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, 2013 and 2012
With Reports of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Higher Education Loan Authority of the State of Missouri

Financial Statements and Schedule of Expenditures of Federal Awards

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

Contents

Ernst & Young LLP
The Plaza in Clayton Suite 1300
190 Carondelet Plaza
St. Louis, MO 63105-3434

Tel: +1 314 290 1000
Fax: +1 314 290 1882
www.ey.com

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Higher Education Loan Authority of the State of Missouri (the Authority), as of and for the years ended June 30, 2013 and 2012, and its aggregate discretely presented component unit, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2013 and 2012, and the aggregate discretely presented component unit as of December 31, 2012 and 2011, and the respective changes in its financial position and, where applicable, its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

As discussed in Note 2 to the financial statements, the Authority changed its method of accounting for certain items that were previously reported as assets and liabilities and recognized these assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues) as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective July 1, 2012. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 - 22 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 GASB, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2013 as required by U.S. Office of Management and Budget Circular A-133 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 13, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

September 13, 2013

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

The Authority

The Authority is recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education (the Department). The Authority is a leading holder and servicer of student loans with nearly $24.8 billion in student loan assets serviced as of June 30, 2013.

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

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

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

The Authority (continued)

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

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

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

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

The Authority (continued)

to execute a Memorandum of Understanding with the Department. On February 2, 2011, the Department published a determination that the Authority was permitted to enter into a Memorandum of Understanding to pursue an Authorization to Operate (ATO) and a contract award as an NFP servicer. The Pennsylvania Higher Education Assistance Agency (PHEAA) was identified as a key subcontractor for this arrangement. On March 30, 2011, the Authority entered into a Memorandum of Understanding with the Department. The Authority was awarded an ATO on September 22, 2011 and a servicing contract to become an NFP servicer to service federal assets, including Direct Loans, on September 27, 2011. The Authority has also entered into a "teaming arrangement" with 13 other NFP servicers (the MOHELA team) and, pursuant to the terms of the Solicitation, the MOHELA team is entitled to receive a minimum of 1.4 million federal asset accounts for servicing. As of September 3, 2013, the MOHELA team is servicing over 1.3 million federal asset accounts, representing over $29.9 billion in student loans. The Authority has also entered into an agreement with one additional NFP servicer, which is awaiting Department approval. If approved, this would increase the members of the MOHELA team to 15, which would entitle the team to receive a minimum of 1.5 million federal asset accounts for servicing.

In addition to a federal loan servicing contract, at June 30, 2013, the Authority serviced nearly $3.2 billion of its own student loans and nearly $24 million in lender partner owned loans that will provide the Authority ongoing revenue streams for many years to come. This legacy portfolio and its related revenue have and continue to assist the Authority in a gradual and smooth transition to a federal asset servicing business model.

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

The Authority (continued)

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

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

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

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

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

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

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

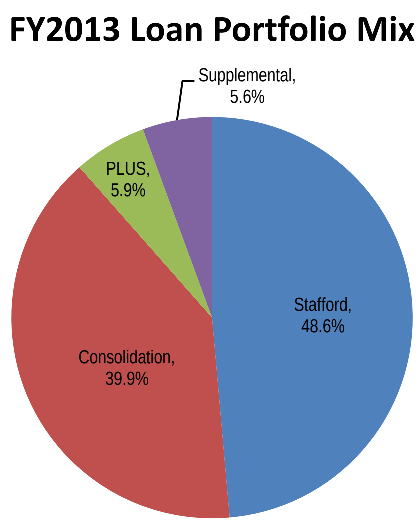
The Authority purchased $166.5 million of gross principal in student loans from a variety of financial institutions during fiscal year 2013. This compares to $351.9 million of gross principal purchased during fiscal year 2012 and $758.8 million of gross principal purchased or originated during fiscal year 2011, representing a 53% decrease for fiscal year 2013 compared to a 54%

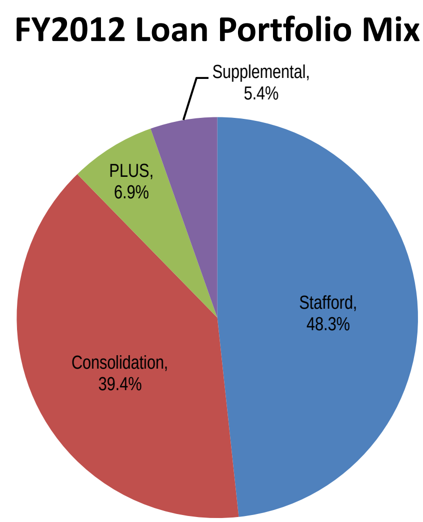
The Authority (continued)

decrease for fiscal year 2012. For fiscal year 2013, the Authority purchased $144.8 million in loans from lender partners. The remaining $21.7 million consisted of $5.5 million in rehabilitated loans purchased from the Missouri guaranty agency at a discount and $16.2 million in repurchases from various guarantors of loans that had previously been in a bankruptcy status as required by federal law. The totals above include $0.1 million in supplemental loans purchased during fiscal year 2013. The Authority continued to collect servicing fee income from its lender partners for serviced loans that, in the past, would have been purchased. In fiscal year 2013, the Authority's income was supplemented by $0.3 million in lender servicing fee income, which was down from $0.9 million in fiscal year 2012. In addition, in fiscal year 2013, the Authority recognized $20.0 million in servicing fees from its federal servicing contract after fees paid to subcontractor team members, compared to $5.0 million in fiscal year 2012.

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 11% from $3.6 billion to $3.2 billion in the student loan portfolio from fiscal year 2012 to fiscal year 2013 as compared to a 5% decrease from $3.8 billion to $3.6 billion from fiscal year 2011 to fiscal year 2012.

As of June 30, 2013 and June 30, 2012, the student loan portfolio held by the Authority was as follows:





The Authority (continued)

During fiscal year 2013, the Authority utilized the LIBOR floating rate note (LFRN) market to refinance FFELP loans held in the 11th and 12th General Bond Resolutions and to purchase loans from its lender partners and the Authority's Operating Fund. On May 22, 2013, the Authority issued $956.2 million in LFRNs under the 2013-1 Trust to refinance $762.1 million in loans from the 11th General Bond Resolution, $46.7 million in loans from the 12th General Bond Resolution, as well as $144.5 million to purchase loans from a lender partner and $1.6 million to purchase loans from the Authority's Operating Fund. On May 10, 2012, the Authority issued $256.1 million in LFRNs under the 2012-1 Trust Indenture to refinance loans from the Straight-A Conduit and line of credit and to purchase loans from the Authority's Operating Fund. On July 19, 2011, the Authority issued $576.8 million 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 Authority continues to focus on the development of creative solutions to support the Authority's mission. In the past, the Authority has offered various rate reduction programs to borrowers who establish payments through automatic deduction, as well as various loan forgiveness programs. Beginning in fiscal year 2009, the Authority modified its borrower benefits to comply with new requirements related to the federal Ensuring Continued Access to Student Loans Act (ECASLA) programs. As a result, borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction. In fiscal year 2011, the Authority contributed $30.0 million in funds for the State of Missouri's need-based scholarship program, the Access Missouri Financial Assistance Program (Access Missouri). In addition, in fiscal year 2012, the Authority provided for the contribution of an additional $30.0 million to Access Missouri and $1.0 million to a new state scholarship program titled Advanced Placement Incentive Grants. For fiscal year 2013, the Authority contributed an additional $5.0 million to Access Missouri. The Authority reserves the right to modify these programs as needed. In addition, since its inception, the Authority has granted over $48.5 million in loan forgiveness for a variety of student borrowers, including teachers, Pell Grant recipients, and those in military service. The Authority has also been providing scholarship and grant funding through the Missouri Scholarship Foundation by donating $5.8 million in fiscal year 2013 and $0.2 million in fiscal year 2012.

Financial Analysis

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

As a result of adopting GASB Statement No. 65 in fiscal year 2013, financial statements for prior years were required to be restated, as shown below. Please refer to Note 2 for more information on GASB Statement No. 65 and the restatement.

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

Condensed Statements of Net Position
(In thousands)

	2013	2012	2011
Capital assets	**$ 26,876**	$ 19,150	$ 16,858
Other than capital assets	**3,396,644**	4,019,853	4,226,736
Total assets	**$ 3,423,520**	$ 4,039,003	$ 4,243,594
Current liabilities	**$ 319,308**	$ 284,254	$ 458,578
Long-term liabilities	**2,827,452**	3,480,220	3,498,395
Total liabilities	**$ 3,146,760**	$ 3,764,474	$ 3,956,973
Net investment in capital assets	**$ 25,949**	$ 18,845	$ 16,858
Restricted for debt service	**206,974**	199,290	188,717
Unrestricted	**43,837**	56,394	81,046
Total net position	**$ 276,760**	$ 274,529	$ 286,621

Financial Analysis (continued)

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

	2013	2012	2011
Interest on student loans and interest subsidy	**$ 169,027**	$ 193,142	$ 186,231
Special allowance	**(68,036)**	(81,243)	(86,874)
ECASLA income	**–**	–	19,770
Investment income and other	**20,954**	7,099	4,465
Total operating revenues	**121,945**	118,998	123,592
Bond expenses	**42,873**	50,017	48,322
Student loan expenses	**17,751**	25,225	32,706
General and administrative expenses	**49,290**	36,041	28,813
Total operating expenses	**109,914**	111,283	109,841
Operating income	**12,031**	7,715	13,751
Nonoperating expenses	**(9,800)**	(19,807)	(25,023)
Change in net position	**$ 2,231**	$ (12,092)	$ (11,272)

Financial Position

Total assets decreased $615.5 million compared to a decrease in liabilities of $617.7 million, resulting in an increase to the Authority's net position of $2.2 million in fiscal year 2013. This increase compares favorably to a decrease in net position of $12.1 million in fiscal year 2012. The improvement in the change in net position in fiscal year 2013 is primarily due to a reduction in the amount contributed to the State of Missouri for Access Missouri from $30.0 million in fiscal year 2012 to $5.0 million in fiscal year 2013. Also contributing to the improvement was a $15.0 million increase in net servicing revenues from the Authority's federal contract. These improvements in the change in net position were partially offset by an increase in general and administrative expenses of $13.2 million and a decrease in net student loan revenues of $10.9 million during fiscal year 2013.

Financial Position (continued)

Net investment in capital assets increased by $7.1 million in fiscal year 2013 to $25.9 million from $18.8 million in fiscal year 2012 due to the additional investments in the Columbia and Chesterfield loan servicing facilities and the new phone system. Restricted net position increased by $7.7 million from $199.3 million in fiscal year 2012 to $207.0 million in fiscal year 2013, while unrestricted net position decreased by $12.6 million from $56.4 million in fiscal year 2012 to $43.8 million in fiscal year 2013.

Capital Activities

During fiscal year 2013, the Authority had $10.0 million in capital additions and improvements, including $4.9 million in improvements to the new Columbia loan servicing facility, $3.3 million in improvements for the Chesterfield servicing headquarters, and $1.8 million toward the purchase and implementation of a new phone system that is scheduled to be completed in fiscal year 2014. 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. In fiscal year 2013 and 2012, these additions and improvements were partially offset by depreciation and disposals. Please refer to Note 6, Capital Assets, for more information.

Other than Capital Assets

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

	2013	**2012**	**2011**
Cash and cash equivalents	**$ 133,211**	$ 339,120	$ 353,849
Student loans receivable, net	**3,189,991**	3,585,048	3,776,452
Accrued interest receivable	**62,147**	81,563	89,037
Miscellaneous receivables and prepaid expenses	**6,840**	9,305	2,342
Pension asset	**4,455**	4,817	5,056
Total other than capital assets	**$ 3,396,644**	$ 4,019,853	$ 4,226,736

Cash and cash equivalents decreased by $205.9 million or 61% in fiscal year 2013, as compared to a decrease of $14.7 million or 4% in fiscal year 2012. Please refer to the statements of cash flows included in the financial statements for detail on the Authority’s cash activities.

Financial Position (continued)

Gross student loans receivable decreased 11% from $3.6 billion at June 30, 2012 to $3.2 billion at June 30, 2013, as compared to a 5% decrease from $3.8 billion at June 30, 2011 to $3.6 billion at June 30, 2012. The fiscal year 2013 decline is primarily related to the net of the purchase activity of $166.5 million less loan principal reductions of $551.4 million during fiscal year 2013, as well as a small loan sale of $10.8 million. The fiscal year 2012 decline is 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 Direct Consolidation Loan Program, which resulted in $103.8 million and $75.9 million in principal prepayments during fiscal years 2013 and 2012, respectively. The Special Direct Consolidation Loan Program, which was announced by President Obama on October 25, 2011, authorized the Department to offer a special consolidation loan to eligible borrowers from January 1, 2012 through June 30, 2012. To be eligible, borrowers had to have at least one loan held by the Department and at least one FFELP loan held by a commercial entity. While the Special Direct Consolidation Program ended June 30, 2012, applications could still be processed after June 30, 2012 provided that an application was received prior to June 30, 2012. Student loans receivable presented in the table above are net of unamortized loan premiums, unamortized loan discounts, and the allowance for loan losses.

Accrued interest receivable decreased by $19.4 million or 24% during fiscal year 2013, as compared to a decrease of $7.5 million or 8% during fiscal year 2012. The decrease in both years was a direct result of the decrease in student loans receivable as a whole.

Miscellaneous receivables and prepaid expenses decreased from $9.3 million at June 30, 2012 to $6.8 million at June 30, 2013 primarily due to the Authority's federal servicing contract and the fact that the Department only owed the Authority for one month of servicing fees at June 30, 2013 compared to two months at June 30, 2012. Miscellaneous receivables and prepaid expenses increased from $2.3 million at June 30, 2011 to $9.3 million at June 30, 2012 primarily due to the Authority's federal servicing contract and $6.0 million in servicing fees owed to the Authority by the Department at June 30, 2012.

The Authority's pension asset decreased by $0.4 million and $0.2 million during fiscal years 2013 and 2012, respectively. Please refer to Note 9 for more information on the Authority's pension asset.

Financial Position (continued)

Liabilities

In fiscal year 2013, current liabilities increased $35.1 million from June 30, 2012 primarily due to an increase in current bonds payable of $65.5 million. This was a result of the Authority refinancing the remaining bonds outstanding under the 11th General Bond Resolution, for which principal payments were due several years into the future, with the 2013-1 LFRNs, $90.2 million of which is classified as current at June 30, 2013. This increase was partially offset by a $22.7 million decrease in special allowance subsidy payable, a $4.2 million decrease in other liabilities, a $2.6 million decrease in arbitrage rebate payable, and a $0.9 million decrease in accrued interest payable. Long-term liabilities decreased by $652.8 million or 19% as the Authority repaid over $1.5 billion in bonds during fiscal year 2013. This decrease was partially offset by $956.2 million in LFRN bond issuance in May 2013.

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 $0.4 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 million 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 repaid over last year's short-term debt repayment estimate.

In March 2012, Standard & Poor's Rating Services lowered ratings on seven classes of bonds under the 12th General Bond Resolution from "A (sf)" to "BB (sf)" and removed the Credit Watch negative. Only four of these seven classes of bonds, or $146.6 million, were outstanding at June 30, 2013. The result of the downgrade to the 12th General Bond Resolution was an increased debt service cost spread of 0.25% on the taxable bonds, as well as the loss of a LIBOR limiter, which limited the periodic rate paid by certain taxable bonds on an ongoing basis. In addition, the downgrade caused an increase in the applicable percentage multiplier from 175% to 265% on the tax-exempt bonds, all of which were redeemed in fiscal year 2013.

Operating Results

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

Change in net position decreased 7% to ($12.1) million in fiscal year 2012 from ($11.3) 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 mainly found in the $5.0 million increase in salaries and employee benefits. These reductions to the change in net position were predominantly offset by a $12.5 million increase in net student loan revenues, a $3.1 million increase in net servicing fee revenues, and a $10.3 million reduction in provision for loan losses. Adjusting for nonoperating revenues and expenses, the Authority's change in net position for fiscal year 2012 would have increased to $7.7 million.

Operating Revenues

Total operating revenues increased 2% from fiscal year 2012 to fiscal year 2013 as compared to a 4% decrease from fiscal year 2011 to fiscal year 2012. The primary reason for the increase in fiscal year 2013 was an increase in net servicing fees revenue of $14.4 million, which included a $15.0 million increase in net servicing fees from the Authority's federal contract, partially offset by a $0.6 million decrease in lender servicing fees. Offsetting the increase in net servicing fees revenue was a reduction in net student loan revenues of $10.9 million, including a $19.6 million decrease in interest on student loans, a $4.5 million decline in interest subsidy, and a $13.2 million improvement in negative special allowance. Net student loan revenues declined mainly due to a $395.7 million reduction in gross student loans outstanding, as well as a slight reduction in the one-month LIBOR rate, and the continuing shift in the portfolio mix to a higher percentage of lower yielding post-October 1, 2007 loans. The reduction in interest subsidy is a result of the ongoing decrease in the level of lower yielding loans in an in-school or in-grace status from 4% ($132.1 million) of the portfolio at June 30, 2012 to 2% ($74.6 million) of the portfolio at June 30, 2013. The improvement in special allowance recognized in fiscal year 2013 was mainly due

Operating Results (continued)

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

Comparatively, the primary reason for the fiscal year 2012 decrease in operating revenues 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 an $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 mainly due to the $13.2 million reduction in premium expense, which is netted against interest on student loans. The decrease in interest subsidy is a result of the decrease in the level of lower yielding loans in an in-school or in-grace status from 5% ($205.5 million) of the portfolio at June 30, 2011 to 4% ($132.1 million) of the portfolio at June 30, 2012. The improvement in special allowance recognized in fiscal year 2012 was mainly due to the $184.3 million reduction in gross student loans owned. Also contributing to the improvement in special allowance was the aforementioned decrease in the mix of lower yielding loans in an in-school or in-grace status. The improvement in special allowance 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.

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

Fixed rate unsubsidized Stafford loans made on or after July 1, 2006 and subsidized Stafford loans made between July 1, 2006 and June 30, 2008 in all loan statuses bear interest at 6.8%. Fixed rate subsidized Stafford loans made between July 1, 2008 and June 30, 2009 bear interest at 6.0%, while the same loans made between July 1, 2009 and June 30, 2010 bear interest at 5.6%. Subsidized and unsubsidized Stafford loans made on or after July 1, 1998 and before July 1, 2006 that are in a status other than in-school, in-grace, or deferment bear interest at a rate equivalent to the 91-day U.S. Treasury Bill (91-day T-Bill) rate plus 2.30%, with a maximum rate of 8.25%. Stafford loans made within the same period that are in an in-school, in-grace, or deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. The variable rate loans are adjusted annually on July 1 based on the

Operating Results (continued)

91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2013 was 0.09%, which set the rates on these loans at 2.39% and 1.79%, respectively. The rates on the same loans during fiscal year 2012 were 2.36% and 1.76%, respectively, and during fiscal year 2011 were 2.47% and 1.87%, respectively.

PLUS loans first disbursed on or after July 1, 2006 bear interest at a fixed rate of 8.5%. Variable rate PLUS loans made on or after July 1, 1998 bear interest at a rate equivalent to the 91-day T-Bill plus 3.10%, with a maximum rate of 9.0%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2013 was 0.09%, which set the rate on these loans at 3.19%, as compared to 3.16% for fiscal year 2012 and 3.27% for fiscal year 2011. 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%.

Special allowance is paid to or rebated by the Authority on the spread between student loan borrower interest rates and the one-month LIBOR, 90-day CP, or 91-day T-Bill rates. For example, federal law requires the Authority to charge a parent an 8.5% interest rate on a PLUS loan originated after July 1, 2006, which the Authority collects from the parent borrower. However, the Authority only earns a yield on that loan at the one-month LIBOR rate plus 1.94%. The one-month LIBOR rate for the quarter ended June 30, 2013 was just 0.20%, which means the Authority's annual yield for that quarter was only 2.14%. The Authority is required to rebate the additional interest paid by the borrower of 6.36% (8.5% - 2.14%) to the Department through the rebate of excess special allowance, which is often referred to as negative special allowance.

Operating Expenses

Total operating expenses realized a 1.2% decrease or $1.4 million from fiscal year 2012 to fiscal year 2013 as compared to a 1.3% increase or $1.4 million from fiscal year 2011 to fiscal year 2012, as bond-related expenses and student loan-related expenses declined by $7.1 million and $7.5 million, respectively, and general and administrative expenses increased by $13.2 million. The primary reasons for the slight decrease in operating expenses in fiscal year 2013 were a $5.4 million decrease in interest expense and a $4.8 million decrease in provision for loan losses.

Operating Results (continued)

Interest expense decreased from $42.3 million in fiscal year 2012 to $37.0 million in fiscal year 2013, which represents a decrease of 13%. The decrease in bond interest expense is primarily a result of the $587.3 million decrease in the outstanding debt of the Authority, as well as a slight decrease in the weighted-average interest rates on the Authority's debt. The Authority continued to experience various interest rate spikes on its debt in fiscal year 2013 due to the failure of the auction rate market, which at times set those bonds to bear interest at the maximum rates under the bond documents. However, the amount of outstanding auction rate securities continued to decline from $499.8 million at June 30, 2012 to $146.6 million at June 30, 2013. The decrease in bond interest expense was complemented by reductions of $1.1 million in bond maintenance fees, a $0.5 million decline in cost of issuance, and a slight reduction in credit support. As a result, total bond-related expenses declined significantly to $42.9 million in fiscal year 2013. Comparatively, interest expense increased from $40.7 million in fiscal year 2011 to $42.3 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 amount of outstanding auction rate securities declined from $675.7 million at June 30, 2011 to $499.8 million at June 30, 2012. Cost of issuance expense also increased by $1.9 million from fiscal year 2011 to fiscal year 2012. The increase in bond interest expense during fiscal year 2012 was countered by reductions of $1.8 million in letter-of-credit fees and bond insurance (credit support) and a slight reduction in bond maintenance fees. As a result, total bond-related expenses increased to $50.0 million in fiscal year 2012.

Total student loan-related expenses decreased from $25.2 million in fiscal year 2012 to $17.8 million in fiscal year 2013, which represents a 30% decrease. The decrease is mainly due to a $4.8 million decrease in the provision for loan losses from $8.3 million in fiscal year 2012 to $3.5 million in fiscal year 2013. The significant decrease in provision for loan losses was a result of the fiscal year 2012 implementation of a change in management's methodology for estimating the future loan losses in the FFELP portfolio, which resulted in a $3.6 million increase to the loan loss allowance for FFELP. The revised methodology was implemented to better estimate the portfolio's future losses while considering the continued decrease in the balance of the FFELP portfolio and more recent economic trends. During fiscal year 2013, the Authority continued to experience increases in delinquencies in its supplemental loan portfolio as the percentage of supplemental loans over 120 days past due increased to 15.0% at June 30, 2013 from 11.9% at June 30, 2012. During fiscal year 2013, the Authority charged off an additional $3.1 million in

Operating Results (continued)

supplemental loans, net of recoveries, that were over 270 days past due. In the FFELP portfolio, the Authority wrote off $3.9 million. Also contributing to the decline in student loan-related expenses were consolidation rebate fees, which declined $1.7 million during fiscal year 2013 due to a $137.5 million reduction in the outstanding consolidation loan portfolio. In addition, arbitrage rebate-related expenses declined by $1.0 million.

Arbitrage rebate liability is calculated based upon the earnings of the use of proceeds from tax-exempt debt. The arbitrage rebate expense was ($47) thousand, as refund claims accrued during fiscal year 2013 exceeded current year expenses. The increase in arbitrage rebate liability produced $1.0 million in expense for fiscal year 2012 as compared to $1.9 million in income for fiscal year 2011. The increase in the arbitrage liability in fiscal year 2012 was due to expected payments 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 employee benefits, postage and forms, computer services, professional fees, occupancy expense, depreciation and amortization, and other operating expenses, increased by $13.2 million or 37% as compared to an increase of $7.2 million or 25% in fiscal year 2012. As previously noted, general and administrative expenses increased due to the significant increase in the volume of student loans the Authority is servicing under its federal contract. The Authority began fiscal year 2013 servicing approximately 1.0 million borrower accounts and concluded the year servicing over 1.3 million borrower accounts. The primary increase in general and administrative expenses can be attributed to the $7.2 million increase in salaries and employee benefits, which was due to the addition of nearly 200 employees in fiscal year 2012 who were on the payroll for a full year in fiscal year 2013. In addition, the Authority added 37 employees in fiscal year 2013. Also contributing to the increase were a $3.3 million increase in computer services, a $2.7 million increase in postage and forms, a $0.3 million increase in depreciation and amortization, and a $0.2 million increase in other operating expenses. The increases in computer services and postage and forms in fiscal year 2013 were also a direct result of the Authority’s increased federal loan servicing activity. In addition, the Authority had slight decreases of $0.4 million in professional fees and a $0.1 million decrease in occupancy expense.

Operating Results (continued)

Nonoperating Revenues and Expenses

The extinguishment of bonds at a discount during fiscal years 2012 and 2011 resulted in gains on extinguishment of debt of $11.4 million and $5.1 million, respectively. 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 available cash in the various trusts to complete several small bond purchases at a discount, which resulted in the $5.1 million gain on extinguishment of debt. The Authority did not extinguish bonds at a discount during fiscal year 2013.

The Authority contributed $5.0 million to Access Missouri during fiscal year 2013, which represents a decrease of $25.0 million from contributions to Access Missouri of $30.0 million in fiscal year 2012. In addition, during fiscal year 2012, the Authority provided for the contribution of an additional $1.0 million to the State of Missouri for Advanced Placement Incentive Grants. The Authority also contributed $30.0 million to Access Missouri in fiscal year 2011.

Contributions to the Missouri Scholarship Foundation totaled $5.8 million in fiscal year 2013, representing an increase of $5.6 million from contributions of $0.2 million in fiscal year 2012. Contributions to the Missouri Scholarship Foundation also increased in fiscal year 2012 by $0.1 million from fiscal year 2011 contributions of $0.1 million.

In addition to the above nonoperating items, the Authority also recognized $950 thousand in nonoperating revenue from a legal settlement in fiscal year 2013.

Continuing Developments

Capital Activities

During fiscal year 2013, the Authority approved a contract totaling $2.3 million for the purchase and installation of a new integrated phone system that will help streamline call center operations. As of June 30, 2013, the Authority has paid a total of $1.8 million under the contract. The phone system is expected to be operational in fiscal year 2014.

Continuing Developments (continued)

Columbia Facility

Activity at the new Columbia loan servicing center and disaster recovery site continues to progress with the hiring of additional employees in support services and the call center, as well as the scheduling of the first disaster recovery testing at the new facility, which began on September 9, 2013. With the hiring of a support services staff member in Columbia, the print and inserter capabilities are now functional. A call center class of 15 employees will begin training on September 16, 2013 with an expectation that they will begin taking calls in mid-November.

Lewis and Clark Discovery Initiative

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

On September 7, 2007, the Members of the Authority's Board approved a resolution to fund the initial payment of $230.0 million and on September 14, 2007, in accordance with the Board's Resolution, the Authority sent a $230.0 million wire to the Missouri State Treasury. Subsequently, the Members of the Authority's Board approved resolutions to fund additional payments, net of interest income earned on the funds on deposit with the State Treasurer, of $3.9 million. The Fund has also earned interest income of $10.9 million since inception. For each

Continuing Developments (continued)

quarterly payment due subsequent to September 30, 2008 through the year ended June 30, 2013, the Board did not authorize a payment to the Fund. The remaining unfunded amount of the LCDI was $105.1 million as of June 30, 2013.

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

The Authority will continue analyzing and determining on 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 Statement No. 33 as a voluntary non-exchange transaction, because the Authority will provide value to the Fund in excess of the value received in return. The Authority does not record a liability for the unfunded amount of the LCDI because the time requirement of the final funding has not been met and payment of the unfunded amount has not been deemed probable as of June 30, 2013.

Higher Education Loan Authority of the State of Missouri

Statements of Net Position
(Dollars in Thousands)

	As of June 30, 2013	As of December 31, 2012	As of June 30, 2012	As of December 31, 2011
	Authority	**Component Unit Foundation**	**Authority**	**Component Unit Foundation**
Assets:				
Current assets:				
Cash and cash equivalents:				
Restricted	**$ 97,383**	**$ –**	$ 309,059	$ –
Unrestricted	**35,828**	**2,983**	30,061	297
Total cash and cash equivalents	**133,211**	**2,983**	339,120	297
Student loans receivable	**322,178**	**–**	338,879	–
Accrued interest receivable:				
Interest subsidy – U.S. Department of Education	**3,976**	**–**	10,229	–
Student loans receivable (less allowance for doubtful amounts, $1,208 in 2013 and $1,394 in 2012)	**58,171**	**–**	71,334	–
Total accrued interest receivable	**62,147**	**–**	81,563	–
Miscellaneous receivables and prepaid expenses	**6,597**	**–**	9,133	–
Total current assets	**524,133**	**2,983**	768,695	297
Long-term assets:				
Student loans receivable (less allowance for doubtful loans, $21,112 in 2013 and $24,374 in 2012)	**2,867,813**	**–**	3,246,169	–
Pension asset	**4,455**	**–**	4,817	–
Prepaid expenses	**243**	**–**	172	–
Capital assets, at cost less accumulated depreciation and amortization of $9,228 in 2013 and $7,661 in 2012	**26,876**	**–**	19,150	–
Total long-term assets	**2,899,387**	**–**	3,270,308	–
Total assets	**$ 3,423,520**	**$ 2,983**	$ 4,039,003	$ 297
Liabilities and net position:				
Current liabilities:				
Bonds payable	**$ 291,952**	**$ –**	$ 226,486	$ –
Accrued interest payable	**2,674**	**–**	3,614	–
Arbitrage rebate payable	**–**	**–**	2,637	–
Special allowance subsidy payable	**16,577**	**–**	39,225	–
Other liabilities	**8,105**	**–**	12,292	–
Total current liabilities	**319,308**	**–**	284,254	–
Long-term liabilities:				
Bonds payable	**2,827,452**	**–**	3,480,220	–
Total liabilities	**3,146,760**	**–**	3,764,474	–
Net position:				
Net investment in capital assets	**25,949**	**–**	18,845	–
Restricted for debt service	**206,974**	**–**	199,290	–
Unrestricted	**43,837**	**2,983**	56,394	297
Total net position	**276,760**	**2,983**	274,529	297
Total liabilities and net position	**$ 3,423,520**	**$ 2,983**	$ 4,039,003	$ 297

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

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

	For the Years Ended		For the Years Ended	
	June 30, 2013	December 31, 2012	June 30, 2012	December 31, 2011
	Authority	Component Unit Foundation	Authority	Component Unit Foundation
Operating revenues, net:				
Interest on student loans, net	**$ 152,224**	**$ –**	$ 171,843	$ –
U.S. Department of Education:				
Interest subsidy	**16,803**	**–**	21,299	–
Special allowance	**(68,036)**	**–**	(81,243)	–
Investment income	**276**	**–**	470	–
Servicing fees	**30,335**	**–**	15,731	–
Less: Subcontractor fees	**(10,017)**	**–**	(9,838)	–
Contributions from Authority	**–**	**2,750**	–	200
Other	**360**	**1**	736	3
Total operating revenues, net	**121,945**	**2,751**	118,998	203
Operating expenses:				
Interest expense	**36,973**	**–**	42,336	–
Cost of issuance	**4,626**	**–**	5,144	–
Bond maintenance fees	**923**	**–**	2,033	–
Credit support	**351**	**–**	504	–
Total bond-related expenses	**42,873**	**–**	50,017	–
Consolidation rebate fees	**14,279**	**–**	15,969	–
Arbitrage rebate	**(47)**	**–**	964	–
Provision for loan losses	**3,519**	**–**	8,292	–
Total student loan-related expenses	**17,751**	**–**	25,225	–
Salaries and employee benefits	**27,460**	**–**	20,211	–
Postage and forms	**5,754**	**–**	3,073	–
Computer services	**6,725**	**–**	3,422	–
Professional fees	**2,079**	**–**	2,491	–
Occupancy expense	**1,785**	**–**	1,876	–
Depreciation and amortization	**2,188**	**–**	1,823	–
Grants	**–**	**65**	–	6
Other operating expenses	**3,299**	**–**	3,145	–
Total general and administrative expenses	**49,290**	**65**	36,041	6
Total operating expenses	**109,914**	**65**	111,283	6
Operating income	**12,031**	**2,686**	7,715	197
Nonoperating revenues (expenses):				
Gain on extinguishment of debt	**–**	**–**	11,393	–
Miscellaneous income	**950**	**–**	–	–
Access Missouri Financial Assistance Program	**(5,000)**	**–**	(30,000)	–
Advanced Placement Incentive Grants	**–**	**–**	(1,000)	–
Contributions to Foundation	**(5,750)**	**–**	(200)	–
Total nonoperating revenues (expenses)	**(9,800)**	**–**	(19,807)	–
Change in net position	**2,231**	**2,686**	(12,092)	197
Net position, beginning of year, as restated	**274,529**	**297**	286,621	100
Net position, end of year	**$ 276,760**	**$ 2,983**	$ 274,529	$ 297

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Student loan and interest purchases	**$ (172,158)**	$ (361,019)
Proceeds from sale of student loans and interest	**11,124**	–
Student loan repayments	**715,738**	721,703
Payments to employees	**(26,857)**	(19,276)
Payments to vendors	**(51,882)**	(38,473)
Net settlement of government interest	**(67,627)**	(58,920)
Cash received for servicing fees	**33,997**	10,109
Reimbursement for start-up costs	**292**	–
Net cash provided by operating activities	**442,627**	254,124
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	**956,200**	828,105
Proceeds from line of credit	**–**	42,700
Repayment of bonds	**(1,543,695)**	(777,659)
Repayment of line of credit	**–**	(42,700)
Repayment of conduit	**–**	(237,093)
Interest paid on debt	**(37,545)**	(42,535)
Cash paid for bond issuance costs	**(4,626)**	(5,095)
Payments for scholarships and grants	**(5,000)**	(30,100)
Contributions to Foundation	**(4,800)**	(200)
Net cash used in noncapital financing activities	**(639,466)**	(264,577)
Cash flows from capital activities:		
Purchase of capital assets	**(9,070)**	(4,279)
Proceeds from sale of capital assets	**–**	3
Net cash used in capital activities	**(9,070)**	(4,276)
Change in cash and cash equivalents	**(205,909)**	(14,729)
Cash and cash equivalents, beginning of year	**339,120**	353,849
Cash and cash equivalents, end of year	**$ 133,211**	$ 339,120

Higher Education Loan Authority of the State of Missouri

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

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 12,031**	$ 7,715
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization:		
Capital assets	**2,188**	1,823
Loan premiums and credit support	**(824)**	3,803
Provision for loan losses	**3,519**	8,292
Loss on sale of capital assets	**70**	161
Other noncash operating expenses	**13**	–
Interest expense	**36,973**	41,952
Cost of issuance	**4,626**	5,144
Change in assets and liabilities:		
Decrease in student loans receivable	**392,712**	179,812
Decrease in accrued interest receivable	**19,416**	7,474
Decrease (increase) in miscellaneous receivables and prepaid expenses	**1,939**	(6,775)
Decrease in pension asset	**362**	239
(Decrease) increase in arbitrage rebate payable	**(2,637)**	943
(Decrease) increase in special allowance subsidy payable and other liabilities	**(27,761)**	3,541
Total adjustments	**430,596**	246,409
Net cash provided by operating activities	**$ 442,627**	$ 254,124
Noncash investing, capital, and financing activities:		
Outstanding liabilities, including retainage payable, related to capital assets	**$ 926**	$ 305

See notes to financial statements.

1. Description of the Organization

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

The Authority was historically one of the lenders for supplemental loans made available to students in the Midwestern region who had reached the maximum amount available under FFELP. The balance of these loans outstanding is approximately 5% of the total loan receivable balance as of June 30, 2013. During fiscal year 2008, the Authority discontinued originating supplemental and FFELP consolidation loans.

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

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

1. Description of the Organization (continued)

exchange. At June 30, 2013, the Authority was servicing federal accounts for ten subcontractors, allowing the Authority to service a minimum of 1.1 million federal accounts. At June 30, 2013, the Authority also had agreements with four additional subcontractors, three of which the Authority began servicing subsequent to year-end and one of which is awaiting Department approval. If approved, this would allow the Authority to service a minimum of 1.5 million federal accounts.

Discretely Presented Component Unit – 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 Internal Revenue Service (IRS) as a tax-exempt 501(c)(3) entity for federal tax purposes. All significant contributions received by the Foundation are expected to be made by the Authority.

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

1. Description of the Organization (continued)

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

Since the Authority approves the appointment of the Foundation's Board of Directors and is able to impose its will on the Foundation, the Foundation is considered a component unit of the Authority and is discretely presented alongside the Authority's financial statements. The Foundation does not issue separate financial statements.

The Authority reports on a June 30 fiscal year-end, and the Foundation has a December 31 fiscal year-end. The financial data of the Foundation presented in the accompanying financial statements includes information as of and for the years ending December 31, 2012 and 2011. As a result of the differing fiscal years, the transactions between the Authority and the Foundation that are presented in the financial statements may not coincide. For the year ended June 30, 2013, the Authority contributed $5,750 to the Foundation, $3,000 of which was provided after December 31, 2012 and therefore not reflected as contribution revenue of the Foundation in the accompanying financial statements for the year ended December 31, 2012. For the year ended June 30, 2012, the Authority contributed $200 to the Foundation, all of which was provided during the Foundation's year ended December 31, 2011 and therefore reflected as contribution revenue of the Foundation in the accompanying financial statements for the year ended December 31, 2011.

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

2. Summary of Significant Accounting Policies (continued)

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. For financial statement presentation purposes, the funds have been aggregated into a single enterprise fund.

Adoption of New Accounting Standards

During fiscal year 2013, the Authority adopted the following GASB Statements:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* – 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. The adoption of this Statement had no impact on current financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34* – This Statement improves guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The adoption of this Statement had no material impact on current financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position. The adoption of this Statement impacted the names and titles of certain items presented in the current financial statements.

2. Summary of Significant Accounting Policies (continued)

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* – 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 (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Please refer to the section titled, *Application of New Accounting Pronouncement*, for information on how the adoption of this Statement affected current and prior year financial statements.

GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62* – 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 GASB Statements No. 54 and No. 62. The adoption of this Statement had no impact on current financial statements.

Use of Estimates

The preparation of the Authority's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the 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

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

2. Summary of Significant Accounting Policies (continued)

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 loans purchased using a method that approximates the effective interest method. During the years ended June 30, 2013 and 2012, the estimated life of loans purchased was three years. The Authority recognizes premiums and discounts on pools of loan purchases with less than $40 of initial premiums or discounts to interest revenue at the time of purchase.

Accrued Interest Receivable

Interest on student loans is accrued based upon the actual principal amount outstanding. The Department 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 amount of accrued interest received by the Authority is reduced by amounts due to the Department for negative special allowance as described below.

Allowance for Doubtful Amounts

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

Supplemental Loans

The supplemental loans in the Authority’s portfolio present the greatest risk of loan loss because the loans are either self-insured or insured by a third party as opposed to FFELP loans, which are

2. Summary of Significant Accounting Policies (continued)

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

The allowance associated with the accrued interest and fees receivable on 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 both quantitative and qualitative factors. Historical data on defaults and write-offs experienced is projected to estimate the amount of losses that will be incurred over the remaining weighted-average life of the FFELP portfolio. The estimated losses are then multiplied by a percentage, consisting of the weighted-average non-guarantee rate adjusted for trending, to determine the allowance for loan losses required on the outstanding principal balances of FFELP loans. Because accrued interest receivable on FFELP loans is insured at the same percentages as the related principal on those loans, the reserve percentage on FFELP principal is 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.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Miscellaneous Receivables and Prepaid Expenses

At June 30, 2013 and 2012, miscellaneous receivables and prepaid expenses consist of the following:

	2013	**2012**
Prepaid bond interest	**$ 1,150**	$ 1,100
Other prepaid expenses	**1,756**	1,336
Arbitrage rebate refunds receivable	**985**	–
Servicing fees receivable	**2,417**	6,097
Other receivables	**532**	772
Total miscellaneous receivables and prepaid expenses	**$ 6,840**	$ 9,305
Current portion	**$ 6,597**	$ 9,133
Long-term portion	**243**	172
Total	**$ 6,840**	$ 9,305

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*.

2. Summary of Significant Accounting Policies (continued)

Arbitrage Rebate Payable

Federal income tax rules limit the investment and loan yields that 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 position. Excess loan yields may also be reduced by certain borrower benefit programs. See Note 11 for more information.

Special Allowance Payable

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

The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the one-month LIBOR or 90-day CP, to the average daily unpaid principal balance and capitalized interest of the student loans held by the Authority. For loans first disbursed prior to January 1, 2000, the 91-day Treasury bill rate is used rather than the one-month LIBOR or 90-day CP rates. The special allowance is accrued as earned or payable. Borrower interest rates for Stafford and Parent Loans for Undergraduate Students (PLUS) loans first disbursed between July 1, 1998 and June 30, 2006 were variable rates set annually based on the 91-day Treasury bill plus a spread between 1.70% and 3.10%. Lender yields on many of those same loans (loans first disbursed between January 1, 2000 and April 1, 2006) adjust

2. Summary of Significant Accounting Policies (continued)

quarterly based on the one-month LIBOR or 90-day CP rates plus a spread between 1.74% and 2.64%; however, the borrower rate serves as the "floor" for the lender yield. Loans first disbursed in these time periods can only earn positive special allowance due to the "floor" income feature. For loans first disbursed after April 1, 2006, federal law changed, removing the "floor" income feature, which allows the lender yield to float down below the borrower rate. In these situations, the loan owner earns less than the borrower pays in interest causing negative special allowance, which must be rebated to the Department. This situation was magnified by additional changes in federal law that implemented fixed borrower interest rates from 6.8% to 8.5% for loans first disbursed after July 1, 2006. Furthermore, for loans first disbursed after October 1, 2007, the lender's spread over the 90-day CP rate was reduced by 0.40% to 0.70%. The Authority's total special allowance was negative in fiscal years 2013 and 2012 due to the Authority's loan portfolio mix and the low one-month LIBOR and 90-day CP rates.

Net Position

The net position of the Authority is classified into three categories: net investment in capital assets, restricted for debt service, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any liabilities attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on the use of net position are externally imposed by outside parties. For the Authority, restricted net position consists of the minimum collateral requirements discussed in Note 7, net of related liabilities, as defined in the bond resolutions. Unrestricted net position includes net position that does not meet the definition of either "net investment in capital assets" or "restricted." For the Authority, unrestricted net position includes that which is available for the operations of the Authority (in the Authority's Operating Fund) or above the minimum collateral level required by the Bond Fund in which it is maintained. Removal of unrestricted net position from the Bond Funds is typically subject to the approval of one or more of the following: credit rating agencies, bond insurers, bondholders, and the trustee. Furthermore, extensive financial analysis is required and performed by the Authority and the approving party prior to the approval and removal of net position.

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 policy of both the Authority and the Foundation to first apply expense to restricted resources, then unrestricted resources.

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 statements of revenues, expenses, and changes in net position and are recognized as the services are performed.

Subcontractor Fees

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

Interest Expense

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

2. Summary of Significant Accounting Policies (continued)

Bond Maintenance Fees

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

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.

Gain on Extinguishment of Debt

Gain on extinguishment of debt represents the net result of the purchase and extinguishment of previously issued bonds utilizing available cash held under the 11th and 12th General Bond Resolutions. Gains resulting from the purchase and extinguishment of bonds at a discount to carrying value are offset by any expenses directly associated with those transactions. Gain on extinguishment of debt is included in 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.

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.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

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

Reclassifications

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

Application of New Accounting Pronouncement

As discussed previously, the Authority adopted GASB Statement No. 65 during the year ended June 30, 2013. Under this Statement, bond issuance costs are to be expensed in the period in which they are incurred, rather than deferred and amortized over the life of the related debt as was prescribed under previous standards. This change is to be applied retroactively by restating the financial statements for all prior periods presented. As a result, any previously unamortized bond issuance costs (deferred charges) have been removed from the statements of net position of the Authority. In addition, costs of issuance associated with newly issued debt are presented as expenses in the statement of revenues, expenses, and changes in net position in the year the related debt was issued.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

The effects of this change on beginning net position and the change in net position previously reported for the year ended June 30, 2012 are as follows:

		2012
Net position, beginning of year, as originally reported	$	305,672
Unamortized bond issuance costs at June 30, 2011		(19,051)
Net position, beginning of year, as restated	$	286,621
Change in net position, as originally reported	$	(10,360)
Remove amortization of deferred bond issuance costs, previously included in interest expense		1,315
Remove write-offs of deferred bond issuance costs, previously included in gain on extinguishment of debt		2,097
Expense costs of issuance for bonds issued during 2012		(5,144)
Change in net position, as restated	$	(12,092)
Net position, beginning of year, as restated	$	286,621
Change in net position, as restated		(12,092)
Net position, end of year	$	274,529

3. Cash and Cash Equivalents

At June 30, 2013 and 2012, the Authority's carrying amount of cash on deposit was $40,966 and $45,237, respectively. As it relates to cash deposits held in the Authority's Operating Fund, the Authority's policy is that deposits should either be insured or collateralized with investments that are permissible under the Authority's state statutes. The Authority has a Tri-Party Collateral Management Agreement with Bank of America for deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels. Bank of New York Mellon serves as the custodian for the collateral pledged under the agreement. Eligible collateral security types under the agreement include U.S. Treasury securities, U.S. agency securities, and general obligation bonds of the State of Missouri. At June 30, 2013, the Authority's deposits were fully insured or collateralized with securities held by the third-party custodian in the Authority's name. At June 30, 2012, the Authority's deposits were fully insured by the FDIC.

3. Cash and Cash Equivalents (continued)

At June 30, 2013 and 2012, the Authority's cash equivalent balances of $92,245 and $293,883, 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. 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.

At December 31, 2012 and 2011, the Foundation's carrying amount of cash on deposit was $2,983 and $297, respectively. The Foundation does not have a policy addressing custodial credit risk. At December 31, 2012 and 2011, the Foundation's deposits were fully insured by the FDIC.

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

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

Reserve Accounts – 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, 2013 and 2012 was $0 and $4,977, 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 noncancelable surety bond in lieu of cash deposits for the Reserve Account in the 12th General Bond Resolution in accordance with the bond provisions. The amount of this surety bond was $2,844 and $4,934 at June 30, 2013 and 2012, 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.

3. Cash and Cash Equivalents (continued)

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

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

Reserve Funds – Under the terms of certain bond provisions, minimum amounts are required to be maintained in the Reserve Funds for each related bond issue. The total of these minimum requirements at June 30, 2013 and 2012 was $7,864 and $6,505, respectively.

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

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

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

(Dollars in Thousands)

3. Cash and Cash Equivalents (continued)

As of June 30, 2013 and 2012, the Authority's cash and cash equivalents were segregated as follows:

	2013	2012
Special trust accounts:		
Restricted:		
Revenue accounts	**$ 1,249**	$ 174,084
Collection funds	**71,868**	87,965
Reserve accounts	**–**	4,977
Reserve funds	**7,864**	6,505
Capitalized interest funds	**2,450**	2,613
Department rebate funds	**6,695**	16,961
Acquisition fund	**2,119**	164
Total special trust accounts	**92,245**	293,269
Operating fund:		
Unrestricted	**35,828**	30,061
Restricted – due to special trust accounts	**5,138**	13,743
Restricted	**–**	2,047
Total operating fund	**40,966**	45,851
Total cash and cash equivalents	**$ 133,211**	$ 339,120

4. Investments Held by Trustee

State law limits investments of the Authority to any obligations of the State of Missouri or of the U.S. 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.

(Dollars in Thousands)

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.

Although the Authority classifies and presents its money market mutual funds as cash equivalents in accordance with the policy described in Note 1, money market mutual funds are classified as investments under GASB Statement No. 40. The investment disclosures required by GASB Statement No. 40 are included in Note 3.

5. Student Loans Receivable

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

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

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

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

(Dollars in Thousands)

5. Student Loans Receivable (continued)

Student loans receivable at June 30, 2013 and 2012 are as follows:

	2013	2012
Total guaranteed FFELP loans	**$ 3,052,629**	$ 3,431,074
Supplemental loans:		
Third-party insured	**6,788**	9,025
Self-insured	**151,686**	169,323
Total supplemental loans	**158,474**	178,348
Allowance for doubtful loans	**(21,112)**	(24,374)
Total student loans receivable	**$ 3,189,991**	$ 3,585,048
Weighted-average yield paid by borrowers – end of year	**5.10%**	5.02%

The Authority's yield on federal student loans receivable is set by federal law and is generally variable based on the one-month LIBOR, 90-day CP, or 91-day Treasury bill rates, plus a factor. These yields are based on the type of loan, the date of loan origination, and, in some cases, the method of financing. Consolidation loans, Stafford loans, and PLUS loans originated after July 1, 2006 have a fixed rate for the borrower. The Authority's yield on supplemental loans is a variable rate, based on either the Treasury bill or the prime rate, plus a factor, depending on when the loan originated and the creditworthiness of the borrower and co-signor.

The activity for the allowance for doubtful loans for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Beginning balance	**$ 24,374**	$ 23,368
Provision for loan losses	**3,519**	8,292
Write-offs of loans	**(8,927)**	(8,749)
Recoveries	**2,146**	1,463
Ending balance	**$ 21,112**	$ 24,374

(Dollars in Thousands)

6. Capital Assets

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

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 3,556	$ –	$ –	$ 3,556
Construction in progress	1,788	277	–	2,065
Depreciable capital assets:				
Building	12,843	6,437	–	19,280
Furniture and equipment	8,108	3,282	(703)	10,687
Software assets	516	–	–	516
Total depreciable capital assets	21,467	9,719	(703)	30,483
Less accumulated depreciation and amortization:				
Building	(4,125)	(521)	–	(4,646)
Furniture and equipment	(3,459)	(1,564)	621	(4,402)
Software assets	(77)	(103)	–	(180)
Total accumulated depreciation and amortization	(7,661)	(2,188)	621	(9,228)
Net depreciable capital assets	13,806	7,531	(82)	21,255
Total capital assets, net	$ 19,150	$ 7,808	$ (82)	$ 26,876

(Dollars in Thousands)

6. Capital Assets (continued)

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)

7. Financings

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

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

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

(Dollars in Thousands)

7. Financings (continued)

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.

7. Financings (continued)

Auction Rate Securities

At June 30, 2013 and 2012, total auction rate securities represented 5% and 14%, 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, 2013, the auction rate notes experienced failures in the bidding process. The auction rate notes are not putable. As of June 30, 2013, 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 indexed rate for taxable debt or an S&P Municipal Bond 7-day Intermediate Grade indexed rate (formerly based upon a JJ Kenny indexed rate) for tax-exempt debt, taken in consideration with the annual average auction rate as of the current repricing date.

LIBOR-Indexed Rate Notes

At June 30, 2013 and 2012, LIBOR-indexed rate notes represented 0% and 20%, respectively, of total outstanding bonds payable. The Authority's LIBOR-indexed rate notes repriced monthly based on one-month LIBOR plus 0.13%.

LIBOR Floating Rate Notes

At June 30, 2013 and 2012, LIBOR floating rate notes represented 95% and 66%, respectively, of total outstanding bonds payable. Five of the Authority's LIBOR floating rate note trusts reprice every three months at rates equal to three-month LIBOR plus a spread ranging from 0.60% to 1.05%. The remaining two LIBOR floating rate note trusts reprice every month at rates equal to one-month LIBOR plus a spread of either 0.55% or 0.83%. Principal payments are required to be made either monthly or quarterly based on available funds less required fees and transfers as stipulated in the bond documents.

(Dollars in Thousands)

7. Financings (continued)

The following is a summary of debt service requirements at June 30, 2013:

	Principal	Interest	Total
Fiscal Years			
2014	$ 292,144	$ 33,274	$ 325,418
2015	294,425	30,221	324,646
2016	305,248	27,086	332,334
2017	305,983	23,891	329,874
2018	290,850	20,771	311,621
Total fiscal years 2014 – 2018	1,488,650	135,243	1,623,893
2019 – 2023	947,681	68,925	1,016,606
2024 – 2028	471,719	25,589	497,308
2029 – 2033	193,202	5,847	199,049
2034 – 2038	6,203	1,512	7,715
2039 – 2043	–	1,414	1,414
2044 – 2046	16,375	825	17,200
	$ 3,123,830	$ 239,355	$ 3,363,185

The principal requirements included in the table above for the LIBOR floating rate notes are based on scheduled borrower repayments of the student loans in those trusts. The interest requirements in the table above were prepared using the applicable variable rates in effect at June 30, 2013. The debt service requirements presented in the table above may differ significantly from the actual amounts of principal and interest paid in future periods.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Authority under certain conditions as set forth in the bond agreements. In addition, at June 30, 2013 and 2012, $118,300 and $211,000, respectively, of the bonds were subordinate to the remainder of the corresponding outstanding bonds.

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

7. Financings (continued)

issued to the insurance trustees as beneficiaries for the respective bondholders. The purpose of the insurance policies is to guarantee payment of the bonds upon maturity or earlier redemption. The bond agreements contain certain covenants that, among other requirements, include maintaining minimum collateral levels. The Authority maintains a minimum amount of assets pledged to meet the collateral requirements specified in the various bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2013 and 2012 was $3,359,064 and $3,975,116, respectively.

At June 30, 2013, the Authority was in compliance with all financial covenants and requirements of its debt agreements except the covenant within the 12th General Bond Resolution requiring that the supplemental loan cumulative default rate not exceed 10% of all supplemental loans in repayment status under the 12th General Bond Resolution. At June 30, 2013, the supplemental loan cumulative default rate was 12.8%. At June 30, 2012, the Authority was in compliance with all financial covenants and requirements of its debt agreements except those within the 12th General Bond Resolution requiring that (a) the supplemental loan cumulative default rate not exceed 10% of all supplemental loans in repayment status under the 12th General Bond Resolution and (b) the value of supplemental loans under the 12th General Bond Resolution not exceed 75% of the value of all student loans under the 12th General Bond Resolution. At June 30, 2012, the supplemental loan cumulative default rate was 10.3% and supplemental loans comprised 78.3% of all loans pledged under the 12th General Bond Resolution.

Violation of the covenant related to the supplemental loan cumulative loan default rate not exceeding 10% is considered a recycling suspension event; however, the recycling periods for all bonds issued under the 12th General Bond Resolution expired several years ago. In addition, during the year ended June 30, 2013, the Authority received consent from AMBAC Indemnity to remove the covenant related to the value of supplemental loans not exceeding 75%. This was due to the refinancing of all FFELP loans held under the 12th General Bond Resolution during the year. At June 30, 2013, only supplemental loans remain in the 12th General Bond Resolution.

7. Financings (continued)

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 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% and a final maturity date of June 25, 2036. The notes have an expected weighted-average life of 5.74 years based on a 2% constant prepayment rate (CPR) for both consolidation and non-consolidation loans. 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 a final maturity date of January 26, 2026. The notes have an expected weighted-average life of 4.7 years based on a 4% CPR for both consolidation and non-consolidation loans. The full turbo trust had a starting parity of 103.30%.

2013-1 LIBOR Floating Rate Notes

On May 22, 2013, the Authority issued $956,200 in LIBOR floating rate notes to (i) refinance the 11th General Bond Resolution trust estate, (ii) refinance all FFELP loans held under the 12th General Bond Resolution trust estate, (iii) purchase FFELP loans from one of its lender partners, and (iv) purchase loans from the Authority's Operating Fund. The notes were issued in one series at one-month LIBOR plus 0.55% with a final maturity date of May 25, 2032. The notes have an expected weighted-average life of 5.28 years based on a 4% CPR for consolidation loans and a 6% CPR for non-consolidation loans. The trust had a starting parity of approximately 103.00%. Releases from the trust are permitted when the parity ratio exceeds 110.00%.

7. Financings (continued)

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

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 ABCP 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 (Straight-A Conduit).

The Straight-A Conduit purchased notes secured by eligible FFELP loans from eligible FFELP lenders and holders, which in turn served as the underlying asset against which the Straight-A Conduit sold commercial paper. The commercial paper had variable maturities, but in no case longer than 90 days. As previously issued commercial paper matured, proceeds from newly issued commercial paper were used to satisfy investors holding earlier maturities. If necessary, the Federal Financing Bank would provide a short-term liquidity backstop to refinance maturing commercial paper. The Department would purchase loans from the Straight-A Conduit in order to allow the Straight-A Conduit to repay such short-term liquidity loans to the extent required. The Straight-A Conduit provided an advance of 97% of the student loan value for loans in the program. In fiscal year 2010, the Authority funded a total of $308,719 in student loans through the Straight-A Conduit. On May 10, 2012, the Authority paid the Straight-A Conduit draws in full with proceeds from the 2012-1 LIBOR floating rate notes.

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 had a 364-day term with a borrowing rate of LIBOR plus 0.55% and an unused commitment fee of 0.15%. The terms required a 106.5% parity ratio and permitted a 0.75% servicing and administration draw. Eligible collateral limitations under the line-of-credit terms included 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. The Authority borrowed a total of $42,700 under the line-of-credit agreement before the draws were paid in full with proceeds from the 2012-1 LIBOR floating rate notes on May 10, 2012. The Authority reduced the size of the line of credit to $10,000 on May 11, 2012, and the line of credit expired on August 20, 2012.

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 or system usage. Charges incurred under these contracts totaled $6,924 and $3,649 for the years ended June 30, 2013 and 2012, respectively.

During the year ended June 30, 2013, the Authority approved a contract totaling $2,269 for the purchase and installation of a new integrated phone system. The Authority has spent $1,815 under this contract as of June 30, 2013 and has a remaining contractual commitment of $454.

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

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

8. Contracts, Commitments, and Contingencies (continued)

At June 30, 2012, the Authority had accrued an estimated loss contingency for its taxpayer exposure liability due to the IRS under the voluntary closing agreement program. 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, 2013 and 2012, the Authority contributed $558 and $507 and employees contributed $744 and $639 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. The Pension Plan is administered by PNC Institutional Investments and PNC Bank, National Association (PNC). 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.

(Dollars in Thousands)

9. Employee Benefits (continued)

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, 2013, the funds were invested 50:48:2 equity securities to debt securities to cash and cash equivalents. At June 30, 2012, the funds were invested 50:45:5 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, 2013, 2012, and 2011 were determined as part of the July 1, 2012, 2011, and 2010 actuarial valuations, respectively.

Funded Status and Funding Progress – The following table displays the funded status of the Pension Plan as of July 1, 2012, 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)
7/1/2012	$ 27,711	$ 28,614	$ 903	96.8%	$ 18,607	4.9%

*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, 2013, 2012, and 2011:

	Pension Plan		
	2013	**2012**	**2011**
Net pension obligation (NPO):			
NPO, beginning of year	**$ (4,817)**	$ (5,056)	$ (5,306)
Annual pension cost (APC)	**3,103**	1,633	1,810
Contributions for year	**(2,741)**	(1,394)	(1,560)
NPO, end of year	**$ (4,455)**	$ (4,817)	$ (5,056)
The negative NPO represents a pension asset.			
Components of annual pension cost:			
Annual required contribution (ARC)	**$ 2,876**	$ 1,394	$ 1,560
Interest on NPO	**(337)**	(354)	(371)
Adjustment to ARC	**564**	593	621
APC	**$ 3,103**	$ 1,633	$ 1,810
Percentage of APC contributed	**88%**	85%	86%
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 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

As of June 30, 2013, the Authority has contractual commitments to purchase $7,986 in supplemental loans from two lender partners compared to $24,828 from four lender partners on June 30, 2012. As it relates to $2,261 of the supplemental loan commitment (one of the two lender partners), if the Authority is unable to buy these loans, the Authority's liability is limited to approximately $129. 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. Management plans to fulfill the commitments using funds generated through the normal financing operations of the Authority and through the use of the Authority's Operating Fund. At June 30, 2013 and 2012, the Authority was servicing $23,712 and $221,438, respectively, in student loans for these and other lending institutions.

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

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 U.S. Treasury certain amounts related to the Authority's tax-exempt bond issues. The amount required to be paid represents the excess of amounts earned over the interest cost of the tax-exempt borrowings. 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. The Authority annually employs an independent third party to prepare its arbitrage rebate calculation.

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

(Dollars in Thousands)

11. Arbitrage Rebate Payable (continued)

taxpayer exposure amount. The Authority submitted a proposal to the IRS under the VCAP on June 30, 2012 for its estimated taxpayer exposure liability of $1,232, resulting in a total arbitrage rebate liability of $2,637 at June 30, 2012.

The IRS and the Authority executed the VCAP on March 13, 2013. The closing agreement required the Authority to pay a total settlement amount to the IRS of $3,575, which included the Authority's taxpayer exposure liability in addition to the traditional arbitrage rebate amounts due on the covered bonds. The portion of the settlement attributable to the Authority's taxpayer exposure liability was paid from the Operating Fund. The agreement provided that the Authority would have no additional liability for yield reduction payments or rebate amounts with respect to the covered bonds. In addition, the agreement further provided that interest on the covered bonds would remain excluded from gross income of the bondholders and not become taxable solely as a result of the reallocation of student loans. Due to the VCAP settlement with the IRS and the Authority's retirement of its remaining tax-exempt debt during the year, there is no arbitrage rebate liability as of June 30, 2013.

During the year ended June 30, 2012, the Authority filed refund claims totaling $1,507 for arbitrage payments made to the IRS in prior years. Of this amount, the Authority has recognized $985 as arbitrage refunds receivable in the financial statements as of June 30, 2013. The final refund claim for $522 is still pending and, therefore, has not been recognized in the financial statements as of June 30, 2013.

The following table displays the aggregate changes in the arbitrage rebate payable for the fiscal years ended June 30, 2013 and 2012:

	2013	**2012**
Beginning balance	**$ 2,637**	$ 1,694
Reduction of arbitrage liability	**–**	(268)
Payments	**(3,575)**	(21)
Estimated taxpayer exposure liability	**938**	1,232
Ending balance	**$ –**	$ 2,637

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, 2013 and 2012, the Authority had 9 segments and 11 segments, respectively, that met the reporting requirements of GASB Statement No. 34, as amended by GASB Statement No. 37. In addition to its segments, the Authority presents summary financial information for the Operating Fund, which is used to record administrative transactions and revenue streams related to student loans not associated with bond issues.

The outstanding debt of the Authority at June 30, 2013 consists of student loan revenue bonds issued in accordance with the 12th General Bond Resolution and related supplemental resolutions adopted by the Board of Directors in various years from 1995 through 2006, as well as in accordance with seven Trust Indentures (collectively, the trust estates) adopted by the Board of Directors from fiscal year 2010 through fiscal year 2013. The bond documents provide that the bonds are payable exclusively from the eligible loans pledged under the respective resolutions and indentures, amounts deposited in the accounts pledged under the resolutions and indentures, and all other revenues and recoveries of principal from the loans purchased with the bond proceeds. All of the Authority's bonds are limited obligations of the Authority, which are payable solely from the respective trust estates. As a result, there is no cross-collateralization with other trust estates or the operating funds of the Authority. In the case of all but one of the trust estates, bondholders have no recourse against any party, including the Authority, if the trust estate is insufficient for repayment of the notes. In the case of the 12th General Bond Resolution, bondholders have no recourse against the Authority, but they do have recourse to the 12th General Bond Resolution bond insurer as to the payment of principal and interest on the bonds. Furthermore, the Authority's bonds are not insured or guaranteed by any government agency or instrumentality, including the Authority, the State of Missouri, or any political subdivision thereof. As a result of the preceding, it is possible that a trust estate segment can show a negative restricted net position balance as no operating funds of the Authority will pay the deficit.

(Dollars in Thousands)

12. Segment Information (continued)

Summary financial information of the Authority's segments and Operating Fund as of June 30, 2013 and 2012 is as follows:

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

(Dollars in Thousands)

12. Segment Information (continued)

	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 Position													
Assets:													
Current assets	$ 249,750	$ 68,022	$ –	$ –	$ 17,984	$ 93,228	$ 103,075	$ 64,261	$ 73,453	$ 44,784	$ –	$ 54,138	$ 768,695
Long-term assets	809,413	181,924	–	–	140,882	515,275	562,176	362,456	454,093	219,710	–	24,379	3,270,308
Total assets	$ 1,059,163	$ 249,946	$ –	$ –	$ 158,866	$ 608,503	$ 665,251	$ 426,717	$ 527,546	$ 264,494	$ –	$ 78,517	$ 4,039,003
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 position:													
Net investment in capital assets	–	–	–	–	–	–	–	–	–	–	–	18,845	18,845
Restricted for debt service	29,914	(3,370)	–	–	12,778	52,037	46,454	27,753	26,056	7,668	–	–	199,290
Unrestricted	32,273	–	–	–	–	–	–	–	–	–	–	24,121	56,394
Total net position	62,187	(3,370)	–	–	12,778	52,037	46,454	27,753	26,056	7,668	–	42,966	274,529
Total liabilities and net position	$ 1,059,163	$ 249,946	$ –	$ –	$ 158,866	$ 608,503	$ 665,251	$ 426,717	$ 527,546	$ 264,494	$ –	$ 78,517	$ 4,039,003

(Dollars in Thousands)

12. Segment Information (continued)

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

(Dollars in Thousands)

12. Segment Information (continued)

	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 Position													
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	22,948	7,978	139	2,874	4,935	18,079	18,801	11,757	18,007	2,826	215	2,724	111,283
Operating income (loss)	5,929	3,176	227	1,218	70	771	1,320	(994)	(4,807)	(2,478)	167	3,116	7,715
Nonoperating revenues (expenses)	8,162	3,249	–	–	–	–	–	–	–	–	–	(31,218)	(19,807)
Income (loss) before transfers	14,091	6,425	227	1,218	70	771	1,320	(994)	(4,807)	(2,478)	167	(28,102)	(12,092)
Interfund transfers	40	135	(18,840)	(12,076)	3	27	37	11	30,863	10,146	(167)	(10,179)	–
Change in net position	14,131	6,560	(18,613)	(10,858)	73	798	1,357	(983)	26,056	7,668	–	(38,281)	(12,092)
Net position, beginning of year, as restated	48,056	(9,930)	18,613	10,858	12,705	51,239	45,097	28,736	–	–	–	81,247	286,621
Net position, end of year	$ 62,187	$ (3,370)	$ –	$ –	$ 12,778	$ 52,037	$ 46,454	$ 27,753	$ 26,056	$ 7,668	$ –	$ 42,966	$ 274,529

(Dollars in Thousands)

12. Segment Information (continued)

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

(Dollars in Thousands)

12. Segment Information (continued)

	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	$ 17,118	$ 254,124
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)	(30,300)	(264,577)
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

13. Subsequent Events

Subsequent to year-end, the Authority received a letter from the Department dated August 2, 2013 stating that an off-site program review would be conducted to assess the Authority's administration of FFELP for the period October 1, 2004 through September 30, 2006. The nature of this review relates to billing of special allowance for 9.5% floor loans during the specified time period. Although it is probable that a loss contingency exists, the amount of that loss can not be reasonably estimated and, therefore, a loss related to this matter has not been accrued as of June 30, 2013. The amount of this loss is not expected to have a material impact on the Authority's net position.

14. Future Accounting Pronouncements

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

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. This Statement replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The 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. This Statement is effective for the Authority beginning in fiscal year 2014.

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

14. Future Accounting Pronouncements (continued)

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

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for the Authority beginning in fiscal year 2014.

* * * * * *

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, 2013, 2012, and 2011

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)**
7/1/2012	$ 27,711	$ 28,614	$ 903	96.8%	$ 18,607	4.9%
7/1/2011	$ 26,964	$ 24,434	$ (2,530)	110.4%	$ 10,694	N/A
7/1/2010	$ 22,489	$ 22,077	$ (412)	101.9%	$ 10,118	N/A

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

Ernst & Young LLP
The Plaza in Clayton Suite 1300
190 Carondelet Plaza
St. Louis, MO 63105-3434

Tel: +1 314 290 1000
Fax: +1 314 290 1882
www.ey.com

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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Higher Education Loan Authority of the State of Missouri (the Authority), which comprise the statements of net position as of June 30, 2013 and 2012, and the aggregate discretely presented component unit as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position, and, where applicable, cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2013.

Internal Control Over Financial Reporting

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

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

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

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*.

Purpose of this Report

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

Ernst + Young LLP

September 13, 2013

Ernst & Young LLP
The Plaza in Clayton Suite 1300
190 Carondelet Plaza
St. Louis, MO 63105-3434

Tel: +1 314 290 1000
Fax: +1 314 290 1882
www.ey.com

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

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

Report on Compliance for Each Major Federal Program

We have audited the Higher Education Loan Authority of the State of Missouri's (the Authority's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Ernst + Young LLP

September 13, 2013

Higher Education Loan Authority of the State of Missouri

Schedule of Expenditures of Federal Awards
(Dollars in Thousands)

For the Year Ended June 30, 2013

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	$ 16,803
		Outstanding Balance at June 30, 2013
Total Guaranteed Loans of the Authority at June 30, 2013 –		
Guaranteed student loans:		
Federal Family Education Loans (Lenders)	84.032L	$ 3,052,629

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, 2013

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, 2013

Part I – Summary of Auditor's Results

Financial Statements Section:

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer) – Unmodified

Internal control over financial reporting:

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

Federal Awards Section:

Internal control over major programs:

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs – $504,090

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

Part II – Financial Statement Findings Section

No matters are reportable.

Part III – Federal Award Findings and Questioned Costs Section

No matters are reportable.

Higher Education Loan Authority of the State of Missouri

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2013

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

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

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.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory