Financial Statements and Schedule of Expenditures of Federal Awards

Higher Education Loan Authority of the State of Missouri
As of and for the Year Ended June 30, 2015
With Reports of Independent Auditors

Higher Education Loan Authority of the State of Missouri

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Contents

Building a better
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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Higher Education Loan Authority of the State of Missouri (the Authority), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Authority as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions

As discussed in Note 2 to the financial statements, the Authority changed its method for accounting and financial reporting of pensions as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective July 1, 2014. 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 – 20 and Schedule of Changes in Net Pension Asset and Related Ratios and Schedule of Contributions on pages 66-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2015 as required by U.S. Office of Management and Budget Circular A-133 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 16, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Ernst & Young LLP

September 16, 2015

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis
(Unaudited)

As of and for the Year Ended June 30, 2015

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 $26.6 billion in student loan assets serviced as of June 30, 2015.

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 since 2011 due to the elimination of FFELP as discussed below.

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

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

The Authority responded to the Sources Sought Notice and was among the first 12 NFP servicers that the Department determined met the NFP servicer eligibility criteria under the HCERA. On September 29, 2010, the Department issued a Solicitation (NFP-RFP-2010) (the Solicitation) seeking proposals from eligible NFP servicers to contract with the Department to service federal assets, including Direct Loan accounts. On November 24, 2010, the Authority submitted a proposal to the Department responding to the Solicitation and asking for permission to proceed to execute a Memorandum of Understanding with the Department. On February 2, 2011, the Department published a determination that the Authority was permitted to enter into a Memorandum of

The Authority (continued)

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. From fall 2011 to fall 2013, the Authority entered into a "teaming arrangement" with 13 other NFP servicers (the MOHELA team). On September 19, 2014, the Authority received authorization from the Department to service Common Origination Disbursements (COD). The Authority received initial COD volume in December 2014. As of June 30, 2015, the MOHELA team is servicing approximately 1.1 million federal asset accounts, representing approximately $23.2 billion in student loans. In addition, on May 22, 2015, the Authority was awarded a contract with the Department to service the Borrower Defense Call Center. During fiscal year 2015, the Authority earned $256 thousand in borrower defense servicing fees. Subsequent to June 30, 2015, the Authority signed a contract with the Department to add five additional NFP Servicers to the existing servicing contract. The Authority has entered into a "teaming arrangement" with the five NFP Servicers bringing the MOHELA team to a total of 19.

In addition to a federal loan servicing contract, at June 30, 2015, the Authority serviced nearly $2.3 billion of its own student loans that will provide the Authority ongoing revenue streams for many years to come. This legacy portfolio and its related revenue have and continue to assist the Authority in a gradual and smooth transition to a federal asset servicing business model.

The Authority also services loans on behalf of other third-party lending institutions. At June 30, 2015, the Authority serviced over $1.0 billion in private third-party lender loans.

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

The Authority (continued)

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 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 was the lender and servicer for supplemental loans, which were 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 were several types of loans under the supplemental programs, including those for borrowers attending eligible undergraduate, technical, graduate, law, medical, and pharmacy schools. Supplemental loans were not guaranteed by the federal government.

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

The Authority (continued)

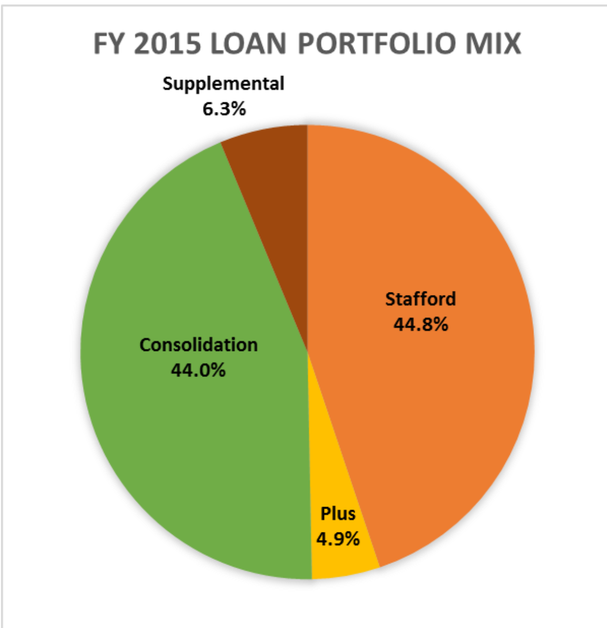
The Authority purchased $27.4 million of gross principal in student loans from guarantors and a few financial institutions during fiscal year 2015. This compares to $32.8 million of gross principal purchased during fiscal year 2014, representing a 17% decrease for fiscal year 2015. During fiscal year 2015, the Authority purchased $10.4 million in rehabilitated loans purchased from the Missouri guaranty agency at a discount, as compared to $4.6 million during 2014. The gross principal purchased above includes $17.0 million in repurchases from various guarantors of loans that had previously been in bankruptcy status as required by federal law.

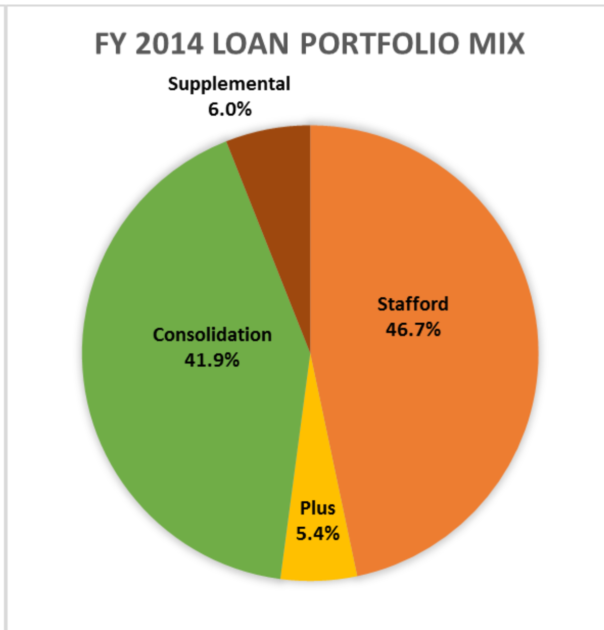
In fiscal year 2015, the Authority began servicing private loans for third-party lending institutions and contracted to complete various borrower requests on behalf of another servicer for loans serviced at the servicer's location. The Authority's lender servicing fee income was $0.8 million, which was up from $11 thousand in fiscal year 2014. In addition, in fiscal year 2015, the Authority recognized $29.9 million in servicing fees from its federal servicing contract after fees paid to subcontractor team members, compared to $27.1 million in fiscal year 2014.

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 15% from $2.8 billion to $2.3 billion in the student loan portfolio from fiscal year 2014 to fiscal year 2015.

The Authority (continued)

As of June 30, 2015 and 2014, the gross student loan portfolio held by the Authority was as follows:





The Authority did not issue any new debt during fiscal years 2015 or 2014.

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

The Authority (continued)

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. During fiscal year 2015, the Authority contributed $1.0 million to the Bright Flight Scholarship fund. In addition, since its inception, the Authority has granted over $48.6 million in loan forgiveness for a variety of student borrowers, including teachers, Pell Grant recipients, and those in military service. The Authority has also been providing scholarship and grant funding through the Missouri Scholarship and Loan Foundation by donating $11.1 million in fiscal year 2015 and $5.7 million in fiscal year 2014.

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

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Authority. The Authority charges origination and servicing fees to the Foundation in accordance with the servicing agreement approved by both entities. These fees were $46 thousand in fiscal year 2015.

As of June 30, 2015, the Foundation had $21.4 million in total assets, which was up from $10.6 million at June 30, 2014. The Foundation's assets primarily continue to be held in cash as the cash balance at 2015 fiscal year end was $19.1 million compared to $10.3 million at 2014 fiscal year end. The Foundation's operating revenue in fiscal year 2015 of $11.1 million was up from $5.7 million in fiscal year 2014. All Foundation revenues were from contributions from the Authority during the fiscal year. The Foundation's expenses increased to $0.3 million in fiscal year 2015 from $0.1 million in fiscal year 2014 due to an increase in grants and student loan activity.

The Authority (continued)

The Foundation's net position at 2015 fiscal year end was $21.4 million compared to $10.6 million at 2014 fiscal year end.

Financial Analysis

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

Financial Analysis (continued)

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

Condensed Statements of Net Position
(In thousands)

	2015	2014*
Capital assets	**$ 24,412**	$ 25,640
Other than capital assets	**2,495,767**	2,927,568
Total assets	**2,520,179**	2,953,208
Deferred outflows of resources – pension	**880**	-
Current liabilities	**245,550**	289,863
Long-term liabilities	**1,986,932**	2,381,599
Total liabilities	**2,232,482**	2,671,462
Deferred inflows of resources – pension	**910**	-
Net investment in capital assets	**23,897**	25,408
Restricted for debt service	**212,017**	208,314
Unrestricted	**51,753**	48,024
Total net position	**$ 287,667**	$ 281,746

*Reflects adjustment for adoption of GASB Statement No. 68. Refer to Footnote 2, *Summary of Significant Accounting Policies, for more information.*

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

	2015	2014
Interest on student loans and interest subsidy	**$ 132,590**	$ 154,292
Special allowance	**(53,687)**	(64,041)
Investment income and other	**30,817**	27,221
Total operating revenues	**109,720**	117,472
Bond expenses	**26,610**	31,706
Student loan expenses	**12,299**	16,574
General and administrative expenses	**52,653**	56,925
Total operating expenses	**91,562**	105,205
Operating income	**18,158**	12,267
Nonoperating expenses	**(12,237)**	(4,858)
Change in net position	**$ 5,921**	$ 7,409

Financial Position

Total assets decreased $433.0 million compared to a decrease in liabilities of $439.0 million, resulting in an increase to the Authority's net position of $5.9 million in fiscal year 2015. This increase compares to an increase in net position of $7.4 million in fiscal year 2014. The decrease in the change in net position in fiscal year 2015 is primarily due to a $3.6 million increase in net servicing fee revenue which is predominantly from the Authority's federal contract, a $5.3 million reduction in bond interest expense, a decrease in student loan related expenses of $4.3 million and a decrease in general and administrative expenses of $4.3 million. These improvements to the change in net position were partially offset by an increase in contributions of $7.4 million to the Foundation and the State and a decrease in net student loan revenues of $11.3 million.

Net investment in capital assets decreased by $1.5 million in fiscal year 2015 to $23.9 million from $25.4 million in fiscal year 2014 as depreciation and retirements outpaced funded capital acquisitions. Restricted net position increased by $3.7 million from $208.3 million in fiscal year 2014 to $212.0 million in fiscal year 2015. Unrestricted net position, after the adjustment for application of a new accounting pronouncement, increased by $3.7 million from $48.0 million in fiscal year 2014 to $51.8 million in fiscal year 2015.

For the year ended June 30, 2015, the Authority recorded deferred outflows of resources related to pension in the amount of $880 thousand, as a result of a net difference between projected and actual earnings on pension plan investments. In addition, the Authority recorded deferred inflows of resources related to pension in the amount of $910 thousand, as a result of differences between expected and actual experience.

Capital Activities

During fiscal year 2015, the Authority completed upgrades at the Columbia servicing center at a cost of approximately $0.6 million and made investments in technology expansion, hardware and software at a cost of approximately $0.9 million.

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

Financial Position (continued)

software investment, as well as $0.1 million to purchase new fleet vehicles. In fiscal year 2015 and 2014, these additions and improvements were partially offset by depreciation and disposals.

Please refer to Note 5, Capital Assets, for more information.

Other than Capital Assets

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

	2015	2014
Cash and cash equivalents	**$ 92,508**	$ 103,297
Investments	**6,203**	6,203
Student loans receivable, net	**2,339,483**	2,756,962
Accrued interest receivable	**50,430**	53,296
Miscellaneous receivables and prepaid expenses	**5,787**	6,026
Net pension asset	**1,356**	1,784
Total other than capital assets	**$ 2,495,767**	$ 2,927,568

Cash and cash equivalents decreased $10.8 million (-10%) to $92.5 million at June 30, 2015 from $103.3 million at June 30, 2014. Please refer to the statements of cash flows included in the financial statements for detail on the Authority's cash activities.

Net student loans receivable decreased $417.5 million (-15%) to $2.3 billion at June 30, 2015 from $2.8 billion at June 30, 2014. The fiscal year 2015 decline is primarily related to the net of the purchase activity of $27.4 million less loan principal reductions of $426.7 million during fiscal year 2015, as well as a loan sale of $18.2 million.

Accrued interest receivable decreased $2.9 million (-5%) to $50.4 million at June 30, 2015 from $53.3 million at June 30, 2014. The decrease was a direct result of the decrease in student loans receivable as a whole.

Miscellaneous receivables and prepaid expenses decreased $0.2 million (-4%) to $5.8 million at June 30, 2015 from $6.0 million at June 30, 2014 due to a $0.2 million reduction in prepaid bond interest, $0.4 million reduction in other prepaid expenses, a $0.1 million decrease in other receivables offset by a $0.5 million increase in servicing fee receivables.

Financial Position (continued)

The Authority's net pension asset decreased by $0.4 million to $1.4 million at June 30, 2015 from a balance of $1.8 million at June 30, 2014. The Authority adopted GASB Statement No. 68, as of July 1, 2014. The implementation of the standard resulted in a restatement of the Authority's fiscal year 2014 year-end balance of the net pension asset, previously reported in accordance with GASB Statement No. 27 in the amount of $4.2 million to $1.8 million. Please refer to Note 8 for more information on the Authority's net pension asset.

Liabilities

For fiscal year 2015, current liabilities decreased $44.3 million (-15%) to $245.6 million at June 30, 2015 from $289.9 million at June 30, 2014, primarily due to a decrease in current bonds payable of $42.8 million. Long-term liabilities decreased by $394.7 million (-17%) as the Authority repaid bonds with available cash as required by the respective bond trusts. The Authority did not issue any new bonds during fiscal year 2015 or 2014.

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 $101.8 million, were outstanding at June 30, 2015. 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.

Operating Results

The change in net position for the period ending June 30, 2015 was $5.9 million compared to the change in net position for the period ending June 30, 2014 of $7.4 million. The difference is primarily due to an increase in net servicing fee revenue of $3.6 million, a decrease in bond related expenses of $5.1 million, a $3.5 million decrease in the provision for loans losses, a decrease in student loan related expenses of $0.7 million, and a decrease of general and administrative expenses of $4.3 million. These improvements in the change in net position were offset by a decrease in net student loan revenue of $11.3 million and an increase in contributions of $7.4 million.

Operating Revenues

Total operating revenues decreased $7.8 million (-7%) to $109.7 million in fiscal year 2015 from $117.5 million in fiscal year 2014. The primary reason for the decrease in fiscal year 2015 was a $20.5 million reduction in net interest on student loans. Also contributing to the decline was a reduction of $1.2 million in interest subsidy. These declines were partially offset by increases in net loan servicing fees of $3.6 million and a decrease in special allowance paid to the Department of Education in the amount of $10.4 million. Net student loan revenues declined primarily due to a $417.5 million reduction in student loans outstanding, as well as 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 to 0.8% ($19.4 million) of the portfolio at June 30, 2015 from 1.0% ($37.0 million) of the portfolio at June 30, 2014. The improvement in special allowance recognized in fiscal year 2015 was mainly due to the reduction in student loans owned. Also contributing slightly to the improvement in special allowance was the reduction of in-school and in-grace loans.

In-school and in-grace status Stafford loans have a 0.60% lower yield to the Authority than in-repayment Stafford loans. Slightly offsetting this improvement in yield was an increase in the percentage of loans subject to the rebate of excess special allowance payments, as well as a minimal increase in one-month LIBOR rates during fiscal year 2015.

Operating Results (continued)

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

Fixed rate unsubsidized Stafford loans made on or after July 1, 2006 and subsidized Stafford loans made between July 1, 2006 and June 30, 2008, in all loan statuses bear interest at 6.8%. Fixed rate subsidized Stafford loans made between July 1, 2008 and June 30, 2009, bear interest at 6.0%, while the same loans made between July 1, 2009 and June 30, 2010, bear interest at 5.6%. Subsidized and unsubsidized Stafford loans made on or after July 1, 1998 and before July 1, 2006, that are in a status other than in-school, in-grace, or deferment bear interest at a rate equivalent to the 91-day U.S. Treasury Bill (91-day T-Bill) rate plus 2.30%, with a maximum rate of 8.25%. Stafford loans made within the same period that are in an in-school, in-grace, or deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. The variable rate loans are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2015 was 0.03%, which set the rates on these loans at 2.33% and 1.73%, respectively. The rates on the same loans during fiscal year 2014 were 2.35% and 1.75%, 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 2015 was 0.03%, which set the rate on these loans at 3.13%, as compared to 3.15% for fiscal year 2014. 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 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, 2015 was just 0.19%, which means the Authority's annual yield for that quarter was only 2.13%. The Authority is required to rebate the additional interest paid by the borrower of 6.37% (8.5% – 2.13%) to the Department through the rebate of excess special allowance, which is often referred to as negative special allowance.

Operating Results (continued)

Operating Expenses

Total operating expenses realized a $13.6 million decrease from fiscal year 2014 to fiscal year 2015. The decrease was mainly due to declines in bond-related expenses and student loan-related expenses of $5.1 million and $4.3 million, respectively. In addition, general and administrative expenses also decreased by $4.3 million.

Interest expense decreased $5.3 million from $31.0 million in fiscal year 2014 to $25.7 million in fiscal year 2015. The decrease in bond interest expense is primarily a result of the $437.5 million decrease in the outstanding debt of the Authority, as well as a small decrease in the weighted-average interest rates on the Authority's debt. The Authority continued to experience various interest rate spikes on its debt in fiscal year 2015 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. The amount of outstanding auction rate securities continued to decline to $101.8 million at June 30, 2015 from $125.3 million at June 30, 2014. Partially offsetting the decrease in bond interest expense was an increase in bond maintenance fees of $0.2 million. As a result, total bond-related expenses declined $5.1 million to $26.6 million in fiscal year 2015.

Total student loan-related expenses decreased $4.3 million to $12.3 million in fiscal year 2015 from $16.6 million in fiscal year 2014. The decrease was due in large part to the $3.5 million decrease in the provision for loan losses from $4.1 million to $555 thousand. Also contributing to the decline in student loan-related expenses was a $1.3 million decrease in consolidation rebate fees to $11.7 million in fiscal year 2015 from $13.0 million in fiscal year 2014. The decrease in consolidation rebate fees was due to a $123.9 million decline in the Authority's outstanding consolidation student loan principal.

Partially offsetting the decrease in student loan related expenses is the reduction in the rebate received related to the arbitrage rebate refund, in the amount of $0.5 million during 2014.

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, decreased by $4.3 million. The primary decrease in general and administrative expenses can be attributed to a $2.3 million decrease in postage and forms, a $0.9 million decrease in computer services and a $1.1 million decrease in other operating expenses. The decrease in general and administrative expenses are a result of efforts to increase efficiencies and process improvements.

Operating Results (continued)

Non-operating Revenues and Expenses

During fiscal year 2015, the Authority utilized cash in the 12th General to make a $2 million open market purchase and cancellation of bonds at a discount with a gain of $40 thousand. During fiscal year 2014, the Authority utilized cash in the 12th General to make a $50 thousand open market purchase and cancellation of bonds at a discount with a gain of $2 thousand.

During fiscal year 2015, the Authority contributed $1.0 million to the Bright Flight Scholarship fund and $0.1 million in other contributions. In each of the fiscal years 2015 and 2014 the Authority contributed $50 thousand to Access Missouri. Contributions to the Foundation totaled $11.1 million and $5.7 million in fiscal years 2015 and 2014, respectively, representing an increase of $5.4 million.

During fiscal year 2014, the Authority recognized $900 thousand as a reduction of expense as a result of the reversal of some of the previously recorded Advanced Placement Incentive Grants as the Authority had only paid $100 thousand toward that scholarship and this is consistent with the current state appropriation for this fund.

Continuing Developments

Lewis and Clark Discovery Initiative

On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the Initiative) became law. The legislation, known as SB 389 (the LCDI Legislation) directs the Authority to distribute $350.0 million into a fund in the State Treasury known as the Lewis and Clark Discovery Fund (the Fund) by September 30, 2013, in varying increments, unless otherwise approved by the Authority and the Missouri Commissioner of the Office of Administration. Investment earnings on the Fund are credited against subsequent payments by the Authority. In addition, the LCDI Legislation provides that the Authority may delay payments if the Authority determines that any such distribution may materially adversely affect the service and benefits provided to Missouri students or residents in the ordinary course of the Authority's business, the borrower benefit programs of the Authority, or the economic viability of the Authority. The General Assembly has appropriated amounts to be deposited in the Fund for certain capital projects at public colleges and universities. The law provides that following the initial distribution by the Authority, the Missouri Director of Economic Development shall allocate to and reserve for the

Continuing Developments (continued)

Authority in 2007 and the next 14 years, at least 30% of Missouri's tax-exempt, private activity bond cap allocation. The amount of this allocation may be reduced for 2014 and later years by the percentage of the $350.0 million not paid by the Authority to the Fund by the end of the preceding year.

On September 7, 2007, the Members of the Authority's Board approved a resolution to fund the initial payment of $230.0 million and on September 14, 2007, in accordance with the Board's Resolution, the Authority sent a $230.0 million wire to the Missouri State Treasury. Subsequently, the Members of the Authority's Board approved resolutions to fund additional payments, net of interest income earned on the funds on deposit with the State Treasurer, of $3.9 million. The Fund has also earned interest income of $10.9 million since inception. For each quarterly payment due subsequent to September 30, 2008 through the year ended June 30, 2013, the Board did not authorize a payment to the Fund. The remaining unfunded amount of the LCDI was $105.1 million as of June 30, 2015.

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

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

The Authority accounts for the funding of the LCDI in accordance with GASB Statement No. 33 as a voluntary non-exchange transaction, because the Authority will provide value to the Fund in excess of the value received in return. The Authority does not record a liability for the unfunded amount of the LCDI because the time requirement of the final funding has not been met and payment of the unfunded amount has not been deemed probable as of June 30, 2015.

Higher Education Loan Authority of the State of Missouri

Statements of Net Position

(Dollars in Thousands)

	As of June 30, 2015	
	Authority	Component Unit Foundation
Assets and deferred outflows of resources:		
Current assets:		
Cash and cash equivalents:		
Restricted	$ 66,442	$ –
Unrestricted	26,066	19,112
Total cash and cash equivalents	92,508	19,112
Investments – restricted	6,203	–
Student loans receivable	243,289	65
Accrued interest receivable:		
Interest subsidy – U.S. Department of Education	3,312	–
Student loans receivable (less allowance for doubtful amounts, $962 for the Authority)	47,118	–
Total accrued interest receivable	50,430	–
Miscellaneous receivables and prepaid expenses	5,402	–
Due from Authority	–	330
Total current assets	397,832	19,507
Long-term assets:		
Student loans receivable (less allowance for doubtful loans, $18,362 for the Authority and $46 for the Foundation)	2,096,194	1,875
Net pension asset	1,356	–
Prepaid expenses	385	–
Capital assets, at cost less accumulated depreciation and amortization of $13,379	24,412	–
Total long-term assets	2,122,347	1,875
Total assets	$ 2,520,179	$ 21,382
Deferred outflows of resources – pension	880	–
Liabilities, deferred inflows of resources and net position:		
Current liabilities:		
Bonds payable	$ 223,590	$ –
Accrued interest payable	1,404	–
Special allowance subsidy payable	12,348	–
Due to Foundation	330	–
Other liabilities	7,878	1
Total current liabilities	245,550	1
Long-term liabilities:		
Bonds payable	1,986,932	–
Total liabilities	2,232,482	1
Deferred inflows of resources - pension	910	–
Net position:		
Net investment in capital assets	23,897	–
Restricted for debt service	212,017	–
Unrestricted	51,753	21,381
Total net position	$ 287,667	$ 21,381

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

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

	For the Year Ended June 30, 2015	
	Authority	**Component Unit Foundation**
Operating revenues, net:		
Interest on student loans, net	**$ 118,609**	**$ –**
U.S. Department of Education:		
Interest subsidy	**13,981**	**–**
Special allowance	**(53,687)**	**–**
Investment income	**52**	**–**
Servicing fees	**33,791**	**–**
Less: Subcontractor fees	**(3,032)**	**–**
Contributions from Authority	**–**	**11,127**
Other	**6**	–
Total operating revenues, net	**109,720**	**11,127**
Operating expenses:		
Interest expense	**25,730**	**–**
Bond maintenance fees	**688**	**–**
Credit support	**192**	**–**
Total bond-related expenses	**26,610**	**–**
Consolidation rebate fees	**11,744**	**–**
Provision for loan losses	**555**	**46**
Total student loan-related expenses	**12,299**	**46**
Salaries and employee benefits	**30,414**	**–**
Postage and forms	**4,862**	**–**
Computer services	**6,817**	**–**
Professional fees	**2,065**	**132**
Occupancy expense	**855**	**–**
Depreciation and amortization	**3,082**	**–**
Grants	**–**	**117**
Other operating expenses	**4,558**	**50**
Total general and administrative expenses	**52,653**	**299**
Total operating expenses	**91,562**	**345**
Operating income	**18,158**	**10,782**
Non-operating revenues (expenses):		
Gain on extinguishment of debt	**40**	**–**
Commission Contribution	**(100)**	**–**
Bright Flight Contribution	**(1,000)**	**–**
Access Missouri Financial Assistance Program	**(50)**	**–**
Contributions to Foundation	**(11,127)**	**–**
Total non-operating revenues (expenses)	**(12,237)**	**–**
Change in net position	**5,921**	**10,782**
Net position, beginning of year, as previously reported	**284,169**	**10,599**
Change in accounting principle due to the implementation of GASB Statement No. 68, as amended	**(2,423)**	**–**
Net position, beginning of year, as restated	**281,746**	**10,599**
Net position, end of year	**$ 287,667**	**$ 21,381**

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statement of Cash Flows

(Dollars in Thousands)

For the Year Ended June 30, 2015

	2015
Cash flows from operating activities:	
Student loan and interest purchases	**$ (27,294)**
Proceeds from sale of student loans and interest	**18,209**
Student loan repayments	**546,182**
Payments to employees	**(29,575)**
Payments to vendors	**(34,157)**
Net settlement of government interest	**(42,099)**
Cash received for servicing fees	**32,815**
Change in restricted cash	**1,850**
Net cash provided by operating activities	**465,931**
Cash flows from noncapital financing activities:	
Repayment of bonds	**(437,611)**
Interest paid on debt	**(25,394)**
Contributions to Foundation	**(11,008)**
Contributions to Bright Flight	**(1,000)**
Commission contributions	**(100)**
Payments for scholarships and grants	**(50)**
Net cash used in noncapital financing activities	**(475,163)**
Cash flows from capital and related financing activities:	
Purchase of capital assets	**(1,605)**
Net cash used in capital and related financing activities	**(1,605)**
Cash flows from investing activities:	
Interest received on cash, cash equivalents and investments	**48**
Net cash provided by investing activities	**48**
Change in cash and cash equivalents	**(10,789)**
Cash and cash equivalents, beginning of year	**103,297**
Cash and cash equivalents, end of year	**$ 92,508**

Higher Education Loan Authority of the State of Missouri

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

	2015
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	**$ 18,158**
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	**3,082**
Net pension asset and inflows and outflows	**459**
Investment income	**52**
Provision for loan losses	**555**
Loss on sale of capital assets	**34**
Interest expense	**25,730**
Change in assets and liabilities:	
Decrease in student loans receivable	**416,923**
Decrease in accrued interest receivable	**2,866**
Decrease in miscellaneous receivables and prepaid expenses	**(110)**
Decrease in due to Foundation	**(9)**
Decrease in special allowance subsidy payable and other liabilities	**(1,809)**
Total adjustments	**447,773**
Net cash provided by operating activities	**$ 465,931**
Noncash investing, capital, and financing activities:	
Outstanding liabilities, including retainage payable, related to capital assets	**$ 515**

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, 2015. During fiscal year 2008, the Authority discontinued originating supplemental and FFELP consolidation loans.

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

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

1. Description of the Organization (continued)

agreements signed with these subcontractors, the Authority will service each entity's initial allocation of federal accounts and provide the subcontractor with a portion of the revenues in exchange. At June 30, 2015, the Authority was servicing federal accounts for thirteen subcontractors.

Discretely Presented Component Unit – Missouri Scholarship and Loan Foundation

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

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Authority. The Authority charges origination and servicing fees to the Foundation in accordance with the servicing agreement approved by both entities. Fees for fiscal year 2015 were $46.

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

1. Description of the Organization (continued)

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

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

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.

2. Summary of Significant Accounting Policies (continued)

In accordance with its bond and other borrowing resolutions, the Authority utilizes fund accounting principles, whereby each fund is a separate set of self-balancing accounts. The assets of each bond fund are restricted pursuant to the bond resolutions. To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, the Authority records financial activities in the various operating and bond-related funds (see Note 9). 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

As of July 1, 2014, the Authority adopted the following GASB Statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement 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 revised accounting and financial reporting by state and local governments for pensions and revised information provided by state and local governmental employers about financial support for pensions that is provided by other entities. 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. 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. The adoption of this Statement had no impact on current financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* This Statement addressed Statement No. 68, *Accounting and Financial Reporting for Pensions*, transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

2. Summary of Significant Accounting Policies (continued)

Statement No. 71 amends paragraph 137 of Statement No. 68 to require that at the beginning of the period in which the provisions of Statement No. 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. In those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pension should be recognized. The adoption of this Statement had no impact on current financial statements as the pension measurement date and the fiscal year end of the Authority are the same.

Use of Estimates

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

Cash Equivalents

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

Investments

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

2. Summary of Significant Accounting Policies (continued)

Student Loans Receivable

The Authority's student loans receivable consist of FFELP and supplemental loans, which are stated at the principal amount outstanding adjusted for premiums, discounts, and an allowance for doubtful amounts. The related interest income generated from the loans is decreased by premium amortization expense and increased by accretion of discounts on student loans. Premiums and discounts on student loans are recognized over the estimated remaining life of loans purchased using a method that approximates the effective interest method. During the year ended June 30, 2015, the estimated remaining life of loans purchased was three years. The Authority recognizes premiums and discounts on pools of loan purchases with less than $40 of initial premiums or discounts to interest revenue at the time of purchase.

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

Accrued Interest Receivable

Interest on student loans is accrued based upon the actual principal amount outstanding. The Department makes quarterly interest payments on subsidized FFELP loans until the student is required, under the provisions of the Higher Education Act, to begin repayment. Repayment must begin generally within six months after the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution. The Department also makes quarterly interest payments on subsidized FFELP loans that are in an eligible income-driven repayment plan or an eligible deferment status. The amount of accrued interest received by the Authority is reduced by amounts due to the Department for negative special allowance as described below.

Allowance for Doubtful Amounts

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

2. Summary of Significant Accounting Policies (continued)

Supplemental Loans

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

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

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

FFELP Loans

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

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

MOFELP Loans

The Foundation's methodology for estimating the allowance for loan losses in the MOFELP portfolio balance is to apply the growth rate of the Authority's supplemental loan portfolio to the outstanding MOFELP portfolio balance. The Foundation's MOFELP portfolio is recently disbursed and has no history of defaults. The growth rate of the Authority's supplemental portfolio is used as it is similar to the Foundation's MOFELP portfolio in nature.

Miscellaneous Receivables and Prepaid Expenses

At June 30, 2015, miscellaneous receivables and prepaid expenses consist of the following:

	2015
Prepaid bond interest	**$ 400**
Other prepaid expenses	**1,660**
Servicing fees receivable	**3,113**
Other receivables	**614**
Total miscellaneous receivables and prepaid expenses	**$ 5,787**
Current portion	**$ 5,402**
Long-term portion	**385**
Total	**$ 5,787**

Pension

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Higher Education Loan Authority of the State of Missouri Pension Plan (the Pension Plan) and additions to/deductions from the Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Authority. For this purpose, benefit

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Capital Assets

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

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

Deferred Outflows of Resources Related to Pension

Deferred outflows of resources is a consumption of net assets that is applicable to a future reporting period. As of June 30, 2015, the Authority recorded deferred outflows of resources related to pension in the amount of $880, as a result of a net difference between projected and actual earnings on pension plan investments.

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)

2. Summary of Significant Accounting Policies (continued)

rate for the special allowance program (SAP) index. This was a one-time opportunity, and the Authority made the election as required by April 1, 2012, which was effective for the quarter ending June 30, 2012. The election applied to all Authority-owned FFELP loans first disbursed after January 1, 2000, except those held in the 12th General Bond Resolution because the third-party bond insurer would not consent to the index change. On May 22, 2013, the Authority refinanced all FFELP loans held under the 12th General Bond Resolution into the 2013-1 LIBOR floating rate notes. As of the quarter ended June 30, 2013, all Authority-owned FFELP loans disbursed after January 1, 2000 are indexed to one-month LIBOR.

The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the one-month LIBOR or 90-day CP, to the average daily unpaid principal balance and capitalized interest of the student loans held by the Authority. For loans first disbursed prior to January 1, 2000, the 91-day Treasury bill rate is used rather than the one-month LIBOR or 90-day CP rates. The special allowance is accrued as earned or payable. Borrower interest rates for Stafford and Parent Loans for Undergraduate Students (PLUS) loans first disbursed between July 1, 1998 and June 30, 2006 were variable rates set annually based on the 91-day Treasury bill plus a spread between 1.70% and 3.10%. Lender yields on many of those same loans (loans first disbursed between January 1, 2000 and April 1, 2006) adjust quarterly based on the one-month LIBOR or 90-day CP rates plus a spread between 1.74% and 2.64%; however, the borrower rate serves as the “floor” for the lender yield. Loans first disbursed in these time periods can only earn positive special allowance due to the “floor” income feature. For loans first disbursed after April 1, 2006, federal law changed, removing the “floor” income feature, which allows the lender yield to float down below the borrower rate. In these situations, the loan owner earns less than the borrower pays in interest causing negative 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 90-day CP rate was later converted to one-month LIBOR. The Authority’s total special allowance was negative in fiscal year 2015, due to the Authority’s loan portfolio mix and the low one-month LIBOR.

2. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources Related to Pension

Deferred inflows of resources is an acquisition of net assets that is applicable to a future reporting period. As of June 30, 2015, the Authority recorded deferred inflows of resources related to pension in the amount of $910, as a result of differences between expected and actual experience.

Net Position

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

Operating Revenues and Expenses

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

2. Summary of Significant Accounting Policies (continued)

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

Servicing Fee Revenue

The Authority services federal accounts owned by the Department under the Direct Loan Program and services student loans owned by a third-party lending institution. In addition, the Authority completes various borrower requests on behalf of another servicer for loans serviced at the servicer's location. Fees charged for these services are classified as servicing fees in the statement of revenues, expenses, and changes in net position and are recognized as the services are performed.

Subcontractor Fees

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

Interest Expense

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

Bond Maintenance Fees

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

Credit Support

Credit support includes collection fees paid to third parties.

2. Summary of Significant Accounting Policies (continued)

Consolidation Rebate Fees

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

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

Risk Management

The Authority is exposed to various risks of loss, including property loss, torts, cyber liability, errors and omissions, and employee injuries. Coverage for these various risks of loss is obtained through commercial insurance, which is purchased in amounts that are sufficient to cover the Authority's risk of loss. There has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk. Settlements have not exceeded insurance coverage for the past three fiscal years. The Authority will record an estimated loss related to a loss contingency as an expense and a liability if it meets the following requirements: (1) information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

Income Taxes

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

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Application of New Accounting Pronouncement

As discussed previously, the Authority adopted GASB Statement No. 68 during the year ended June 30, 2015. Paragraph 137 of Statement No. 68 states to the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods. Further, paragraph 137 of Statement No. 68 states that it may not be practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions at the beginning of the period when the provisions of this statement are adopted. In such circumstances, paragraph 137 of Statement No. 68 states that beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. As the Authority was unable to determine the amounts of deferred inflows of resources and deferred outflows of resources related to pensions for prior periods, the restatement of beginning balances as shown below only includes the following:

Paragraph 186 of Statement No. 68 requires that in circumstances in which the amount of the pension plan's fiduciary net position exceeds the total pension liability as of the measurement date, the employer recognize a Net Pension Asset. The Authority had a Net Pension Asset at the beginning of the year of $1,784. The Authority's adjustment of the prior period to record the beginning Net Pension Asset is an increase to net position. In addition, the Authority had a negative Net Pension Obligation recorded as an Asset per GASB 27 for the year ended June 30, 2014, which was eliminated as a prior period adjustment in the amount of $4,207.

The effects of this change on beginning net position as of July 1, 2014 are as follows:

	2014
Net position, June 30, 2014, as originally reported	$ 284,169
Adjustment of prior period to record the beginning Net Pension Asset	1,784
Adjustment of prior period to eliminate the GASB 27 negative Net Pension Obligation	(4,207)
Net position, July 1, 2014, as restated	$ 281,746

3. Cash, Cash Equivalents, and Investments

The Authority

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

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

At June 30, 2015, the cash, cash equivalent, and investment balances of the Authority consisted of the following:

	2015
Cash on deposit	**$ 33,125**
Money market mutual funds	**59,383**
Commercial paper	**6,203**
Total cash, cash equivalents, and investments	**$ 98,711**

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

At June 30. 2015, the Authority’s cash deposits were fully insured by Federal Deposit Insurance Corporation (FDIC) insurance or secured by an irrevocable standby letter of credit issued by the Federal Home Loan Bank of Atlanta in favor of the Authority.

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

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy addressing custodial credit risk for investments. At June 30, 2015, the Authority's investments in commercial paper were held by the counterparty's trust department, but not in the Authority's name.

Interest Rate Risk and Credit Risk – Although the Authority does not have formal policies addressing interest rate risk and credit risk, limitations on investment maturities and credit ratings are specified in each of the Authority's bond documents. These investment provisions vary by trust estate. At June 30, 2015, the Authority's investments in money market mutual funds had credit ratings of AAAm and maturities of less than one year. At June 30, 2015, the Authority's investments in commercial paper were rated A-1+ and also had maturities of less than one year.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. Concentration of credit risk is required to be disclosed for an investment in any one issuer that represents 5.00% or more of total investments. At June 30, 2015, the Authority's investments in commercial paper issued by U.S. Bank N.A. represented 9.46% of the Authority's total investments.

At June 30, 2015, the Authority's money market mutual funds and commercial paper investments were held by a trustee in special trust accounts that were established in accordance with the various bond resolutions and indentures of the Authority.

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

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

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

Reserve Accounts – The Authority has purchased a noncancelable surety bond in lieu of cash deposits for the Reserve Account in the 12th General Bond Resolution in accordance with the bond provisions. The amount of this surety bond was $1,975 at June 30, 2015. Such surety bond expires on the earlier of the bond maturity date or the date in which the Authority satisfies all required payments related to the bond obligations.

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

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

Reserve Funds – Under the terms of certain bond provisions, minimum amounts are required to be maintained in the Reserve Funds for each related bond issue. The total of these minimum requirements at June 30, 2015 was $6,544.

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

(Dollars in Thousands)

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

As of June 30, 2015, the Authority's cash, cash equivalents, and investments were segregated as follows:

		2015
Special trust accounts:		
Restricted:		
Revenue accounts	$	**2,873**
Collection funds		**49,992**
Reserve funds		**6,544**
Department rebate funds		**6,177**
Total special trust accounts		**65,586**
Operating fund:		
Unrestricted		**26,066**
Restricted – due to special trust accounts and client		**7,059**
Total operating fund		**33,125**
Total cash, cash equivalents, and investments	**$**	**98,711**

The Foundation

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

As shown on the statements of net position, at June 30, 2015, the Foundation had cash balances of $19,112, which consisted of cash on deposit at two financial institutions.

Custodial Credit Risk – Deposits – The Foundation does not have a policy addressing custodial credit risk for deposits. At June 30, 2015, $18,612, of the Foundation's bank balance of $19,112 was uninsured and uncollateralized.

(Dollars in Thousands)

4. Student Loans Receivable

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

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

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

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

Student loans receivable at June 30, 2015 are as follows:

	2015
Total guaranteed FFELP loans	**$ 2,230,657**
Supplemental loans:	
Third-party insured	**3,591**
Self-insured	**123,597**
Total supplemental loans	**127,188**
Allowance for doubtful loans	**(18,362)**
Total student loans receivable	**$ 2,339,483**
Weighted-average interest rate – end of year	**5.14%**

4. Student Loans Receivable (continued)

The Authority's yield on federal student loans receivable is set by federal law and is generally variable based on the one-month LIBOR, 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 year ended June 30, 2015 is as follows:

	2015
Beginning balance	**$ 18,427**
Provision for loan losses	**555**
Write-offs	**(620)**
Ending balance	**$ 18,362**

(Dollars in Thousands)

5. Capital Assets

Capital asset activity for the year ended June 30, 2015, is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 3,556	$ –	$ –	$ –	$ 3,556
Construction in progress	189	713	–	(418)	484
Depreciable capital assets:					
Buildings and improvements	19,550	22	(8)	–	19,564
Furniture and equipment	12,771	1,160	(678)	418	13,671
Software assets	516	–	–	–	516
Total depreciable capital assets	32,837	1,182	(686)	418	33,751
Less accumulated depreciation and amortization:					
Buildings and improvements	(5,370)	(736)	–	–	(6,106)
Furniture and equipment	(5,288)	(2,243)	645	–	(6,886)
Software assets	(284)	(103)	–	–	(387)
Total accumulated depreciation and amortization	(10,942)	(3,082)	645	–	(13,379)
Net depreciable capital assets	21,895	(1,900)	(41)	418	20,372
Total capital assets, net	$ 25,640	$ (1,187)	$ (41)	$ –	$ 24,412

(Dollars in Thousands)

6. Financings

The following table displays the aggregate changes in bonds payable for the year ended June 30, 2015:

	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 1.691% – 2.409% at June 30, 2015	$ 125,275	$ –	$ (23,450)	$ 101,825	$ –
LIBOR Floating Rate Notes, taxable, due January 2026 – June 2036, with variable interest rates ranging from 0.737% – 1.332% at June 30, 2015	2,526,939	–	(414,200)	2,112,739	223,782
	$ 2,652,214	$ –	$ (437,650)	$ 2,214,564	$ 223,782
Less: Unamortized bond discount	(4,234)	–	192	(4,042)	(192)
Total Bonds Payable, net	$ 2,647,980	$ –	$ (437,458)	$ 2,210,522	$ 223,590

During the year ended June 30, 2015, reductions in the auction rate securities resulted from the Authority's bond redemptions and purchase and subsequent extinguishment of bonds. Reductions in the LIBOR floating rate notes consisted of regular repayments.

6. Financings (continued)

Auction Rate Securities

At June 30, 2015, total auction rate securities represented 5% of total outstanding bonds payable. Auction rate securities bear interest at the applicable auction rate as determined by a bidding process every 28 or 35 days, as stipulated in the related bond agreement. Starting in November 2007 and continuing through June 30, 2015, the auction rate notes experienced failures in the bidding process. The auction rate notes are not putable. During fiscal year 2015, due to the failures in the auction market, the interest rates were calculated based upon the rate provisions as stipulated in the bond agreements and amended by supplemental resolutions agreed to by the Authority. The interest rates continued to reprice every 28 or 35 days under a failed auction, but were determined based upon a 91-day Treasury bill indexed rate for taxable debt taken into consideration with the annual average auction rate as of the current repricing date.

LIBOR Floating Rate Notes

At June 30, 2015, LIBOR floating rate notes represented 95% of total outstanding bonds payable. Five of the Authority's LIBOR floating rate note trusts reprice every three months at rates equal to three-month LIBOR plus a spread ranging from 0.85% to 1.05%. The remaining two LIBOR floating rate note trusts reprice every month at rates equal to one-month LIBOR plus a spread of either 0.55% or 0.83%. Principal payments are required to be made either monthly or quarterly based on available funds less required fees and transfers as stipulated in the bond documents.

(Dollars in Thousands)

6. Financings (continued)

The following is a summary of debt service requirements at June 30, 2015:

	Principal	Interest	Total
Fiscal Years			
2016	$ 223,782	$ 22,663	$ 246,445
2017	272,213	20,126	292,339
2018	277,003	17,319	294,322
2019	272,677	14,508	287,185
2020	243,346	11,864	255,210
Total fiscal years 2016 – 2020	1,289,021	86,480	1,375,501
2021 – 2025	631,988	35,803	667,791
2026 – 2030	233,779	7,535	241,314
2031 – 2035	43,401	1,782	45,183
2036 – 2040	–	1,385	1,385
2041 – 2045	–	1,385	1,385
2046 – 2046	16,375	254	16,629
	$ 2,214,564	$ 134,624	$ 2,349,188

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, 2015. 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.

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

(Dollars in Thousands)

6. Financings (continued)

issued to the insurance trustees as beneficiaries for the respective bondholders. The purpose of the insurance policies is to guarantee payment of the bonds upon maturity or earlier redemption. The bond agreements contain certain covenants that, among other requirements, include maintaining minimum collateral levels. The Authority maintains a minimum amount of assets pledged to meet the collateral requirements specified in the various bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2015, was $2,449,414.

At June 30, 2015, the Authority was in compliance with all financial covenants and requirements of its debt agreements.

7. Contracts, Commitments, and Contingencies

The Authority has two 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 $6,817, for the year ended June 30, 2015.

In October 2013, the Authority executed a five-year operating lease agreement for office space in Washington, D.C. Rent expense totaled $115 for the year ended June 30, 2015. Under the terms of the lease agreement, the monthly base rent will be increased by 2% each year. In addition, after the first lease year, rent will be adjusted annually for the Authority's pro rata share of the landlord's increase in real estate taxes, operating expenses, and utilities. Future minimum lease payments under this operating lease as of June 30, 2015, are as follows:

Fiscal Year	**Amount**
2016	**$ 109**
2017	**111**
2018	**114**
2019	**67**
Total future minimum lease payments	**$ 401**

7. Contracts, Commitments, and Contingencies (continued)

The Authority is subject to examination by governmental agencies and regulators and 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 and regulatory examinations cannot be predicted with certainty, management, based on its understanding of the facts, does not believe the ultimate resolution of these matters will have a material adverse effect on the Authority's financial position or results of operations.

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

8. Employee Benefits

401(k) Plan

The Authority maintains a single-employer defined contribution plan, the Higher Education Loan Authority of the State of Missouri 401(k) Plan (the 401(k) Plan), for all employees who are at least 21 years of age, work in excess of 1,000 hours per plan year, and have been employed at least one year by the Authority. Investment management is performed by Edward Jones, and recordkeeping is provided by ADP. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. The Authority contributes an amount equal to 100% of the first 8% contributed by the employee. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five-year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. The Authority may make a non-matching contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Authority when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During the fiscal year ended June 30, 2015, the Authority contributed $643 and employees contributed $776 to the 401(k) Plan, respectively.

8. Employee Benefits (continued)

Pension Plan

Plan Description
The Authority offers a noncontributory single-employer defined benefit pension plan, the Higher Education Loan Authority of the State of Missouri Pension Plan (the Pension Plan), which provides retirement, disability, and death benefits to Pension Plan members and beneficiaries.

Pension Plan provisions were established by the Authority and may be amended by the Authority's Board of Directors. Substantially all employees of the Authority are covered by the Pension Plan. Pension benefits are based upon the employee's length of service and average compensation. Employees vest in the Pension Plan after five years of service. The Pension Plan is administered by PNC Institutional Investments and PNC Bank, National Association (Administrator).

The Pension Plan is managed by the Authority's Board of Directors which consists of seven members, 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. The five members appointed directly by the Governor serve five year terms. The Board of Directors has designated the Assistant Director of Administration and the General Counsel as co-plan administrators. No stand alone plan report is publicly available.

Plan Membership and Benefits Provided
Retirement benefits for salaried plan members are calculated as 2.5% of the member's highest 3-year average salary times the member's years of service. Benefits for hourly plan members are calculated as 1.5% of the member's highest 3-year average salary times the member's years of service.

Plan members with 5 years of service are eligible to retire at age 65 and members with 15 years of service are eligible to retire at age 60. Members are eligible for an unreduced retirement benefit after age 50 if the combination of their age and years of service equal at least 80. Plan members may retire early with a reduced benefit at age 50 with 20 years of service. Disability retirement benefits are determined in the same manner as retirement benefits. Death benefits are determined in the same manner as retirement benefits but are payable at the member's early retirement date reduced for early commencement and to reflect payment as a 50% joint and survivor annuity.

(Dollars in Thousands)

8. Employee Benefits (continued)

An annual cost-of-living adjustment is provided to each member receiving a monthly retirement benefit who terminated employment eligible for a retirement benefit or with at least 20 years of service. The annual adjustment is equal to 80% of the increase in the Consumer Price Index, limited to a maximum increase of 5%. The Board of Directors reserves the right to amend the provisions of the plan.

Employees covered by benefit terms
As of July 1, 2014, pension plan membership consisted of the following:

Inactive plan members (or beneficiaries) currently receiving benefits	8
Inactive plan members entitled to but not yet receiving benefits	26
Active plan members	404
Total	438

Contributions
Annual contributions approved by the Board are made based on a recommendation of an independent actuary. For the year ended June 30, 2015, the Authority made pension contributions of approximately $2,980. The 5-year average contribution rate for the plan years beginning 2010 - 2014 is 15.21% of annual payroll. There are no annual maximum contribution rates. Employees of the Authority do not make contributions to the Pension Plan.

(Dollars in Thousands)

8. Employee Benefits (continued)

Net Pension Asset

The Authority's net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2014, rolled forward to the Measurement Date based on standard methods and the inherent valuation assumptions.

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at 6/30/2014	$ 33,695	$ 35,479	$ (1,784)
Changes for the year:			
Service Cost	3,306	-	3,306
Interest on the total pension liability	2,234	-	2,234
Differences between expected and actual experience	(989)	-	(989)
Contributions – employer	-	2,980	(2,980)
Net investment income	-	1,296	(1,296)
Benefit payments	(2,957)	(2,957)	-
Administrative expense	-	(153)	153
Net changes	1,594	1,166	428
Balances at 6/30/2015	$ 35,289	$ 36,645	$ (1,356)

(Dollars in Thousands)

8. Employee Benefits (continued)

Actuarial Assumptions
The total pension liability was determined using the following actuarial assumptions:

Investment rate of return	6.75 percent
Discount rate	6.75 percent
Inflation rate	2.50 percent
Salary scale	5.00 percent
Mortality table	IRS 2014
Actuarial cost method	Entry Age Normal
Valuation date	7/1/2014, rolled forward to measurement date
Measurement date	6/30/2015

Mortality rates were based on the IRS 2014 Mortality Table. This mortality table has been updated annually consistent with the IRS prescribed mortality table for qualified pension plans.

The actuarial assumptions used in the July 1, 2014 valuation were based on periodic actuarial experience studies with certain assumptions evaluated on an annual basis.

Investments and Rate of Return
Pension plan assets are invested primarily in equity securities, fixed income and cash at the discretion of the Administrator. Those securities are valued at market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The investment objective of the Pension Plan is to ensure that assets will be available to meet the Pension Plan's benefit obligations. The long term expected real rate of return on the Pension Plan's assets is based on the anticipated returns for each asset category. At June 30, 2015, the funds were invested 51:45:4 equities to fixed income to cash.

The long term expected rate of return on pension plan investments was determined based on 10-year capital market assumptions developed by the Authority's investment advisor. The capital market assumptions on plan investments reflect market-implied equilibrium returns combined with the Authority's investment advisor's subjective views using a technique known as the Black-Litterman method. These returns are then used in a robust stochastic analysis to produce the 10-year expected median nominal rate of return from the resulting outcomes of that analysis. This creates rolling 10-year expected returns that can fluctuate as expected market conditions change. In order to smooth out this volatility and create a long-term expected rate of return for plan assets,

(Dollars in Thousands)

8. Employee Benefits (continued)

the Authority's target allocations are combined with the average expected return for each target asset allocation that the Authority's investment advisor believes will reflect the long term perspective used to determine the plan's actuarial required rate of return. The Authority's investment advisor is confident our current allocation balances prudent risk management and a long-term perspective such that our pension assets will meet or exceed the required rate of return over the long-term.

The Target allocations for each major class are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap	31.0%	6.5%
Mid Cap	7.5%	6.8%
Small Cap	2.0%	6.5%
Developed International	9.5%	7.4%
Core Domestic Fixed Income	35.0%	1.0%
High Yield Fixed Income	15.0%	3.6%
	100.0%	

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.45%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The cash flows used as inputs in the calculation are determined on a monthly basis.

Interest Rate Risk and Credit Risk – The Authority does not have a formal policy addressing interest rate risk or credit risk for its pension plan. However, the investment advisor diligently addresses and monitors the pension's interest rate risk and credit risk by maintaining a diversified approach to the pension's asset allocation. The interest rate risk and credit risk of the individual mutual funds that make up the pension are monitored and controlled in a discretionary manner by each individual investment vehicle manager. Each fund/manager utilized in the pension has well-

(Dollars in Thousands)

8. Employee Benefits (continued)

defined risk control limits that are established by the manager of the individual fund. For example, each fixed income mutual fund in the pension has established limits on duration (interest rate risk) and credit quality (credit risk), among limits on other risk metrics. Each fund/manager that it utilized in the pension has passed the investment advisor's due diligence process and is continuously monitored. The understanding by the investment advisor of the risk levels associated with each individual mutual fund allow the investment advisor to control and monitor risk at the portfolio level. This ensures that the portfolio is not taking on excessive or unnecessary interest rate risk or credit risk. The investment advisor provides monthly reporting to the Authority and conducts at least semi-annual in person pension reviews with Authority staff. In addition, the investment advisor timely communicates any significant market events and investment manager changes as appropriate.

As of June 30, 2015, the Authority had the following investments. (Duration is in years.)

Investment Type	Fair Value	Duration
Blackrock Strategic Income Opps Fund	1,792	0.52
Baird Aggregate Bond Fund Fund	3,150	5.63
Eaton Vance Floating Rate Fund	1,804	0.32
iShares Core US Aggregate Bond ETF	3,844	5.27
Templeton Global Bond Market Index Fund	1,776	0.13
Vanguard Total Bond Market Index	4,181	5.70
Total Fair Value	16,547	
Duration		3.84

(Dollars in Thousands)

8. Employee Benefits (continued)

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2015 was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at 15.21% of covered payroll of current plan members for each year in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The components of the net pension liability (asset) at June 30, 2015 were as follows:

Total Pension Liability	$35,289
Plan Fiduciary Net Position	(36,645)
Net Pension Liability (Asset)	(1,356)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	103.84%

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset), calculated using the discount rate of 6.75%, as well as the net pension liability (asset) calculated using a discount rate that is 1-percentage point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate:

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net Pension Liability (Asset)	3,136	(1,356)	(5,134)

(Dollars in Thousands)

8. Employee Benefits (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Authority recognized pension expense of $3,438. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ (910)	$ -
Net difference between projected and actual earnings on pension plan investments	-	880
	$ (910)	$ 880

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	$ 141
2017	141
2018	141
2019	141
2020	(79)
Thereafter	(594)

9. 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 year ended June 30, 2015, the Authority had eight segments 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, 2015 consisted of student loan revenue bonds issued in accordance with the 12th General Bond Resolution and related supplemental resolutions adopted by the Board of Directors in various years from 1995 through 2006, as well as student loan revenue bonds issued in accordance with seven Trust Indentures (collectively, the trust estates) adopted by the Board of Directors from fiscal year 2010 through fiscal year 2013. The bond documents provide that the bonds are payable exclusively from the eligible loans pledged under the respective resolutions and indentures, amounts deposited in the accounts pledged under the resolutions and indentures, and all other revenues and recoveries of principal from the loans purchased with the bond proceeds. All of the Authority's bonds are limited obligations of the Authority, which are payable solely from the respective trust estates. As a result, there is no cross-collateralization with other trust estates or the operating funds of the Authority. In the case 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)

9. Segment Information (continued)

Summary financial information of the Authority's segments and Operating Fund as of June 30, 2015, is as follows:

	2015									
	Bond Funds									
	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Net Position										
Assets:										
Current assets	$ 23,945	$ 13,093	$ 55,396	$ 60,191	$ 38,073	$ 44,076	$ 23,220	$ 99,964	$ 39,874	$ 397,832
Long-term assets	95,250	95,837	323,047	348,176	217,208	265,573	114,782	629,921	32,553	2,122,347
Total assets	119,195	108,930	378,443	408,367	255,281	309,649	138,002	729,885	72,427	2,520,179
Deferred outflows of resources - pension									880	880
Liabilities:										
Current liabilities	72	8,932	38,090	41,965	25,838	32,324	17,198	73,976	7,155	245,550
Long-term liabilities	101,825	86,961	303,104	313,709	202,620	252,003	112,370	614,340	–	1,986,932
Interfund payable (receivable)	(244)	(177)	(632)	(624)	(310)	(436)	(334)	(1,317)	4,074	–
Total liabilities	101,653	95,716	340,562	355,050	228,148	283,891	129,234	686,999	11,229	2,232,482
Deferred inflows of resources – pension									910	910
Net position:										
Net investment in capital assets	–	–	–	–	–	–	–	–	23,897	23,897
Restricted for debt service	3,060	13,214	37,881	53,317	27,133	25,758	8,768	42,886	–	212,017
Unrestricted	14,482	–	–	–	–	–	–	–	37,271	51,753
Total net position	17,542	13,214	37,881	53,317	27,133	25,758	8,768	42,886	61,168	287,667

(Dollars in Thousands)

9. Segment Information (continued)

	2015									
	Bond Funds									
	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Revenues, Expenses, and Changes in Net Position										
Operating revenues	$ 8,051	$ 3,483	$ 12,545	$ 13,254	$ 6,632	$ 8,564	$ 3,469	$ 23,431	$ 30,291	$ 109,720
Operating expenses	4,212	3,199	10,322	10,375	6,357	8,059	2,991	17,620	28,427	91,562
Operating income (loss)	3,839	284	2,223	2,879	275	505	478	5,811	1,864	18,158
Non-operating revenues (expenses)	40	–	–	–	–	–	–	–	(12,277)	(12,237)
Income (loss) before transfers	3,879	284	2,223	2,879	275	505	478	5,811	(10,413)	5,921
Interfund transfers	–	–	(8,050)	–	–	–	–	–	8,050	–
Change in net position	3,879	284	(5,827)	2,879	275	505	478	5,811	(2,363)	5,921
Net position, beginning of year*	13,663	12,930	43,708	50,438	26,858	25,253	8,290	37,075	63,531	281,746
Net position, end of year	$ 17,542	$ 13,214	$ 37,881	$ 53,317	$ 27,133	$ 25,758	$ 8,768	$ 42,886	$ 61,168	$ 287,667

**Adjusted for changes related to adoption of GASB Statement No. 68.*

(Dollars in Thousands)

9. Segment Information (continued)

	2015									
	Bond Funds									
	12th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Operating Fund	Total
Condensed Statement of Cash Flows										
Net cash flows from operating activities	**$ 25,063**	**$ 15,786**	**$ 58,320**	**$ 71,618**	**$ 47,692**	**$ 62,295**	**$ 33,331**	**$ 132,621**	**$ 19,205**	**$ 465,931**
Net cash flows from non-capital financing activities	**(25,269)**	**(16,045)**	**(60,992)**	**(76,094)**	**(49,932)**	**(63,340)**	**(34,451)**	**(136,883)**	**(12,157)**	**(475,163)**
Net cash flows from capital and related financing activities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,605)**	**(1,605)**
Net cash flows from investing activities	**2**	**2**	**8**	**8**	**6**	**8**	**3**	**11**	**–**	**48**
Net increase (decrease) in cash and cash equivalents	**(204)**	**(257)**	**(2,664)**	**(4,468)**	**(2,234)**	**(1,037)**	**(1,117)**	**(4,251)**	**5,443**	**(10,789)**
Cash and cash equivalents, beginning of year	**3,078**	**3,425**	**13,686**	**16,054**	**10,186**	**7,119**	**4,488**	**17,578**	**27,683**	**103,297**
Cash and cash equivalents, end of year	**$ 2,874**	**$ 3,168**	**$ 11,022**	**$ 11,586**	**$ 7,952**	**$ 6,082**	**$ 3,371**	**$ 13,327**	**$ 33,126**	**$ 92,508**

10. Subsequent Events

Subsequent to year end, the Authority signed a contract with the Department to add five additional NFP Servicers to the existing servicing contract. The Authority has entered into an agreement with the five NFP Servicers. Loan transfers to the Authority began in August 2015 and are anticipated to be completed in September 2015. The Authority has determined that this event had no impact on the financial statements, as of June 30, 2015.

11. Future Accounting Pronouncements

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

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for the Authority beginning in fiscal year 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15,

11. Future Accounting Pronouncements (continued)

2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for the Authority beginning in fiscal year 2017.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for the Authority beginning in fiscal year 2018.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. This Statement is effective for the Authority beginning in fiscal year 2016.

11. Future Accounting Pronouncements (continued)

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. As the Authority is not currently supported by tax revenues, the Authority does expect accounting implications to result from this Statement. This Statement is effective for the Authority beginning in fiscal year 2017.

Higher Education Loan Authority of the State of Missouri

Required Supplementary Information
Schedule of Changes in the Net Pension Asset and Related Ratios
(Unaudited)/(Dollars in Thousands)

As of and for the Years Ended June 30, 2015 and 2014

	2015	2014
Total Pension Liability		
Service cost	$ 3,306	$ 3,175
Interest on the Total Pension Liability	2,234	2,134
Differences between expected and actual experience	(989)	473
Benefit payments	(2,957)	(3,705)
Net change in total pension liability	1,594	2,077
Total pension liability - beginning	33,695	31,618
Total pension liability - ending (a)	35,289	33,695
Plan fiduciary net position		
Contributions - employer	2,980	3,262
Net investment income	1,296	4,573
Benefit payments	(2,957)	(3,705)
Administrative expense	(153)	(138)
Net change in plan fiduciary net position	1,166	3,992
Plan fiduciary net position-beginning	35,479	31,487
Plan fiduciary net position-ending (b)	$ 36,645	$ 35,479
Net pension liability (asset) - ending (a) - (b)	(1,356)	(1,784)
Plan fiduciary net position as a percentage of the total pension liability	103.84%	105.29%
Covered-employee payroll beginning of year	$ 19,996	$ 20,304
Net pension liability (asset) as a percentage of covered-employee payroll	-6.78%	-8.79%

Information provided for years available.

Higher Education Loan Authority of the State of Missouri

Required Supplementary Information
Schedule of Contributions
(Unaudited)/(Dollars in Thousands)

Last 10 Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ 2,980	$ 3,262	$ 2,876	$ 1,394	$ 1,559	$ 2,016	$ 1,717	$ 2,038	$ 1,945	$ 1,867
Actual contribution recognized during the year	2,980	3,262	2,741	1,394	1,559	2,016	4,036	2,038	1,945	1,867
Contribution deficiency (excess)	0	0	135	0	0	0	(2,319)	0	0	0
Covered - employee payroll beginning of year	$ 19,996	$ 20,304	$ 18,607	$ 10,694	$ 10,118	$ 10,708	$ 10,195	$ 12,159	$ 10,518	$ 10,353
Contributions as a % of covered – employee payroll	14.90%	16.07%	14.73%	13.04%	15.41%	18.83%	39.59%	16.76%	18.49%	18.03%

Methods and Assumptions for Actuarially Determined Contribution

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Salary Scale	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Investment Rate of Return	6.75%	6.75%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Amortization Period	9.9	10.1	9.8	9.1	9.1	9.4	9.6	9.9	9.7	9.6
Inflation Rate	2.50%	2.50%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Mortality Table	IRS 2014	IRS 2013	1994 GAM	1994 GAM	1994 GAM	1994 GAM	1994 GAM	1994 GAM	1994 GAM	1994 GAM

Actuarial Cost Method	Aggregate
Asset Valuation Method	Actuarial value as used for funding valuation
Amortization Method	Level Percent of Payroll

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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Higher Education Loan Authority of the State of Missouri (the "Authority") and the aggregate discretely presented component unit, which comprise the statements of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

September 16, 2015

Building a better working world

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

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

Report on Compliance for Each Major Federal Program

We have audited the Higher Education Loan Authority of the State of Missouri's (the Authority's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015, 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.

Building a better working world

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, 2015.

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 16, 2015

Higher Education Loan Authority of the State of Missouri

Schedule of Expenditures of Federal Awards
(Dollars in Thousands)

For the Year Ended June 30, 2015

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	$ 13,981
		Outstanding Balance at June 30, 2015
Total Guaranteed Loans of the Authority at June 30, 2015 –		
Guaranteed student loans:		
Federal Family Education Loans (Lenders)	84.032L	$ 2,230,657

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, 2015

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, 2015

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

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

Federal Awards Section:
Internal control over major federal 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 federal 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 – $419,430

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

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

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

Higher Education Loan Authority of the State of Missouri

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2015

Federal Award Findings and Questioned Costs – Year Ended June 30, 2014

There were no findings or questioned costs for the year ended June 30, 2014.

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

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