority (continued)

During fiscal year 2012, the Authority utilized the LIBOR floating rate note (LFRN) market twice to purchase loans from lender partners and the Authority’s operating fund and to refinance loans held under the Straight-A Conduit, a line of credit, and the 2008 Trust. On July 19, 2011, the Authority issued $576,800 in LFRNs under the 2011-1 Trust Indenture to refinance the 2008 Trust, purchase FFELP loans from its lender partners and purchase loans from the Authority’s operating fund. The 2008 Trust was a $262,500 variable rate demand note trust backed by a direct pay letter of credit from Bank of America. On May 10, 2012, the Authority issued $256.1 million in LFRNs under the 2012-1 Trust Indenture to purchase nearly $204 million in loans from the Straight-A Conduit, $46.1 million in loans from the line of credit and $7.5 million in loans from the Authority’s operating fund. During fiscal year 2011, the Authority utilized the LFRN market to purchase loans from its lender partners. On September 28, 2010, the Authority issued $495.2 million in LFRNs under the 2010-3 Trust to purchase over $460 million in loans from its lender partners and to purchase over $22 million in loans from the Authority’s operating fund.

During fiscal year 2011, the Authority continued to utilize the ECASLA programs for eligible collateral, as the Authority placed over $678.7 million of loans in the ECASLA Federal Loan Participation Purchase Program and put over $690.1 million of loans through the ECASLA Federal Loan Purchase Commitment Program. The Authority utilized both the Participation and Purchase programs through their respective expiration dates, which were September 17, 2010 and October 15, 2010. While the Authority continued to utilize the ECASLA Straight-A Conduit during fiscal year 2012, as previously noted, the Authority refinanced all assets held under the Straight-A Conduit on May 10, 2012. As of June 30, 2011, the Authority had $237.1 million in borrowings outstanding under the Straight-A Conduit. The Authority did not take any additional draws under the Straight-A Conduit in fiscal year 2012 or 2011 because no new draws were permitted under the program rules.

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 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, Access Missouri. In addition, in fiscal year 2012 the

The Authority (continued)

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's Board has approved the payment of an additional $5.0 million to Access Missouri. The Authority has again set aside cash in a separate account for the fiscal year 2013 Access Missouri funding. The first payment of $1.0 million was made to the State of Missouri on September 1, 2012, with subsequent payments of $1.0 million planned on the first of the month for the next four months. The Authority reserves the right to modify these programs as needed. In addition, since its inception, the Authority has granted over $48.5 million in loan forgiveness for a variety of student borrowers including teachers, Pell Grant recipients, and those in military service. While no loans were forgiven in fiscal year 2012, borrowers received $1.2 million in loan forgiveness during fiscal year 2011.

Financial Position

This report includes three financial statements: the statements of net assets; the statements of revenues, expenses, and changes in net assets; and the statements of cash flows. These financial statements are prepared in accordance with Government Accounting Standards Board principles. The statements of net assets 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 assets 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.

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

Condensed Statements of Net Assets
(In thousands)

	2012	2011	2010
Capital assets	**$ 19,150**	$ 16,858	$ 14,045
Other than capital assets	**4,040,636**	4,245,787	4,610,752
Total assets	**$ 4,059,786**	$ 4,262,645	$ 4,624,797
Current liabilities	**$ 284,254**	$ 458,578	$ 950,145
Long-term liabilities	**3,480,220**	3,498,395	3,359,542
Total liabilities	**$ 3,764,474**	$ 3,956,973	$ 4,309,687
Invested in capital assets	**$ 19,150**	$ 16,858	$ 14,045
Restricted for debt service	**218,653**	204,415	217,214
Unrestricted	**57,509**	84,399	83,851
Total net assets	**$ 295,312**	$ 305,672	$ 315,110

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

	2012	2011	2010
Interest on student loans and interest subsidy	**$ 193,142**	$ 186,231	$ 187,621
Special allowance	**(81,243)**	(86,874)	(89,617)
ECASLA income	**–**	19,770	19,578
Investment income and other	**7,099**	4,465	7,440
Total operating revenues	**118,998**	123,592	125,022
Bond expenses	**46,188**	46,196	58,510
Student loan expenses	**25,225**	32,841	25,139
General and administrative expenses	**67,241**	58,778	34,131
Total operating expenses	**138,654**	137,815	117,780
Operating income (loss)	**(19,656)**	(14,223)	7,242
Gain on extinguishment of debt	**9,296**	4,785	139,461
Change in net assets	**$ (10,360)**	$ (9,438)	$ 146,703

Financial Analysis

Financial Position

Total assets decreased $202.9 million compared to a decrease in liabilities of $192.5 million resulting in a decrease to the Authority’s net assets of $10.4 million in fiscal year 2012. This decrease compares unfavorably to a decrease in net assets of $9.4 million in fiscal year 2011. The change in net assets in fiscal year 2012 is primarily tied to the Authority’s $31.0 million provision for the contribution to the State of Missouri for student scholarships, which was also the case in fiscal year 2011 that reflected $30.0 million in contributions to the State for scholarships.

During fiscal year 2012, the Authority spent $4.3 million on capital additions and improvements. The most significant addition was the acquisition of a building in Columbia, Missouri for $1.8 million. During fiscal year 2011, the Authority spent $4.1 million on capital additions and improvements to the Chesterfield location. In fiscal year 2012 and 2011, these additions and improvements were partially offset by depreciation and disposals. Please refer to Note 6, Capital Assets, for more information.

In the table above, other than capital assets includes cash and cash equivalents, accrued interest receivable, student loans receivable, miscellaneous receivables and prepaid expenses, deferred charges and pension asset.

Cash and cash equivalents decreased by 4% to $339.1 million in fiscal year 2012 from $353.8 million in fiscal year 2011, as compared to a 46% increase from $242.7 million in fiscal year 2010 to fiscal year 2011. The current year decrease in cash is due to the Authority’s repayment of the Straight-A Conduit, line of credit and regular bond principal payments as well as the purchase and extinguishment of debt at a discount through two tender offers and open market purchases. The prior year increase in cash is principally due to the cash received from the sale of loans under the ECASLA Loan Purchase Program and student loan repayments. In addition, the loss of recycling in all but one trust estate prevented cash from being reinvested in student loans. As required by the bond resolutions, this cash must predominantly be utilized for the purchase and extinguishment of debt or the optional redemption of debt.

Accrued interest receivable was down 8% from fiscal year 2011 as compared to a 21% decrease from fiscal year 2010 to fiscal year 2011 and is a direct result of the decrease in student loans receivable as a whole as well as the decrease in student loans receivable in an in-school or in-grace status from fiscal year 2011 to 2012.

Financial Position (continued)

Student loans receivable decreased 5% from $3.8 billion in fiscal year 2011 to $3.6 billion in fiscal year 2012 as compared to an 11% decrease from $4.2 billion in fiscal year 2010 to $3.8 billion in fiscal year 2011. The fiscal year 2012 decline is primary related to the net of purchase activity of $351.9 million less loan principal reductions of $536.2 million. A key contributor of loan principal reductions was the special consolidation loan program, which resulted in $75.9 million in principal prepayments during the 2012 fiscal year. On October 25, 2011, President Obama announced the availability of the Special Direct Consolidation Loan Program, which 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. The fiscal year 2011 decline is primarily related to the Authority's sale of over $690.1 million in loans through the ECASLA Purchase Program and the net of the purchase activity less loan principal reductions during fiscal year 2011.

The other remaining assets, which include deferred charges, pension asset, as well as miscellaneous receivables and prepaid expenses, increased from $26.5 million in fiscal year 2011 to $34.9 million in fiscal year 2012. The primary reason for the increase in these assets is due to the Authority's federal servicing contract and the $6.0 million in fees owed to the Authority by the Department at June 30, 2012. Also contributing to the change is the result of a $1.7 million increase in deferred charges from $19.1 million in fiscal year 2011 to $20.8 million in fiscal year 2012. The increase in deferred charges is due to the unamortized costs of issuance associated with the Authority's issuance of the 2011-1 and 2012-1 LFRNs which exceeded amounts written off due to extinguishments and current year amortization. These increases were partially offset by a $0.2 million reduction in the pension asset.

For fiscal year 2012, current liabilities decreased by $174.3 million due to a decrease in the Conduit payable of $237.1 million, which was partially offset by increases in current bonds payable of $55.3 million, other liabilities of $4.1 million, the current portion of arbitrage rebate payable of $2.6 million, accrued interest payable of $0.4 million, and special allowance subsidy payable of $0.3 million. Long-term liabilities decreased by $18.2 million or 0.5%. While the Authority issued additional LFRNs of $576.8 million on July 19, 2011 and $256.1 million on May 10, 2012, long-term liabilities decreased primarily due to $215.9 of the newly issued debt being classified as short-term, $438.4 million in bond redemptions and cancellations during the year, and an additional $179.9 million of debt that was redeemed over last year's short-term debt estimate. In fiscal year 2011, current liabilities decreased $491.6 million from fiscal year 2010

Financial Position (continued)

levels due to decreases in ECASLA payable of $468.8 million, Conduit payable of $45.0 million, other liabilities of $5.2 million and accrued interest payable of $1.4 million, which were partially offset by a $27.0 million increase in current bonds payable and a $1.8 million increase in special allowance subsidy payable. Long-term liabilities increased by $138.9 million or 4% as the Authority issued an additional $495.2 million in LFRNs in September 2010. This increase was partially offset by $71.3 million in bond redemptions and cancellations during the year.

In March 2012, Standard & Poor's Rating Services lowered ratings on seven classes of bonds under the 12th General Resolution from "A (sf)" to "BB (sf)." At the same time, the CreditWatch negative was removed. The result of the downgrade to the 12th General Resolution was an increased debt service cost spread of 0.25% on the remaining $203.2 million in taxable bonds as well as the loss of a LIBOR limiter, which limited the periodic rate paid by the bond, on an ongoing basis. In addition, the downgrade caused an increase in the applicable percentage multiplier from 175% to 265% on the remaining $51.1 million in tax-exempt bonds.

Operating Results

Change in net assets decreased 10% to ($10.4) million in fiscal year 2012 from ($9.4) million in fiscal year 2011 due primarily to the loss of $19.8 million in income associated with the ECASLA programs and the increased operating expenses associated with the Authority's federal servicing contract, which is primarily related to the $5.0 million increase in salaries and employee benefits. These reductions to the change in net assets were predominantly offset by a $12.5 million increase in net student loan revenues, a $3.1 million net increase in servicing fee revenues and a $10.3 million reduction in provision for loan losses. Adjusting for the Authority's $31.0 million in scholarship and grant contributions to the State of Missouri, the change in net assets for fiscal year 2012 would have increased by $20.6 million. For fiscal year 2011, change in net assets decreased 106% to ($9.4) million from $146.7 million in fiscal year 2010 due primarily to the significant reduction in the activity associated with the net gain on the extinguishment of debt, which decreased from $139.5 million in fiscal year 2010 to $4.8 million in fiscal year 2011, the $30.0 million scholarship contribution to the State of Missouri in fiscal year 2011 and the $10.6 million increase in provision for loan losses in fiscal year 2011. This is a year over year decrease of $156.1 million from fiscal year 2010.

Operating Results (continued)

Total operating revenue decreased 4% from fiscal year 2011 to fiscal year 2012 as compared to a 1% decrease from fiscal year 2010 to fiscal year 2011. As noted above, the primary reason for the fiscal year 2012 decrease was related to the elimination of ECASLA income of $19.8 million, which was offset in part by the increase in net student loan revenues of $12.5 million including a $11.7 million increase in interest on student loans, a $4.8 million decrease in interest subsidy, and a $5.6 million reduction in negative special allowance. The increase in interest on student loans is due in part to the $13.2 million reduction in premium expense, which is netted against interest on student loans. The decrease in interest subsidy and the decrease in special allowance is a result of the decrease in the mix of lower yielding loans in an in-school or in-grace status from 5% ($205.5 million) of the portfolio in fiscal year 2011 to 4% ($132.1 million) of the portfolio in fiscal year 2012. In-school and in-grace status Stafford loans have a 0.60% lower yield to the Authority than in-repayment Stafford loans. This decrease was in part offset by a drop in the 90-day CP/one-month LIBOR rate from an average of 0.25% in fiscal year 2011 to an average of 0.22% in fiscal year 2012. 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, 2012 was just 0.25%, which means the Authority's annual yield for that quarter was 2.19%. The Authority is required to rebate the additional interest paid by the borrower of 6.31% (8.5% – 2.19%) to the Department through the rebate of excess special allowance. As previously noted above, the Authority elected to begin utilizing one-month LIBOR as its special allowance index beginning with the quarter ended June 30, 2012. The election applies to all MOHELA held 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. Examples of the rates driving student loans and an explanation regarding 9.5% floor income 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 (T-Bill) rate plus 2.30%, with a maximum rate of 8.25%. Loans made within the same period that are in an in-school, in-grace, or deferment status

Operating Results (continued)

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 on the last auction date in May. During fiscal year 2012, the rates on these loans were set at 2.36% and 1.76%, respectively. The rates on the same loans during fiscal year 2011 were 2.47% and 1.87%, respectively and during fiscal year 2010 were 2.48% and 1.88%, 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 rate 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 on the last auction date in May. The T-Bill rate used for fiscal year 2012 was 0.06%, which set the rate at 3.16% as compared to 3.27% for fiscal year 2011 and 3.28% for fiscal year 2010. Consolidation loans for which the application was received by an eligible lender on or after October 1, 1998, bear interest at a rate 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%.

The special allowance subsidy is paid on the spread between student loan borrower interest rates, which are either fixed for the life of the loan or fixed for a year, and either the one-month LIBOR, 90-day CP or 91-day T-Bill rates, which continued to decrease throughout fiscal years 2010, 2011 and 2012. The decrease in special allowance subsidy recognized in fiscal year 2012 was in part due to the falling 90-day CP/one-month LIBOR rates and the increase in the percentage of loans subject to the rebate of excess special allowance payments. In addition, qualified loans within tax-exempt bonds issued prior to October 1993 are eligible to receive a subsidy based upon the greater of the same spread or 9.5%. However, in a Dear Colleague Letter issued on January 23, 2007, the Department clarified the requirements of the statute and regulations that control the qualifications for loans eligible for the 9.5% floor. The Department provided further guidance on this clarification in a Dear Colleague Letter dated April 27, 2007. These requirements include a special audit to determine the eligibility for 9.5% special allowance billings. The Department paid special allowance at the standard rate on any loans that were included in the 9.5% minimum from quarter ending December 31, 2006 until the Department received the results of the special audit of the bonds and the loans within those bonds. This audit was completed and the Authority received a payment of $0.8 million from the Department for the quarters ended December 31, 2006 through December 31, 2007. The principal balance of loans receiving 9.5% special allowance dropped from $5.1 million in fiscal year 2010 to $0.5 million by December 31, 2010 quarter end. As a result, the Authority voluntarily stopped billing 9.5% special allowance from the quarter beginning April 1, 2011 forward.

Operating Results (continued)

Total operating expenses realized a 0.6% increase, or $0.8 million from fiscal year 2011 to fiscal year 2012 compared to a 17% increase, or $20.0 million from fiscal year 2010 to fiscal year 2011. The primary reason for the slight increase in operating expenses in fiscal year 2012 is the $8.5 million increase in general and administrative expenses associated with the federal servicing contract including the $5.0 million increase in salaries and employee benefits.

Interest expense increased from $41.8 million in fiscal year 2011 to $43.7 million in fiscal year 2012, which represents an increase of 4%. The increase in bond interest expense is the result of an increase in the weighted average interest rates on the Authority's debt. Bond interest rates generally increased as the Authority refinanced shorter-term, lower cost of funds debt with longer weighted average life term financings. The Authority continued to experience various interest rate spikes on its debt in fiscal year 2012 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 $675.7 million in fiscal year 2011 to $499.8 million in fiscal year 2012. The increase in bond interest expense was countered by reductions of $1.8 million in letter of credit fees and bond insurance and a slight reduction in bond maintenance fees. As a result, total bond related expenses declined very slightly to $46.2 million in fiscal year 2012.

Total student loan related expenses decreased from $32.8 million in fiscal year 2011 to $25.2 million in fiscal year 2012, which represents a 23% decrease. The decrease is due to a $10.3 million decrease in the provision for loan losses from $18.6 million in fiscal year 2011 to $8.3 million in fiscal year 2012. The decrease in provision for loan losses in fiscal year 2012 was a result of the significant increase in the loan loss allowance in fiscal year 2011 due to increasing default rates which resulted in management refining its methodology related to the future loan loss estimates for the supplemental portfolio. Management's methodology for the supplemental portfolio incorporates loan seasoning and loan type (graduate or undergraduate) into the methodology. In fiscal year 2012, the Authority's loan loss provision included an increase of $3.6 million to the loan loss allowance for FFELP loans due to recent economic trends and continued increasing default rates, which resulted in management refining its FFELP loan loss methodology. Management's methodology for estimating the allowance for loan losses in the FFELP portfolio utilizes published industry data and default assumptions used by nationally recognized statistical rating organizations to rate securities backed by FFELP loans. The FFELP portfolio is segmented by loan type, school type and the year loans enter repayment to calculate an estimate of cumulative defaults in the portfolio. During fiscal year 2012, the Authority

Operating Results (continued)

continued to experience increases in delinquencies in its supplemental loan portfolio as the percentage of supplemental loans over 120 days past due increased to 11.9% from 10.1% in fiscal year 2011. During fiscal year 2012, the Authority charged-off an additional $3.6 million in supplemental loans, net of recoveries that were over 270 days past due. In the FFELP portfolio, the Authority wrote-off $3.9 million in fiscal year 2012. Partially offsetting the decreases associated with the provision for loan losses was a $2.9 million increase in arbitrage expense. Origination and default fees declined to $0 due to the elimination of the FFEL program for new loans after June 30, 2010.

Arbitrage rebate liability is calculated based upon the earnings of tax-exempt debt. While the arbitrage liability was slightly affected by decreased bond earnings and the further reduction of those earnings through student borrower benefit programs, the arbitrage rebate liability increased $0.9 million in fiscal year 2012 to $2.6 million compared to a decrease of $3.0 million in fiscal year 2011. The increase of arbitrage rebate liability produced $1.0 million in expense for fiscal year 2012 compared to $1.9 million in income for fiscal year 2011. The increase in the arbitrage liability in fiscal year 2012 is due to the recording of a proposed payment to the Internal Revenue Service under the voluntary closing agreement program. For additional information on the voluntary closing agreement program, please refer to Note 11 – Arbitrage Rebate Payable.

General and administrative expenses – which include salaries and fringe benefits, postage and forms, third party servicing fees, computer services, professional fees, occupancy expense, depreciation and amortization, other operating expenses and scholarships and grants – increased 14% compared to a 72% increase in fiscal year 2011. As previously noted, general and administrative expenses increased due to the significant increase in student loans the Authority is servicing under a federal contract. The Authority began fiscal year 2012 servicing approximately 365,000 borrower accounts and concluded the year servicing over 1 million borrower accounts. The primary increase in general and administrative expenses can be attributed to the $5.0 million increase in salaries and employee benefits as the Authority added nearly 200 additional staff during the fiscal year. Also contributing to the increase were a $0.9 million increase in postage and forms, a $0.7 million increase in computer services, a $0.6 million increase in depreciation and amortization, a $0.3 million increase in occupancy expense and a $0.3 million increase in other operating expenses. In fiscal year 2012, the Authority provided for the contribution of $31.0 million to the State of Missouri for student scholarships and grants, which represents a $1.0 million increase over fiscal year 2011. These increases were offset slightly by decreases of $0.2 million in professional fees and a $0.1 million decrease in third party servicing fees. In

Operating Results (continued)

fiscal year 2011, the majority of the 72% increase was due to the payment of $30.0 million to the State of Missouri for student scholarships. Adjusting for the scholarship fund contribution, the Authority's general and administrative expenses declined $5.4 million or 16% from fiscal year 2010.

The Authority had $9.3 million in non-operating revenues from the gain on extinguishment of debt in fiscal year 2012 compared to a gain of $4.8 million in fiscal year 2011, which represents a 94% increase. The gain in fiscal year 2012 was from the purchase and cancellation of $175.9 million in bonds at a discount during tender offers in October 2011 and April 2012 as well as open market purchases throughout the year. During fiscal year 2011, the Authority utilized cash contained in the various trusts to complete several small bond purchases at a discount, which resulted in the $4.8 million in gain on the extinguishment of debt.

As noted above, the primary reason for the $10.4 million decrease in net assets in fiscal year 2012 was related to the $31.0 million contribution to the State of Missouri for student scholarships and grants. Restricted net assets increased by $14.2 million from $204.5 million in fiscal year 2011 to $218.7 million in fiscal year 2012, while unrestricted net assets decreased by $26.9 million from $84.4 million in fiscal year 2011 to $57.5 million in fiscal year 2012. During fiscal year 2011, the primary reason for the $9.4 million decrease in net assets was related to the $30.0 million student scholarship contribution to the State of Missouri. Restricted net assets decreased by $12.8 million from $217.2 million in fiscal year 2010 to $204.5 million in fiscal year 2011, while unrestricted net assets increased by $0.5 million from $83.9 million in fiscal year 2010 to $84.4 million in fiscal year 2011.

Continuing Developments

Capital Activities

During fiscal year 2012, the Authority spent $4.3 million on capital additions and improvements. The most significant addition was the acquisition of a building in Columbia, Missouri for $1.8 million, which once renovated, will provide the capacity to independently service up to three million accounts and will replace the existing leased Columbia office space as the back-up data center and disaster recovery site for the Chesterfield headquarters. In the upcoming 18 to 24 months, the Authority plans to spend approximately $8.7 million on renovations and equipment at the new Columbia building and the Chesterfield headquarters.

Continuing Developments (continued)

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 million into a new fund in the State Treasury known as the Lewis and Clark Discovery Fund (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 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 million and on September 14, 2007, in accordance with the Board's Resolution, the Authority sent a $230 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, 2012, 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, 2012.

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 million, $30 million, and $5 million for need-based scholarships under the Access Missouri Financial Assistance Program during the 2011, 2012, and 2013 fiscal years, respectively.

Continuing Developments (continued)

The Authority will continue analyzing and determining on a quarterly 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 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, 2012.

The Ensuring Continued Access to Student Loans Act of 2008

On May 7, 2008, the President signed House Resolution 5715, the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). A key provision of ECASLA grants temporary authority to the Secretary of Education to purchase or enter into forward commitments to purchase student loans first disbursed under sections 428, 428B or 428H of the Higher Education Act on or after October 1, 2003 and before July 1, 2009 on such terms as the Secretary determines are in the best interest of the United States. On October 7, 2008, the Participation and Purchase Programs were extended to September 30, 2010 for loans made in the 2009-2010 academic year.

In implementing ECASLA, the Department created two programs, the Federal Family Education Loan Participation Purchase program and the Federal Family Education Loan Purchase Commitment program. The Authority filed its intent to participate in both programs on July 3, 2008 and July 23, 2009 for each program year, respectively. The Authority also successfully encouraged many of its lender partners to file their intent to participate for both program years. The Authority began actively utilizing the ECASLA Loan Participation Purchase program in November 2008 for eligible Authority-originated loans and the Authority also utilized the program to purchase ECASLA-eligible loans from its lender partners. In June 2009, the Authority completed its first put (sale of loans) of $2.7 million in loans to the Department under the ECASLA Master Loan Sale Agreement. The Authority put over $1.4 billion in loans to the Department through October 15, 2010.

Continuing Developments (continued)

The Master Participation Agreement was designed to provide short-term liquidity to eligible lenders for the purpose of financing the origination of FFELP loans. Loans participating in the program were charged a rate of commercial paper plus 0.50% on the principal amount. All loans under the Participation Program had to either be refinanced by the lender or sold to the Department under the Purchase Program. The Master Loan Sale Agreement allowed eligible lenders to sell FFELP loans originated for the 2008-2009 academic year to the Department through the Purchase Program at 101% plus $75 per loan. The agreement expired on September 30, 2010.

In May 2009, the Department in conjunction with industry partners established the Asset-Backed Commercial Paper (ABCP) Conduit Program to help ensure the continued availability of FFELP loans to students and parents for the 2009-2010 academic year. Loans eligible for the Conduit Program included Stafford and PLUS loans with first disbursement dates on or after October 1, 2003 and no later than June 30, 2009, which were fully disbursed before September 30, 2009. The Department entered into a put agreement with the Straight-A Funding LLC Conduit using the authority provided by, and consistent with the requirements of ECASLA.

The Conduit purchases notes secured by eligible FFELP loans from eligible FFELP lenders and holders, which in turn serves as the underlying asset against which the Conduit sells commercial paper. The Conduit Program provides an advance of 97% of the student loan value. The commercial paper has variable maturities but in no case longer than 90 days. As previously-issued commercial paper matures, proceeds from newly-issued commercial paper is used to satisfy investors holding earlier maturities. If necessary, the Federal Financing Bank will provide a short-term liquidity backstop to refinance maturing commercial paper. The Department will purchase loans from the Conduit in order to allow the Conduit to repay such short-term liquidity loans to the extent required. The Conduit Program has a term of five years and expires on November 19, 2013. On May 10, 2012, the Authority paid in full its remaining borrowings under the Asset-Backed Commercial Paper Conduit Program.

Higher Education Loan Authority of the State of Missouri

Statements of Net Assets
(Dollars in Thousands)

As of June 30, 2012 and 2011

	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents *(see Note 3)*	**$ 339,120**	$ 353,849
Student loans receivable	**338,879**	338,704
Accrued interest receivable:		
Interest subsidy – U.S. Secretary of Education	**10,229**	10,915
Student loans receivable (less allowance for doubtful amounts, $1,394 in 2012 and $854 in 2011)	**71,334**	78,122
Miscellaneous receivables and prepaid expenses	**9,304**	2,342
Deferred charges	**1,250**	1,178
Total current assets	**770,116**	785,110
Long-term assets:		
Student loans receivable (less allowance for doubtful loans, $24,374 in 2012 and $23,368 in 2011)	**3,246,169**	3,437,748
Pension asset	**4,817**	5,056
Deferred charges, at cost less accumulated amortization	**19,534**	17,873
Capital assets, at cost less accumulated depreciation and amortization of $7,661 in 2012 and $6,269 in 2011	**19,150**	16,858
Total long-term assets	**3,289,670**	3,477,535
Total	**$ 4,059,786**	$ 4,262,645

	2012	2011
Liabilities and net assets:		
Current liabilities:		
Conduit payable	**$ –**	$ 237,093
Other liabilities	**12,292**	8,177
Bonds payable	**226,486**	171,160
Accrued interest payable	**3,614**	3,259
Arbitrage rebate payable	**2,637**	–
Special allowance subsidy payable	**39,225**	38,889
Total current liabilities	**284,254**	458,578
Long-term liabilities:		
Bonds payable	**3,480,220**	3,496,701
Arbitrage rebate payable	**–**	1,694
Total long-term liabilities	**3,480,220**	3,498,395
Total liabilities	**3,764,474**	3,956,973
Net assets:		
Invested in capital assets	**19,150**	16,858
Restricted for debt service	**218,653**	204,415
Unrestricted	**57,509**	84,399
Total net assets	**295,312**	305,672
Total	**$ 4,059,786**	$ 4,262,645

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

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

For the Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Interest on student loans	**$ 171,843**	$ 160,158
U.S. Secretary of Education:		
Interest subsidy	**21,299**	26,073
Special allowance	**(81,243)**	(86,874)
Investment income – interest on cash and cash equivalents	**470**	491
Servicing fees	**15,731**	2,824
Less: Subcontractor fees	**(9,838)**	–
ECASLA income	**–**	19,770
Other	**736**	1,150
Total operating revenues	**118,998**	123,592
Operating expenses:		
Interest expense	**43,651**	41,809
Bond maintenance fees	**2,033**	2,047
Letter of credit fees and bond insurance	**504**	2,340
Total bond related expenses	**46,188**	46,196
Consolidation rebate fees	**15,969**	16,034
Origination fees	**–**	135
Increase in (reduction of) arbitrage rebate payable	**964**	(1,947)
Provision for loan losses	**8,292**	18,619
Total student loan related expenses	**25,225**	32,841
Salaries and employee benefits	**20,211**	15,192
Postage and forms	**3,073**	2,181
Third party servicing fees	**228**	317
Computer services	**3,422**	2,760
Professional fees	**2,491**	2,671
Occupancy expense	**1,876**	1,545
Depreciation and amortization	**1,823**	1,254
Other operating expenses	**3,117**	2,858
Scholarships and grants	**31,000**	30,000
Total general and administrative expenses	**67,241**	58,778
Total operating expenses	**138,654**	137,815
Operating loss	**(19,656)**	(14,223)
Nonoperating revenues:		
Gain on extinguishment of debt	**9,296**	4,785
Change in net assets	**(10,360)**	(9,438)
Net assets, beginning of year	**305,672**	315,110
Net assets, end of year	**$ 295,312**	$ 305,672

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Student loan and interest purchases	**$ (361,019)**	$ (779,673)
Cash received for sale of loans and interest	**–**	726,280
Student loan repayments	**721,703**	675,532
Payments to employees and vendors	**(57,949)**	(38,040)
Net settlement of government interest	**(58,920)**	(57,001)
Cash received for servicing fees	**10,109**	3,694
Payments for scholarships and grants	**(30,100)**	(30,000)
Net cash provided by operating activities	**223,824**	500,792
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	**828,105**	495,200
Proceeds from line of credit	**42,700**	–
Proceeds from ECASLA	**–**	221,438
Repayment of bonds	**(777,659)**	(321,234)
Repayment of line of credit	**(42,700)**	–
Repayment of conduit	**(237,093)**	(44,956)
Repayment of ECASLA	**–**	(690,255)
Interest paid on debt	**(42,535)**	(42,536)
Cash paid for bond issuance costs	**(5,095)**	(3,286)
Net cash used in noncapital financing activities	**(234,277)**	(385,629)
Cash flows from capital activities:		
Purchase of capital assets	**(4,279)**	(4,093)
Proceeds from sale of capital assets	**3**	58
Net cash used in capital activities	**(4,276)**	(4,035)
Change in cash and cash equivalents	**(14,729)**	111,128
Cash and cash equivalents, beginning of year	**353,849**	242,721
Cash and cash equivalents, end of year	**$ 339,120**	$ 353,849

Higher Education Loan Authority of the State of Missouri

Statements of Cash Flows (continued)
(Dollars in Thousands)

	2012	2011
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	**$ (19,656)**	$ (14,223)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization:		
Capital assets	**1,823**	1,254
Prepaid pension	**239**	250
Loan and letter of credit fees	**3,964**	18,843
Provision for loan losses	**8,292**	18,619
Interest expense	**43,267**	41,833
Recoveries on supplemental loans	**(1,463)**	(913)
Change in assets and liabilities:		
Decrease in student loans receivable	**181,275**	418,691
Decrease in accrued interest receivable	**7,474**	23,807
Increase in miscellaneous receivables and prepaid expenses	**(6,775)**	(1,266)
Increase (decrease) in other liabilities and special allowance subsidy payable	**4,441**	(3,440)
Increase (decrease) in arbitrage rebate payable	**943**	(2,663)
Total adjustments	**243,480**	515,015
Net cash provided by operating activities	**$ 223,824**	$ 500,792
Noncash investing, capital, and financing activities:		
Student loan principal and interest forgiveness	**$ –**	$ 368

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 have reached the maximum amount available under FFELP. The balance of these loans outstanding is approximately 5% of the total loan receivable balance. 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 (DLP). 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 solicitiation, the Authority also began partnering with other nonprofit loan servicing organizations that were eligible to receive the initial allotment of 100,000 federal accounts but did not have a servicing contract with the Department. Under agreements signed with these nonprofit servicers (subcontractors), the Authority will service each entity's initial allocation

1. Description of the Organization (continued)

of federal accounts and provide the subcontractor with a portion of the revenues in exchange. At June 30, 2012, the Authority had signed agreements with seven subcontractors, allowing the Authority to service a minimum of 800,000 federal accounts.

Missouri Scholarship Foundation

On June 11, 2010, the Authority's Board approved the creation of the Missouri Scholarship Foundation (the Foundation), appointed the initial board of directors, and provided initial funding of $100. The 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. The Foundation has been approved by the IRS as a tax-exempt 501(c)(3) entity for federal tax purposes.

The Bylaws of the Foundation call for the Foundation to be governed by a Board of three to thirteen Directors (initially there were three). Directors are appointed by the existing Board of Directors of the Foundation after the proposed appointments are submitted to the Authority for approval. 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, and the Assistant 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 net 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.

1. Description of the Organization (continued)

The Foundation had assets totaling $298 and $95 at June 30, 2012 and 2011, respectively. During the year ended June 30, 2012, the Foundation had total revenues of $203 and no expenses. During the year ended June 30, 2011, the Foundation had total revenues of $101 and expenses of $6.

While the Foundation meets the definition of a component unit that should be discretely presented alongside the Authority's financial statements, the activities and balances of the Foundation are immaterial in relation to those of the Authority and their omission would not be significant or misleading to financial statement readers, nor would their omission be considered a material departure from generally accepted accounting principles. As a result, the Authority has chosen to exclude the Foundation based upon its current lack of materiality in relation to the financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

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 Authority's funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. During the year ended June 30, 2012, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This Statement incorporates into the GASB authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) pronouncements issued on or before November 30, 1989.

In accordance with the 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 12). Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund.

2. Summary of Significant Accounting Policies (continued)

For financial statement presentation purposes, the funds have been aggregated into one proprietary fund type.

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 assets 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 determination of the arbitrage rebate payable, allowance for doubtful loans, and calculation of current and long-term student loans receivable and current and long-term bonds payable.

Cash Equivalents

The Authority considers 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 cash equivalents. See Note 3 for more information.

Student Loans Receivable

Student loans receivable 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/discounts on student loans are amortized/accreted over the estimated life of new loans purchased using a method that approximates the effective interest method. Because the Authority holds a large number of similar loans, the life of the loans can be estimated while considering expected amounts of prepayments from borrowers and loan consolidations. During the years ended June 30, 2012 and 2011, the estimated life of new 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 income at the time of purchase.

2. Summary of Significant Accounting Policies (continued)

Interest on student loans is accrued based upon the actual principal amount outstanding. The U.S. Secretary of Education makes quarterly interest payments on subsidized 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 Authority as a loan owner does not necessarily earn what a borrower pays. The U.S. Secretary of Education 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 substitute one-month LIBOR for the 90-day AA Financial Commercial Paper Rate (90-day CP) for the special allowance program (SAP) index. This was a one-time opportunity and MOHELA made the election as required by April 1, 2012, which was effective for the quarter ending June 30, 2012. The election applies to all MOHELA held 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 of Education approved the Authority's election on April 6, 2012.

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. The special allowance is accrued as earned or payable. Borrower interest rates for Stafford and 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 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

2. Summary of Significant Accounting Policies (continued)

causing negative special allowance which must be rebated to the U.S. Department of Education. This situation was magnified by additional change 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 CP rate was reduced by 0.40% to 0.70%. The Authority's total special allowance was negative in fiscal years 2012 and 2011 due to the Authority's loan portfolio mix and the low one-month LIBOR and 90-day CP rates.

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 statements of net assets date. 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.

The Authority calculates its default rates as a percentage of the original disbursed principal balance and the current principal balance. 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 up to 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.

2. Summary of Significant Accounting Policies (continued)

The allowance associated with the accrued interest and fees receivable on student loans represents an allowance on the interest receivable on the supplemental loan portfolio consistent with the allowance for doubtful loans on the supplemental loan portfolio described above.

FFELP Loans

The Authority's methodology for estimating the allowance for loan losses in the FFELP portfolio incorporates quantitative and qualitative factors. The FFELP portfolio is segmented by loan type, school type and the year loans enter repayment, which are considered to be the key drivers of default performance. The Authority utilizes published industry data as well as historical experience to develop an estimate of future defaults on FFELP loans for each of the segments noted above. This estimate is then multiplied by a percentage – consisting of the weighted average rate of historical write-offs of the uninsured portion, a claim rejection rate, and an estimate for future trending – to determine the allowance for loan losses needed 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 also 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.

Miscellaneous Receivables and Prepaid Expenses

Miscellaneous receivables and prepaid expenses consist primarily of prepaid bond interest expense, receivables for servicing fees, and prepaid bond insurance expense.

Deferred Charges

Deferred charges consist of bond issuance costs. Deferred charges are amortized over the life of the bonds using a method that produces substantially the same results as the effective interest method.

2. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets consist of land, building, office furniture and equipment, and software assets recorded at cost. 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. Depreciation is charged to operations on the straight-line method over the estimated useful lives of the related assets, which is 30 years for the building and generally five years for all other asset classes. The Authority reviews capital assets for impairment in accordance with GASB Codification section 1400, *Reporting Capital Assets*.

Arbitrage Rebate Payable

Federal income tax rules limit the investment and loan yields which the Authority may retain for its own use when investing the proceeds from certain of its tax-exempt bond issues. The excess investment and loan yields are payable to the U.S. Treasury and are accrued in the accompanying statements of net assets. Excess loan yields may also be reduced by certain borrower benefit programs. See Note 11 for more information.

Net Assets

The net assets of the Authority are classified into three categories: unrestricted, restricted and invested in capital assets. Unrestricted net assets include net assets available for the operations of the Authority and other activities accounted for in either the Operating Fund or the Bond Funds. Unrestricted net assets accounted for in the Bond Funds are pledged and subject to the requirements of the Bond Funds in which those unrestricted net assets are maintained. Removal of unrestricted net assets from the Bond Funds is typically subject to the approval of one or more of the following: credit rating agencies, bond insurers, letter of credit providers, 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 assets. Restricted net assets consist of the minimum collateral requirements discussed in Note 7, net of related liabilities, as defined in the bond resolutions.

2. Summary of Significant Accounting Policies (continued)

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.

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

Gain on Extinguishment of Debt

Gain on extinguishment of debt represents the net result of the purchase and extinguishment of previously issued bonds utilizing cash held under the 11th and 12th General Bond Resolutions. Gains resulting from the purchase and extinguishment of bonds at a discount to carrying value are off-set by the write-off of previously unamortized bond issuance costs and other expenses associated with short-term debt refinanced during the year. Gain on extinguishment of debt is included in nonoperating revenues, as this is not a normal part of the Authority's principal activities. The gain in fiscal year 2012 was primarily from the purchase and cancellation of $175.9 million in bonds at a discount during tender offers in October 2011 and April 2012 as well as open market purchases throughout the year. During fiscal year 2011, the Authority utilized cash contained in the various trusts to complete several small bond purchases at a discount, which principally resulted in the $4.8 million in gain on the extinguishment of debt.

ECASLA Income

In August 2008, the Department implemented the Purchase Program pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA). Under the Purchase Program, the Department purchased eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the 1% origination fee paid to the Department of Education, and (iv) a fixed amount of $75 per loan. ECASLA income was earned from the Purchase Program.

2. Summary of Significant Accounting Policies (continued)

Servicing Fee Revenue

The Authority services student loans owned by third party lending institutions and also services federal accounts owned by the Department under the Direct Loan Program. Fees charged for these services are classified as servicing fees in the statement of revenues, expenses and changes in net assets 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 scheduled interest payments on bonds and other borrowings as well as broker commission fees, repricing fees, auction agent fees, and cost of issuance amortization.

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.

2. Summary of Significant Accounting Policies (continued)

Origination Fees

The Department charges lenders an origination fee based on the principal amount of each FFELP loan originated. The fee is paid to the Department and cannot be charged to the borrower. For loans first disbursed on or after October 1, 2007, the fee is 1% of the principal loan amount. Effective July 1, 2010, no new loans were permitted to be originated under FFELP.

Bond Maintenance Fees

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

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. 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. Commercial insurance is purchased in an amount that is sufficient to cover the Authority's risk of loss. 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 is a tax-exempt organization 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.

3. Cash and Cash Equivalents

At June 30, 2012 and 2011, the Authority's carrying amount of cash on deposit was $44,969 and $57,682, respectively. As it relates to cash deposits held in the Authority's operating funds, the Authority's policy is that deposits should either be insured or collateralized with investments that are permissible under the Authority's state statutes. As of June 30, 2012 and 2011, all non-interest bearing deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The Authority has a Tri-Party Collateral Management Agreement with Bank of America for interest bearing deposits in excess of FDIC insurance levels. Bank of New York Mellon serves as the custodian for the collateral pledged under the agreement. At June 30, 2012, all of the Authority's cash deposits were fully insured by FDIC. At June 30, 2011, there were Federal National Mortgage Association and Federal Home Loan Mortgage Corporation mortgage backed securities with a collateral value of $29,767 pledged against the $29,765 in uninsured deposits. Other collateral security types approved by the Authority under the arrangement with Bank of America include U.S. Treasury securities and general obligation bonds of the State of Missouri.

At June 30, 2012 and 2011, the Authority's cash equivalent balances of $293,883 and $289,463, respectively, represented investments in money market mutual funds with credit ratings of AAAm and maturities of less than one year. These balances, which are uninsured and uncollateralized, are held by the respective trustees under the Authority's bond trust estates and invested in accordance with the investment securities provisions of the respective trust estates. In addition, at June 30, 2012 and 2011, the Authority had cash equivalent balances of $268 and $836, respectively, that were fully insured by FDIC. At June 30, 2011, the Authority also had $5,868 of uninsured and uncollateralized Operating Fund cash equivalents in money market funds. While the Authority does not have formal policies regarding credit risk and interest rate risk, these risks were taken into consideration in the development of the Authority's state statute for investments and the permissible investments section included in each bond document. See Note 4 for more information.

The following special trust accounts have been established for bonds issued under the 11th General Resolution, 12th General Resolution or 2008 Trust:

3. Cash and Cash Equivalents (continued)

Revenue Accounts – The Revenue Accounts are used to account for all revenues received by the Authority. Generally, amounts in the Revenue Accounts are used to (a) make principal and interest payments on the bonds, (b) fund Reserve Accounts, (c) pay estimated program expenses to the Operating Account, and (d) reimburse the issuers of letters of credit guaranteeing the bonds for amounts committed under the letters of credit.

Operating Account – Amounts deposited in the Operating Account are used to pay reasonable and necessary program expenses for the related bond issues.

Reserve Accounts – Under the terms of certain bond provisions, minimum amounts are required to be maintained in the Reserve Accounts. The total of these minimum requirements at June 30, 2012 and 2011 was $4,977 and $5,690, respectively. These funds are only to be used to make principal and interest payments on the bonds in the event that amounts in the Revenue Accounts are insufficient for such purposes. In addition to these cash requirements, the Authority has purchased a non-cancelable surety bond in lieu of cash deposits for the Reserve Account in the 12th General Resolution in accordance with the bond provisions. The amount of this surety bond was $4,934 and $5,580 at June 30, 2012 and 2011, 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 rate floating notes issued under the 2009-1, 2010-1, 2010-2, 2010-3, 2011-1, and 2012-1 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 Rebate Funds as required.

3. Cash and Cash Equivalents (continued)

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, 2012 and 2011 were $6,505 and $5,169, 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 sixty days of closing.

The Straight-A Conduit establishes the following accounts:

Collection Account – The Collection Account is used to (a) account for receipt of borrower payments, (b) receive investment income, (c) receive proceeds from the sale of delinquent loans, (d) pay financing costs, servicing fees, and principal on the debt, and (e) fund the DOE Reserve Account for special allowance payments.

DOE Reserve Account – The DOE Reserve Account is used to pay negative special allowance.

Reserve Fund – Under the terms of the Straight-A Conduit, certain amounts are required to be maintained in the Reserve Fund equal to 1% of the principal balance of the financed student loans. The total of this reserve requirement at June 30, 2012 and June 30, 2011 was $0 and $2,444, respectively.

(Dollars in Thousands)

3. Cash and Cash Equivalents (continued)

As of June 30, 2012 and 2011, cash and cash equivalents were segregated as follows:

	2012	2011
Special trust accounts:		
Restricted:		
Revenue accounts	**$ 174,084**	$ 174,771
Collection funds	**87,965**	64,308
Collection account	**–**	4,500
Operating account	**–**	3,231
Reserve accounts	**4,977**	5,690
Reserve funds	**6,505**	7,613
DOE reserve account	**–**	1,078
Capitalized interest funds	**2,613**	15,120
Department rebate funds	**16,961**	14,229
Acquisition fund	**164**	–
Total special trust accounts	**293,269**	290,540
Operating fund:		
Unrestricted	**30,061**	49,621
Restricted – due to special trust accounts	**13,743**	13,688
Restricted	**2,047**	–
Total operating fund	**45,851**	63,309
Total cash and cash equivalents	**$ 339,120**	$ 353,849

4. Investments Held by Trustee

State law limits investments of the Authority to any obligations of the State of Missouri or of the United States government, or any instrumentality thereof, certificates of deposit or time deposits of federally insured banks, or federally insured savings and loan associations, or of insured credit unions, or 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.

4. Investments Held by Trustee (continued)

While the bond investment provisions vary by trust estate, investments generally may 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.

As of June 30, 2012 and 2011, the Authority held no investments.

5. Student Loans Receivable

FFELP student loans receivable are insured namely by the Missouri Department of Higher Education (MDHE), American Education Services (AES), the Student Loan Guarantee Foundation of Arkansas (SLGFA), United Student Aid Funds, Inc. (USA Funds), the National Student Loan Program (NSLP), the California Student Aid Commission (CSAC), the Tennessee Student Assistance Corporation (TSAC), the American Student Assistance (ASA), the Kentucky Higher Education Assistance Authority (KHEAA), the New York State Higher Education Services Corporation (NYSHESC), the Texas Guaranteed Student Loan Corporation (TGSLC), the Illinois Student Assistance Commission (ISAC), the Educational Credit Management Corporation (ECMC), the Northwest Education Loan Association (NELA), the Great Lakes Higher Education Corporation (GLHEC), or by other non-profit or state organizations, as to principal and accrued interest to the fullest extent allowed under current law. The supplemental loans are not federally insured.

(Dollars in Thousands)

5. Student Loans Receivable (continued)

Student loans receivable at June 30, 2012 and 2011, are as follows:

	2012	2011
Total federally insured loans	**$ 3,431,074**	$ 3,601,558
Supplemental loans:		
Third party insured	**9,025**	11,808
Self-insured	**169,323**	186,454
Total supplemental loans	**178,348**	198,262
Allowance for doubtful loans	**(24,374)**	(23,368)
Total student loans receivable	**$ 3,585,048**	$ 3,776,452
Weighted average yield paid by students — end of year	**5.02%**	5.08%

The Authority's yield on federal student loans receivable is set by federal law and is generally variable based on either the 90-day CP or the 91-day Treasury bill, 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 Parental Loans for Undergraduate Students (PLUS loans) originated after July 1, 2006, have a fixed rate for the borrower. The Authority's yield on supplemental loans are a variable rate, based on either the Treasury bill or the prime rate, plus a factor, depending on when the loan originated and the credit worthiness of the borrower and co-signor.

The activity for the allowance for doubtful loans for the years ended June 30, 2012 and 2011, is as follows:

	2012	2011
Beginning balance	**$ 23,368**	$ 10,901
Provision for loan losses	**8,292**	18,619
Write offs of loans	**(8,749)**	(7,065)
Recoveries	**1,463**	913
Ending balance	**$ 24,374**	$ 23,368

(Dollars in Thousands)

6. Capital Assets

Capital asset activity for the year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 3,304	$ 252	$ –	$ 3,556
Construction in progress	116	1,672	–	1,788
Depreciable capital assets:				
Building	12,802	217	(176)	12,843
Furniture and equipment	6,389	2,138	(419)	8,108
Software assets	516	–	–	516
Total depreciable capital assets	19,707	2,355	(595)	21,467
Less accumulated depreciation and amortization:				
Building	3,694	471	(40)	4,125
Furniture and equipment	2,575	1,275	(391)	3,459
Software assets	–	77	–	77
Total accumulated depreciation and amortization	6,269	1,823	(431)	7,661
Net depreciable capital assets	13,438	532	(164)	13,806
Total capital assets, net	$ 16,858	$ 2,456	$ (164)	$ 19,150

(Dollars in Thousands)

6. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 3,304	$ –	$ –	$ 3,304
Construction in progress	111	5	–	116
Depreciable capital assets:				
Building	12,060	742	–	12,802
Furniture and equipment	5,757	2,830	(2,198)	6,389
Software assets	–	516	–	516
Total depreciable capital assets	17,817	4,088	(2,198)	19,707
Less accumulated depreciation:				
Building	3,261	433	–	3,694
Furniture and equipment	3,926	821	(2,172)	2,575
Total accumulated depreciation	7,187	1,254	(2,172)	6,269
Net depreciable capital assets	10,630	2,834	(26)	13,438
Total capital assets, net	$ 14,045	$ 2,839	$ (26)	$ 16,858

(Dollars in Thousands)

7. Financings

The following table displays the aggregate changes in bonds payable for the year ended June 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
Variable Rate Demand Notes, tax-exempt, due March 2020 and September 2043, with a variable interest rate of 0.100% at June 30, 2011	$ 262,500	$ –	$ (262,500)	$ –	$ –
Auction Rate Securities, taxable, due February 2025 – June 2046, with variable interest rates ranging from 0.000% – 1.743% at June 30, 2012 and 0.000% – 4.423% at June 30, 2011	539,950	–	(144,625)	395,325	–
Auction Rate Securities, tax-exempt, due February 2025 – July 2029, with variable interest rates ranging from 0.059% – 0.928% at June 30, 2012 and 0.053% – 0.578% at June 30, 2011	135,700	–	(31,250)	104,450	–
LIBOR-Indexed Rate Notes, taxable, due September 2016, with variable interest rates ranging from 0.369% – 0.372% at June 30, 2012 and 0.317% – 0.321% at June 30, 2011	750,000	–	–	750,000	–
LIBOR Floating Rate Notes, taxable, due August 2019 – June 2036, with variable interest rates ranging from 1.067% – 1.517% at June 30, 2012 and 0.857% – 1.307% at June 30, 2011	1,979,711	832,900	(351,061)	2,461,550	226,679
	$ 3,667,861	$ 832,900	$ (789,436)	$ 3,711,325	$ 226,679
Less: Unamortized bond discount	–	(4,795)	176	(4,619)	(193)
Total Bonds Payable, net	$ 3,667,861	$ 828,105	$ (789,260)	$ 3,706,706	$ 226,486

During the year ended June 30, 2012, reductions in the variable rate demand notes and auction rate securities resulted from the Authority's purchase and subsequent extinguishment of those bonds. Reductions in the LIBOR floating rate notes consisted of regular repayments.

(Dollars in Thousands)

7. Financings (continued)

The following table displays the aggregate changes in bonds payable for the year ended June 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
Variable Rate Demand Notes, tax-exempt, due March 2020 and September 2043, with a variable interest rate of 0.100% at June 30, 2011 and 0.350% at June 30, 2010	$ 262,500	$ –	$ –	$ 262,500	$ –
Auction Rate Securities, taxable, due February 2025 – June 2046, with variable interest rates ranging from 0.000% – 4.423% at June 30, 2011 and 0.000% – 4.371% at June 30, 2010	557,100	–	(17,150)	539,950	–
Auction Rate Securities, tax-exempt, due February 2025 – May 2039, with variable interest rates ranging from 0.053% – 0.578% at June 30, 2011 and 0.100% – 0.805% at June 30, 2010	189,875	–	(54,175)	135,700	–
LIBOR-Indexed Rate Notes, taxable, due September 2016, with variable interest rates ranging from 0.317% – 0.321% at June 30, 2011 and 0.480% – 0.484% at June 30, 2010	750,000	–	–	750,000	–
LIBOR Floating Rate Notes, taxable, due August 2019 – February 2036, with variable interest rates ranging from 0.857% – 1.307% at June 30, 2011 and 1.097% – 1.547% at June 30, 2010	1,739,497	495,200	(254,986)	1,979,711	171,160
Total Bonds Payable, net	$ 3,498,972	$ 495,200	$ (326,311)	$ 3,667,861	$ 171,160

During the year ended June 30, 2011, reductions in auction rate securities resulted from the Authority’s purchase and subsequent extinguishment of those bonds. Reductions in the LIBOR floating rate notes consisted of regular repayments.

7. Financings (continued)

Variable Rate Demand Notes

At June 30, 2012 and 2011, variable rate demand notes represented 0% and 7%, respectively, of total outstanding bonds payable. Variable rate demand notes bear interest at a rate determined by the remarketing agent. Such rate is determined every seven days. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. The repricing fee is expensed as incurred and included within interest expense on the statements of revenues, expenses, and changes in net assets.

Auction Rate Securities

The Authority has both taxable and tax-exempt auction rate securities. At June 30, 2012 and 2011, total auction rate securities represented 14% and 19%, respectively, 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, 2012, the auction rate notes experienced failures in the bidding process. The auction rate notes are not putable. As of June 30, 2012, due to the failures in the auction market, the interest rate was 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 (T-Bill) indexed rate for taxable debt or a JJ Kenny indexed rate for tax-exempt debt, taken in consideration with the annual average auction rate as of the current repricing date.

LIBOR-Indexed Rate Notes

At June 30, 2012 and 2011, LIBOR-indexed rate notes represented 20% of total outstanding bonds payable. The Authority’s LIBOR-indexed rate notes reprice monthly based on one-month LIBOR plus 0.13%.

(Dollars in Thousands)

7. Financings (continued)

LIBOR Floating Rate Notes

At June 30, 2012 and 2011, LIBOR floating rate notes represented 66% and 54%, respectively, of total outstanding bonds payable. The Authority's LIBOR floating rate notes reprice every three months at rates equal to three-month LIBOR plus a spread ranging from 0.60% to 1.05%. 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.

The following is a summary of debt service requirements at June 30, 2012:

	Principal	Interest	Total
Fiscal Years			
2013	$ 226,679	$ 37,196	$ 263,875
2014	213,235	34,264	247,499
2015	221,175	31,364	252,539
2016	223,523	28,374	251,897
2017	966,719	23,084	989,803
Total fiscal years 2013–2017	1,851,331	154,282	2,005,613
2018–2022	835,845	75,192	911,037
2023–2027	535,922	36,181	572,103
2028–2032	259,119	17,524	276,643
2033–2037	59,083	9,824	68,907
2038–2042	–	9,089	9,089
2043–2046	170,025	5,605	175,630
	$ 3,711,325	$ 307,697	$ 4,019,022

The debt service requirements in the table above were prepared using the applicable variable rates in effect at June 30, 2012 and may differ significantly from the amounts 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, 2012 and 2011, respectively, $211,000 and $214,550 of the bonds were subordinate to the remainder of the outstanding bonds.

7. Financings (continued)

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 certain bonds, the Authority has entered into agreements with Bank of America N.A. and AMBAC Indemnity, whereby the parties have issued a letter of credit or insurance policies to the trustees as beneficiaries for the respective bondholders. The purpose of the letter of credit and insurance policies is to provide liquidity to bondholders and guarantee payment of the bonds upon maturity or earlier redemption. The agreements contain certain covenants which, among other requirements, include minimum collateral requirements. The Authority maintains a minimum amount of assets pledged to meet the requirements under required bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2012 and 2011, was $3,975,116 and $3,909,757, respectively.

At June 30, 2012, the Authority was in compliance with all financial covenants and requirements of its debt agreements except those within the 12^{th} General Resolution requiring that (a) the value of supplemental loans under the 12^{th} General Resolution not exceed 75% of the value of all student loans under the 12^{th} General Resolution and (b) the supplemental loan cumulative default rate not exceed 10% of all supplemental loans in repayment status under the 12^{th} General Resolution. At June 30, 2012, supplemental loans comprised 78.3% of all loans pledged under the 12^{th} General Resolution and the supplemental loan cumulative default rate was 10.3% of all supplemental loans in repayment status under the 12^{th} General Resolution. At June 30, 2011, the Authority was in compliance with all financial covenants and requirements of its debt agreements except the requirement within the 12^{th} General Resolution requiring that the value of supplemental loans under the 12^{th} General Resolution not exceed 75% of the value of all student loans under the 12^{th} General Resolution. Supplemental loans comprised 77.3% of all loans pledged under the 12^{th} General Resolution at June 30, 2011. While there are potential remedies that the bond insurer could require, the failure of which the Authority to comply with could constitute an event of default, to date, the Authority has not received any oral or written confirmation from the bond insurer indicating that they will be taking further action on these violations.

7. Financings (continued)

2010-3 LIBOR Floating Rate Notes

On September 28, 2010, the Authority issued $495,200 in LIBOR floating rate notes to purchase over $460,516 in loans from its lender partners and to purchase over $22,129 in loans from the Authority's operating fund. The notes were issued in one series at three month LIBOR plus 0.85% with an expected weighted average life of 5.94 years based on a two percent constant prepayment rate (CPR) and a final maturity of August 26, 2030. The notes are full turbo, requiring all revenues in excess of required expenses to be used to reduce the outstanding principal balance. The full turbo trust had a starting parity of 105.89%.

2011-1 LIBOR Floating Rate Notes

On July 19, 2011, the Authority issued $576,800 in LIBOR floating rate notes to refinance the 2008 Trust Indenture, purchase FFELP loans from its lender partners and to purchase loans from the Authority's operating fund. The 2008 Trust Indenture was a $262,500 variable rate demand note trust backed by a direct pay letter of credit from Bank of America. The notes were issued in one series with a stated coupon of three month LIBOR plus 0.85% with an expected weighted average life of 5.74 years based on a two percent CPR and a final maturity of June 25, 2036. The full turbo trust had a starting parity of 103.89%. While the bonds carry a coupon of three month LIBOR plus 0.85%, the bonds were sold at a price of 99.1687%, resulting in an effective cost of three month LIBOR plus 1.00%.

2012-1 LIBOR Floating Rate Notes

On May 10, 2012, the Authority issued $256,100 in LIBOR floating rate notes to refinance the Straight-A Conduit program and Bank of America Line of Credit held loans, as well as to purchase loans from the Authority's operating fund. The notes were issued in one series at one month LIBOR plus 0.83% with an expected weighted average life of 4.7 years based on a four percent CPR and a final maturity of January 26, 2026. The full turbo trust had a starting parity of 103.3%.

7. Financings (continued)

Straight-A Conduit Program

In May 2009, the Department issued the Asset-Backed Commercial Paper (ABCP) Conduit Program to help ensure the continued availability of FFELP loans to students and parents for the 2009-2010 academic year. Loans eligible for the Conduit Program include Stafford and PLUS loans with first disbursement dates on or after October 1, 2003 and no later than June 30, 2009, which are fully disbursed before September 30, 2009. The Department entered into a PUT Agreement with the Straight-A Funding LLC Conduit (Straight-A Conduit) using the authority provided by, and consistent with the requirements of the ECASLA.

The Straight-A Conduit will purchase notes secured by eligible FFELP loans from eligible FFELP lenders and holders, which in turn will serve as the underlying asset against which the conduit sells commercial paper. The commercial paper will have variable maturities, but in no case longer than 90 days. As previously-issued commercial paper matures, proceeds from newly-issued commercial paper will be used to satisfy investors holding earlier maturities. If necessary, the Federal Financing Bank will provide a short-term liquidity backstop to re-finance maturing commercial paper. The Department will purchase loans from the conduit in order to allow the conduit to repay such short-term liquidity loans to the extent required. The Straight-A Conduit provides an advance of 97% of the student loan value for loans in the program. The term of the Straight-A Conduit is five years and expires on November 19, 2013, however, new draws are no longer permitted. Due to the short term nature of the commercial paper sold by the Straight-A Conduit, the Straight-A Conduit is classified as a current liability within the statement of net assets. On July 30, 2009, the Authority funded $190,158 in loans through the Straight-A Conduit. The Authority used this draw to refinance its multi-seller asset backed conduit that was originally entered into on July 26, 2007. On October 30, 2009, the Authority funded an additional $118,561 in loans through the Straight-A Conduit to refinance eligible assets held under the 2005 Trust. As of June 30, 2011, the Authority had $237,093 in borrowings outstanding under the Straight-A Conduit. On May 10, 2012, the Authority paid the Straight-A draws in full with proceeds from the 2012-1 LIBOR floating rate notes.

(Dollars in Thousands)

7. Financings (continued)

Bank of America Line of Credit

On August 22, 2011, the Authority closed on a $50,000 line of credit to purchase FFELP loans from lender partners and guarantors. The line of credit has a 364 day term with a borrowing rate of LIBOR plus 0.55% and an unused commitment fee of 0.15%. The terms require a 106.5% parity ratio and permit a 0.75% servicing and administration draw. Eligible collateral limitations under the line of credit terms include: 50% for Consolidation loans originated before October 1, 2007, 25% for non-consolidation loans originated after October 1, 2007, and 15% for loans to students attending vocational, proprietary and/or two-year schools. On May 10, 2012, the Authority paid the line of credit draws in full with proceeds from the 2012-1 LIBOR floating rate notes. On May 11, 2012, the Authority reduced the size of the line of credit to $10,000. The line of credit expired on August 20, 2012.

For the years ended June 30, 2012 and 2011, the following table displays the aggregate changes in the Straight-A Conduit and line of credit borrowings:

	2012	**2011**
Beginning balance	**$ 237,093**	$ 282,049
Additional borrowings	**42,700**	–
Repayments	**(279,793)**	(44,956)
Ending balance	**$ –**	$ 237,093
Yield at end of year	**N/A**	0.76%

The Ensuring Continued Access to Student Loans Act – Participation and Purchase Programs

On May 7, 2008, U.S. House Resolution 5715, the Ensuring Continued Access to Student Loans Act (ECASLA) was signed. The Act gives the U.S. Department of Education the authority to advance funds and enter into forward purchase commitments with qualifying lenders for the purchase of FFELP loans.

(Dollars in Thousands)

7. Financings (continued)

The Master Participation Agreement was designed to provide short-term liquidity to eligible lenders for the purpose of financing the origination of FFELP loans. Loans participated in the program were charged a rate of commercial paper plus 0.50% on the principal amount. All loans under the Participation Program had to be either refinanced by the lender or sold to the Department under the Purchase Program. This ECASLA participation line of credit for the 2009-10 program year was available to the Authority until October 15, 2010. The Master Loan Sale Agreement allowed eligible lenders to sell FFELP loans originated for the 2009–2010 academic year to the Department of Education through the Purchase Program at 101% plus $75 per loan. Any lender participating had to represent to the Department that it would continue to participate in the FFELP program. During the year ended June 30, 2011, the Authority sold $690,125 in loans and accrued interest to the Department under the Purchase Program. No amounts remained outstanding at June 30, 2012 or 2011.

8. 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, system usage and/or the amount of computer equipment supplied. The hardware rental charges ended on March 31, 2011, as the Authority is no longer renting hardware from PHEAA.

Charges incurred under the contracts for the years ended June 30, 2012 and 2011, are as follows:

	2012	2011
Charges based on loan accounts	**$ 3,649**	$ 3,076
Hardware rentals	**–**	28
Total	**$ 3,649**	$ 3,104

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.

8. Contracts, Commitments, and Contingencies (continued)

At June 30, 2012, the Authority has accrued an estimated loss contingency for its taxpayer exposure liability due to the IRS under the voluntary closing agreement program (VCAP). See Note 11 for more information.

9. 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, 2012 and 2011, the Authority contributed $507 and $442 and employees contributed $639 and $552 to the 401(k) Plan, respectively.

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.

9. Employee Benefits (continued)

The Pension Plan was administered by Wells Fargo Institutional Retirement and Trust Advisors (Wells Fargo) through June 30, 2011 but administration was transferred to PNC Institutional Investments and PNC Bank, National Association (PNC) on June 30, 2011. 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) 532-0600.

Pension Plan assets are invested primarily in debt and equity securities at the discretion of the trustee. 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, 2012, the funds were invested 50:45:5 equity securities to debt securities to cash and cash equivalents. At June 30, 2011, the pension funds were 100% invested in cash as the funds were transitioning from Wells Fargo to PNC. The funds were reinvested in early July and on July 31, 2011 were invested 47:47:6 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, 2012, 2011, and 2010, were determined as part of the July 1, 2011, 2010, and 2009 actuarial valuations, respectively.

9. Employee Benefits (continued)

Funded Status and Funding Progress – The following table displays the funded status of the Pension Plan as of July 1, 2011, 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)
7/1/2011	$ 26,964	$ 24,434	$ (2,530)	110.4%	$ 10,694	N/A

*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)

9. 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, 2012, 2011, and 2010:

	Pension Plan		
	2012	**2011**	**2010**
Net pension obligation (NPO):			
NPO, beginning of year	**$ (5,056)**	$ (5,306)	$ (5,570)
Annual pension cost (APC)	**1,633**	1,810	2,280
Contributions for year	**(1,394)**	(1,560)	(2,016)
NPO, end of year	**$ (4,817)**	$ (5,056)	$ (5,306)
The negative NPO represents a pension asset.			
Components of annual pension cost:			
Annual required contribution (ARC)	**$ 1,394**	$ 1,560	$ 2,016
Interest on NPO	**(354)**	(371)	(389)
Adjustment to ARC	**593**	621	653
APC	**$ 1,633**	$ 1,810	$ 2,280
Percentage of APC contributed	**85%**	86%	88%
Major assumptions:			
Investment return	**7%**	7%	7%
Inflation rate	**4**	4	4
Discount rate used for amortization of NPO	**3**	3	3
Salary scale	**5**	5	5
Actuarial cost method	**Aggregate***	Aggregate*	Aggregate*
Amortization period (years)	**10.0**	10.0	10.0
Amortization method	Level percentage of payroll, open		
Mortality table	1994 Group Annuity Mortality table		

*The aggregate actuarial cost method is used to determine the annual required contribution (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.

10. Student Loan Purchase Commitments

At June 30, 2012, the Authority has no remaining contractual commitments to purchase FFELP loans from its lender partners compared to $27,032 in FFELP loans from one of its lender partners under certain agreements on June 30, 2011. In addition, as of June 30, 2012, the Authority has contractual commitments to purchase $24,828 in supplemental loans from four lender partners compared to $26,098 on June 30, 2011. As it relates to $18,710 of the supplemental loan commitment (three of the four lender partners), if the Authority is unable to buy these loans, the Authority's liability is limited to approximately $725. The Authority also has agreements with lending institutions that require the lender to use its best efforts to make and sell student loans to the Authority up to a contractually agreed-upon amount; however, the Authority has the right to refuse the purchase. The average length of the purchase commitments is three years. Management plans to fulfill the commitments using funds generated through the normal financing operations of the Authority and through the use of Authority operating funds. At June 30, 2012 and 2011, the Authority was servicing $221,438 and $573,075, respectively, in student loans for these and other lending institutions.

11. Arbitrage Rebate Payable

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 United States 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. Non-purpose rebate payments are due every fifth year and when the bonds are retired. Purpose rebate payments are due every tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. The rebate calculation utilizes various assumptions and allows for the selection of alternative calculation options under the Internal Revenue Code. Management estimates the liability to be $1,405 and $1,694 at June 30, 2012 and 2011, respectively, which has been provided for in the financial statements; however, the ultimate liability, if any, is dependent on investment yields and bond rates in the future.

(Dollars in Thousands)

11. Arbitrage Rebate Payable (continued)

The Authority's fiscal year 2012 arbitrage rebate payable also includes a $1,232 estimated taxpayer exposure liability, which results in a total arbitrage rebate liability of $2,637 at June 30, 2012. The taxpayer exposure liability is related to the Internal Revenue Service (IRS) voluntary closing agreement program (VCAP) for tax-exempt student loan securitizations. The VCAP, which was announced by the IRS on March 20, 2012, is open to all sponsors of tax-exempt student loan securitizations who may have compliance issues related to the reallocation of qualified student loans under the Internal Revenue Code. The VCAP includes a formula that sponsors utilize to calculate a taxpayer exposure amount. This VCAP program was open through July 31, 2012. The Authority submitted a proposal to the IRS under the special VCAP program on June 30, 2012 and the amount submitted is consistent with the liability recorded. The IRS is currently reviewing the Authority's proposal. Should the IRS not accept the proposal, the Authority's ultimate liability could be greater.

The following table displays the aggregate changes in the arbitrage rebate payable for fiscal years ended June 30:

	2012	2011
Beginning balance	**$ 1,694**	$ 4,725
Reduction of arbitrage liability	**(268)**	(1,947)
Payments	**(21)**	(716)
Student loan forgiveness	**–**	(368)
Estimated taxpayer exposure liability	**1,232**	–
Ending balance	**$ 2,637**	$ 1,694

The Authority annually employs an independent third party to prepare its arbitrage rebate calculation.

12. 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, 2012 and June 30, 2011, the Authority had 12 segments and 10 segments, respectively, that met the reporting requirements of GASB Statement No. 34, as amended by GASB Statement No. 37.

The outstanding debt of the Authority at June 30, 2012 consists of student loan revenue bonds which are issued in accordance with two separate General Student Loan Program Bond Resolutions adopted by the Board of Directors in various years from 1994 through 2007, as well as in accordance with six Trust Indentures (collectively the trust estates) adopted by the Board of Directors from fiscal year 2010 through fiscal year 2012. 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 of seven of the eight 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 Resolution Trust Estate, bondholders have no recourse against the Authority, but they do have recourse to the 12^{th} General 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 assets balance as no operating funds of the Authority will pay the deficit.

Administrative transactions not directly associated with the purchase of and revenue streams related to student loans are recorded in the Operating Fund.

(Dollars in Thousands)

Summary financial information of the Authority's segments as of June 30, 2012 and 2011, is as follows:

	2012												
	Bond Funds												
	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2008 Trust Indenture	Straight-A Conduit	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	Line of Credit	Operating Fund	Total
Condensed Statement of Net Assets													
Assets:													
Current assets	**$ 249,937**	**$ 68,088**	**$ –**	**$ –**	**$ 18,067**	**$ 93,404**	**$ 103,386**	**$ 64,426**	**$ 73,590**	**$ 44,908**	**$ –**	**$ 54,310**	**$ 770,116**
Long-term assets	**810,647**	**182,871**	**–**	**–**	**142,258**	**518,696**	**567,202**	**365,287**	**457,240**	**221,262**	**–**	**24,207**	**3,289,670**
Total assets	**$ 1,060,584**	**$ 250,959**	**$ –**	**$ –**	**$ 160,325**	**$ 612,100**	**$ 670,588**	**$ 429,713**	**$ 530,830**	**$ 266,170**	**$ –**	**$ 78,517**	**$ 4,059,786**
Liabilities:													
Current liabilities	**$ 11,444**	**$ 801**	**$ –**	**$ –**	**$ 11,706**	**$ 59,484**	**$ 66,415**	**$ 40,770**	**$ 51,827**	**$ 27,272**	**$ –**	**$ 14,535**	**$ 284,254**
Long-term liabilities	**995,450**	**254,325**	**–**	**–**	**134,894**	**498,399**	**554,814**	**359,630**	**451,721**	**230,987**	**–**	**–**	**3,480,220**
Interfund payable (receivable)	**(9,918)**	**(1,810)**	**–**	**–**	**(512)**	**(1,417)**	**(2,432)**	**(1,436)**	**(2,058)**	**(1,433)**	**–**	**21,016**	**–**
Total liabilities	**996,976**	**253,316**	**–**	**–**	**146,088**	**556,466**	**618,797**	**398,964**	**501,490**	**256,826**	**–**	**35,551**	**3,764,474**
Net assets (deficit):													
Invested in capital assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,150**	**19,150**
Restricted	**29,915**	**(2,357)**	**–**	**–**	**14,237**	**55,634**	**51,791**	**30,749**	**29,340**	**9,344**	**–**	**–**	**218,653**
Unrestricted	**33,693**	**-**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23,816**	**57,509**
Total net assets (deficit)	**63,608**	**(2,357)**	**–**	**–**	**14,237**	**55,634**	**51,791**	**30,749**	**29,340**	**9,344**	**–**	**42,966**	**295,312**
Total liabilities and net assets (deficit)	**$ 1,060,584**	**$ 250,959**	**$ –**	**$ –**	**$ 160,325**	**$ 612,100**	**$ 670,588**	**$ 429,713**	**$ 530,830**	**$ 266,170**	**$ –**	**$ 78,517**	**$ 4,059,786**

(Dollars in Thousands)

	2011										
	Bond Funds										
	11th General Resolution Trust Estate	**12th General Resolution Trust Estate**	**2008 Trust Indenture**	**Straight-A Conduit**	**ECASLA**	**2009-1 Trust Indenture**	**2010-1 Trust Indenture**	**2010-2 Trust Indenture**	**2010-3 Trust Indenture**	**Operating Fund**	**Total**
Condensed Statement of Net Assets											
Assets:											
Current assets	$ 262,711	$ 70,715	$ 34,721	$ 35,726	$ –	$ 19,249	$ 106,695	$ 117,752	$ 72,828	$ 64,713	$ 785,110
Long-term assets	930,561	207,311	250,939	214,701	–	157,835	600,401	657,042	422,060	36,685	3,477,535
Total assets	$ 1,193,272	$ 278,026	$ 285,660	$ 250,427	$ –	$ 177,084	$ 707,096	$ 774,794	$ 494,888	$ 101,398	$ 4,262,645
Liabilities:											
Current liabilities	$ 12,809	$ 971	$ 4,235	$ 239,418	$ –	$ 11,324	$ 66,423	$ 75,078	$ 45,217	$ 3,103	$ 458,578
Long-term liabilities	1,139,694	287,650	262,500	–	–	151,701	586,937	651,047	418,866	–	3,498,395
Interfund payable (receivable)	(9,354)	(1,880)	(973)	(213)	–	(188)	(1,276)	(2,071)	(1,093)	17,048	–
Total liabilities	1,143,149	286,741	265,762	239,205	–	162,837	652,084	724,054	462,990	20,151	3,956,973
Net assets (deficit):											
Invested in capital assets	–	–	–	–	–	–	–	–	–	16,858	16,858
Restricted	34,202	(8,715)	15,809	11,222	–	14,247	55,012	50,740	31,898	–	204,415
Unrestricted	15,921	-	4,089	–	–	–	–	–	–	64,389	84,399
Total net assets (deficit)	50,123	(8,715)	19,898	11,222	–	14,247	55,012	50,740	31,898	81,247	305,672
Total liabilities and net assets (deficit)	$ 1,193,272	$ 278,026	$ 285,660	$ 250,427	$ –	$ 177,084	$ 707,096	$ 774,794	$ 494,888	$ 101,398	$ 4,262,645

(Dollars in Thousands)

	2012												
	Bond Funds												
	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2008 Trust Indenture	Straight-A Conduit	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	Line of Credit	Operating Fund	Total
Condensed Statement of Revenues, Expenses and Changes in Net Assets													
Operating revenues	$ 28,877	$ 11,154	$ 366	$ 4,092	$ 5,005	$ 18,850	$ 20,121	$ 10,763	$ 13,200	$ 348	$ 382	$ 5,840	$ 118,998
Operating expenses	23,144	8,047	138	3,020	5,018	18,255	19,107	11,923	14,723	1,150	215	33,914	138,654
Operating income (loss)	5,733	3,107	228	1,072	(13)	595	1,014	(1,160)	(1,523)	(802)	167	(28,074)	(19,656)
Nonoperating revenues (expenses)	7,712	3,116	(1,286)	(218)	–	–	–	–	–	–	–	(28)	9,296
Income (loss) before transfers	13,445	6,223	(1,058)	854	(13)	595	1,014	(1,160)	(1,523)	(802)	167	(28,102)	(10,360)
Interfund transfers	40	135	(18,840)	(12,076)	3	27	37	11	30,863	10,146	(167)	(10,179)	–
Change in net assets	13,485	6,358	(19,898)	(11,222)	(10)	622	1,051	(1,149)	29,340	9,344	–	(38,281)	(10,360)
Net assets, beginning of year	50,123	(8,715)	19,898	11,222	14,247	55,012	50,740	31,898	–	–	–	81,247	305,672
Net assets, end of year	$ 63,608	$ (2,357)	$ –	$ –	$ 14,237	$ 55,634	$ 51,791	$ 30,749	$ 29,340	$ 9,344	$ –	$ 42,966	$ 295,312

Notes to Financial Statements (continued)

(Dollars in Thousands)

	2011										
	Bond Funds										
	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2008 Trust Indenture	Straight-A Conduit	ECASLA	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	Operating Fund	Total
Condensed Statement of Revenues, Expenses and Changes in Net Assets											
Operating revenues	$ 30,838	$ 12,889	$ 7,136	$ 5,632	$ 1,991	$ 5,429	$ 20,742	$ 22,080	$ 8,518	$ 8,337	$ 123,592
Operating expenses	24,198	23,838	6,345	3,788	896	5,086	18,883	19,846	9,149	25,786	137,815
Operating income (loss)	6,640	(10,949)	791	1,844	1,095	343	1,859	2,234	(631)	(17,449)	(14,223)
Nonoperating revenues	3,308	1,477	–	–	–	–	–	–	–	–	4,785
Income (loss) before transfers	9,948	(9,472)	791	1,844	1,095	343	1,859	2,234	(631)	(17,449)	(9,438)
Interfund transfers	456	(18,145)	(21)	(5,216)	(2,727)	(29)	(117)	(131)	32,529	(6,599)	–
Change in net assets	10,404	(27,617)	770	(3,372)	(1,632)	314	1,742	2,103	31,898	(24,048)	(9,438)
Net assets, beginning of year	39,719	18,902	19,128	14,594	1,632	13,933	53,270	48,637	–	105,295	315,110
Net assets, end of year	$ 50,123	$ (8,715)	$ 19,898	$ 11,222	$ –	$ 14,247	$ 55,012	$ 50,740	$ 31,898	$ 81,247	$ 305,672

(Dollars in Thousands)

	2012												
	Bond Funds												
	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2008 Trust Indenture	Straight-A Conduit	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	Line of Credit	Operating Fund	Total
Condensed Statement of Cash Flows													
Net cash flows from operating activities	$ 140,177	$ 34,615	$ 257,934	$ 229,572	$ 17,083	$ 97,908	$ 107,996	$ 65,028	$ (471,595)	$ (241,844)	$ 132	$ (13,182)	$ 223,824
Net cash flows from non-capital financing activities	(139,964)	(34,668)	(262,724)	(237,594)	(18,399)	(102,413)	(111,830)	(68,126)	487,160	254,413	(132)	–	(234,277)
Net cash flows from capital activities	–	–	–	–	–	–	–	–	–	–	–	(4,276)	(4,276)
Net increase (decrease) in cash and cash equivalents	213	(53)	(4,790)	(8,022)	(1,316)	(4,505)	(3,834)	(3,098)	15,565	12,569	–	(17,458)	(14,729)
Cash and cash equivalents, beginning of year	149,183	29,719	4,790	8,022	7,356	33,279	34,946	23,245	–	–	–	63,309	353,849
Cash and cash equivalents, end of year	$ 149,396	$ 29,666	$ –	$ –	$ 6,040	$ 28,774	$ 31,112	$ 20,147	$ 15,565	$ 12,569	$ –	$ 45,851	$ 339,120

	2011										
	Bond Funds										
	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2008 Trust Indenture	Straight-A Conduit	ECASLA	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	Operating Fund	Total
Condensed Statement of Cash Flows											
Net cash flows from operating activities	$ 150,042	$ 35,011	$ 857	$ 44,186	$ 503,913	$ 18,749	$ 104,958	$ 126,399	$ (426,586)	$ (56,737)	$ 500,792
Net cash flows from noncapital financing activities	(67,336)	(13,196)	(1,090)	(45,714)	(507,240)	(18,957)	(99,816)	(115,208)	449,831	33,097	(385,629)
Net cash flows from capital activities	–	–	–	–	–	–	–	–	–	(4,035)	(4,035)
Net increase (decrease) in cash and cash equivalents	82,706	21,815	(233)	(1,528)	(3,327)	(208)	5,142	11,191	23,245	(27,675)	111,128
Cash and cash equivalents, beginning of year	66,477	7,904	5,023	9,550	3,327	7,564	28,137	23,755	–	90,984	242,721
Cash and cash equivalents, end of year	$ 149,183	$ 29,719	$ 4,790	$ 8,022	$ –	$ 7,356	$ 33,279	$ 34,946	$ 23,245	$ 63,309	$ 353,849

13. Subsequent Events

Access Missouri Scholarship Funding

On July 17, 2012, the Authority and the Missouri Commissioner of the Office of Administration agreed to extend the date of the final distribution by the Authority for the remaining $105,139 of the $350,000 described in the Lewis and Clark Discovery Initiative (LCDI) Legislation by one year to September 30, 2019. In connection with this extension, the Authority agreed to provide the State with $5,000 of its operating funds to be used for need-based scholarship funding for Missouri students for the 2012-2013 academic year. This amount will partially offset reductions in scholarship funding by the State of Missouri due to budget shortfalls. The first payment of $1,000 is scheduled to be made to the State of Missouri on September 1, 2012, with subsequent payments of $1,000 on the first of the month for the following four months. During fiscal year 2011, the Authority and the Missouri Commissioner of the Office of Administration entered into a similar agreement for a three year extension of the final LCDI distribution to September 30, 2018 in connection with the payment of $30,000 for need-based scholarships for the 2011-2012 academic year.

The Authority will continue analyzing and determining on a quarterly 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 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, 2012.

Bank of America Line of Credit

On August 20, 2012, the Authority’s line of credit with Bank of America, as described in Note 7, expired.

13. Subsequent Events (continued)

Redemption of 11th General Resolution Bonds

On August 14, 2012, the Authority optionally redeemed $101,950 in taxable senior auction rate bonds at par utilizing cash available in the 11th General Resolution revenue account. The redemptions included bonds from 16 different series and each series was redeemed in full.

14. Recently Issued Accounting Pronouncements

During fiscal year 2012, the Authority adopted the following GASB Statements:

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans,* which was effective for the Authority beginning in fiscal year 2012. This Statement addresses issues related to the use of the alternative measurement methods and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans and clarifies when actuarially determined OPEB measures are reported by an agent multi-employer OPEB plan and its participating employees. This pronouncement had no impact on current financial statements.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which was required to be implemented by the Authority in fiscal year 2013, but was early implemented in fiscal year 2012, as encouraged by the GASB. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This pronouncement did not have a material impact on current financial statements.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* which was effective for the Authority beginning in fiscal year 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This pronouncement had no impact on the financial statements.

14. Recently Issued Accounting Pronouncements (continued)

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

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* is effective for the Authority beginning in fiscal year 2013. This Statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators.

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, is effective for the Authority beginning in fiscal year 2013. This Statement improves guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for the Authority beginning in fiscal year 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

Statement No. 65, *Items Previously Reported as Assets and Liabilities,* is effective for the Authority beginning in fiscal year 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported

14. Recently Issued Accounting Pronouncements (continued)

as assets and liabilities. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62,* is effective for the Authority beginning in fiscal year 2014. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, is effective for the Authority beginning in fiscal year 2014. This Statement replaces the requirements of 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 requirements of this Statement will improve financial reporting by state and local governmental pension plans primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for the Authority beginning in fiscal year 2015. This Statement replaces the requirements of 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.

* * * * * *

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, 2012, 2011 and 2010

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)
7/1/2011	$ 26,964	$ 24,434	$ (2,530)	110.4%	$ 10,694	N/A
7/1/2010	$ 22,489	$ 22,077	$ (412)	101.9%	$ 10,118	N/A
7/1/2009	$ 18,562	$ 20,675	$ 2,113	89.8%	$ 10,708	19.7%

*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 on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the Higher Education Loan Authority of the State of Missouri (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 14, 2012. 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.

Internal control over financial reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 14, 2012

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Report of Independent Auditors on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

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 Authority's major federal programs for the year ended June 30, 2012. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal control over compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

September 14, 2012

Higher Education Loan Authority of the State of Missouri

Schedule of Expenditures of Federal Awards
(Dollars in Thousands)

For the Year Ended June 30, 2012

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	$ 21,299
		Outstanding Balance at June 30, 2012
Total Guaranteed Loans of the Authority at June 30, 2012 –		
Guaranteed student loans:		
Federal Family Education Loans (Lenders)	84.032L	$ 3,431,074

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, 2012

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.

* * * * * *

Higher Education Loan Authority of the State of Missouri

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

Part I – Summary of Auditors' Results

Financial Statements Section:

Type of auditors' report issued (unqualified, qualified, adverse or disclaimer) – Unqualified

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 auditors' report issued on compliance for major programs (unqualified, qualified, adverse or disclaimer) – Unqualified

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 – $638,970

Auditee qualified as a low-risk auditee?	__X__ yes ___no

Part II – Financial Statement Findings Section

No matters are reportable.

Part III – Federal Awards 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, 2012

Federal Award Findings and Questioned Costs – Year Ended June 30, 2011

There were no findings or questioned costs for the year ended June 30, 2011.

Federal Award Findings and Questioned Costs – Year Ended June 30, 2010

There were no findings or questioned costs for the year ended June 30, 2010.