Higher Education Loan Authority of the State of Missouri

Financial Statements as of and for the
Years Ended June 30, 2009 and 2008,
Supplementary Schedule of Expenditures of Federal
Awards for the Year Ended June 30, 2009, and
Independent Auditors’ Reports

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

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MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Unaudited)

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

THE AUTHORITY

The Authority is recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education. The Authority is a leading holder and servicer of student loans with over $4.7 billion in assets, and annual loan purchases and originations in excess of $842 million.

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 insure 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 extends 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 The bill also repealed sections of law setting restrictions on variable-rate unsecured loans.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 allows 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 in order to support the Missouri Technology corporation's ability to work with colleges and universities in identifying opportunities for commercializing technologies, transferring technologies, and to develop, recruit, and retain entities engaged in innovative technologies. In addition, powers of the Authority were amended to include fund transfers to the Lewis and Clark Discovery Fund (discussed in the footnotes to the financial statements) and authorized the Authority to participate in any type of financial aid program that provides grants and scholarships to students.

The enactment of SB 967 on May 2, 2008, allowed the Authority to originate Stafford loans, however "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 originated and disbursed just over $76 million of Stafford loans during fiscal 2009.

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 2007, serves as Executive Director and Chief Executive Officer of the Authority.

The Authority owns and services student loans established by the Higher Education Act under FFELP. Loans authorized under FFELP include: (a) loans to students meeting certain financial needs tests with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment ("Subsidized Stafford Loans"); (b) loans to students made without regard to financial need with respect to which the federal government does not make such interest payments ("Unsubsidized Stafford Loans" and, collectively with Subsidized Stafford Loans, "Stafford Loans"); (c) loans to parents of dependent undergraduate and graduate students, or to graduate or professional students ("PLUS Loans"); and (d) loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans ("Consolidation Loans"). The Authority also owns consolidated Health Education Assistance Loans ("HEAL") established by the Public Health Service Act and insured through the Department of Health and Human Services ("HHS"). In addition, the Authority is the lender and servicer for supplemental loans, which are also known as private or alternative loans, previously made available predominantly to students in the Midwest who have reached the maximum available funding under FFELP. There are several types of loans under the supplemental program including those for borrowers attending eligible law, undergraduate, technical, graduate, medical and pharmacy schools. Supplemental loans are not guaranteed by the federal government.

The Authority suspended its federal consolidation and supplemental loan programs during fiscal 2008 due in part to credit market disruptions, which make financing these loans more difficult. The Authority's federal consolidation loan program was suspended due to increased origination fees payable to the federal government and reductions to the lender yield required by federal law. As it relates to the supplemental loan program, in addition to increasing delinquencies and defaults in the Authority's existing portfolio, the creation of the Federal Grad PLUS program increases the risk profile of future supplemental loans, which are now made predominantly to undergraduate students as opposed to graduate and professional students.

The Authority purchased/originated $842 million of gross principal student loans from a variety of financial institutions during fiscal 2009. This compares to $1.3 billion of gross principal during fiscal year 2008 and $2.4 billion of gross principal during fiscal year 2007 representing 41% and 46% decreases, respectively in gross purchases over the previous two fiscal years. For fiscal 2009, approximately $799 million of loans purchased/originated were Stafford and PLUS loans. The remaining $43 million consisted of rehabilitated loans purchased from the Missouri guaranty agency. The Authority did not originate or purchase any supplemental or consolidation loans during fiscal 2009. While student loan purchases declined, the Authority began collecting servicing fee income from its lender partners for serviced loans that in the past would have been purchased. In fiscal 2009, the Authority's income was supplemented by over $2.6 million in servicing fee income.

The net loan activity of new purchases less existing loan principal decreases through borrower and claim payments, cancellation activity, and loan sales, resulted in a decrease of 15% from $5.2 billion to $4.4 billion in the student loan portfolio from fiscal 2008 to fiscal 2009 as compared to an 11% increase from $4.7 billion to $5.2 billion from fiscal 2007 to fiscal 2008. As of the end of this fiscal year the student loan portfolio held by the Authority is made up of approximately 35.4% Consolidation Loans, 49.6% Stafford Loans, 9.6% PLUS Loans, 5.4% Supplemental Loans, and less than 0.1% HEAL Loans. This compares to 43.2% Consolidation Loans, 43.7% Stafford Loans, 8.3% PLUS Loans, 4.7% Supplemental Loans, and 0.1% HEAL Loans as of year end fiscal 2008.

In the past, the Authority has been able to finance the purchase of student loans through the issuance of Taxable and Tax-Exempt Student Loan Revenue Bonds, recycled funds, and other credit facilities. While the Authority was able to issue $262.5 million in tax-exempt bonds in October 2008 (the "2008 Trust"), these bonds were used to refinance $37.5 million in 9th General Bonds (1991B Series) and the Authority's $300 million warehouse line of credit. Difficult credit markets have prevented the Authority from pursuing additional bond market financings. Instead, the Authority is relying on the federal programs created under the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA), to finance all new student loan originations and most of its student loan acquisitions. Through June 30, 2009, the Authority had placed over $290 million in loans in the ECASLA Federal Loan Participation Purchase Program and had put over $2.7 million in loans through the ECASLA Federal Loan Purchase Commitment Program. The Authority plans to continue to utilize both of these programs and the ECASLA Straight-A Conduit during fiscal 2010. On June 24, 2009, the Authority entered into a new $80 million revolving line of credit with three banks to serve as a "bridge" financing for the Authority's utilization of the ECASLA Federal Loan Participation Program. The ECASLA participation program requires that a student loan be originated and disbursed before it can be financed in the program, so the Authority temporarily (usually for less than a week) borrows funds from this facility to initially disburse new student loans before participating the loans into ECASLA. Additional information regarding the ECASLA programs can be found in the continuing developments section.

The commercial paper conduit was extended on July 23, 2009 for 30 days to August 21, 2009 to provide additional time for the Authority to close on a transaction utilizing the Straight-A Conduit financing. The commercial paper conduit was paid in full by the Straight-A Conduit on July 30, 2009.

The 9th General Bonds referred to above were credit enhanced by a synthetic letter of credit, which consisted of a standby bond purchase agreement (liquidity provider) and a bond insurance policy. The bond insurer's credit rating was downgraded and most of the bonds were put to the liquidity provider in July 2008. The put bonds are known as bank bonds, which under the bond documents carry an interest rate indexed to prime. The deterioration in the credit quality of the insurer led to higher interest rates on the bonds, which were in excess of the yield on the assets resulting in net losses in the trust. The Authority was able to work with the liquidity provider in the trust to refinance the bonds and the warehouse line of credit into the 2008 Trust, which is a variable rate demand note structure backed by a direct pay letter of credit.

The 2005 Trust is also a variable rate demand note enhanced by a synthetic letter of credit, which is backed by the same insurer as the 9th General Bonds but a different liquidity provider. The Authority has worked aggressively with both parties since March 2008 to explore refinancing alternatives. As of fiscal 2009 year-end, a global solution had not been reached and the losses in the Trust exceeded $13 million resulting in an equity ratio of (3.78%) for the Trust. According to the bond documents and State statute, the Authority's liability is limited to the Trust and the bonds are not a general obligation of the Authority or the State.

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 2009, the Authority modified its borrower benefits to comply with new requirements related to the Federal ECASLA programs. As a result, borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction. Beginning in Fiscal 2010, the Authority created a new program called the Director's choice program that provides three one thousand dollar hardship grants to needy students for each of the 154 Missouri post-secondary institutions. The Authority reserves the right to modify these programs as needed. The Authority has granted over $37.9 million in loan forgiveness for a variety of student borrowers including teachers, Pell Grant recipients, and those in military service. Borrowers received over $2.1 million in loan forgiveness during fiscal 2009, in addition to $1.5 million during fiscal 2008 and $5.8 million during fiscal 2007.

FINANCIAL POSITION

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

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

CONDENSED STATEMENTS OF NET ASSETS
(In thousands)

	2009	2008	2007
Cash and cash equivalents	$ 145,363	$ 124,024	$ 226,645
Investments held by Trustee			2,585
Accrued interest receivable	136,868	163,331	153,113
Capital assets	14,182	14,202	14,315
Other	24,991	31,980	24,348
Student loans receivable	4,415,659	5,169,858	4,665,584
Total assets	$ 4,737,063	$ 5,503,395	$ 5,086,590
Current liabilities	$ 783,136	$ 513,415	$ 40,876
Long-term liabilities	3,785,520	4,877,912	4,705,691
Total liabilities	$ 4,568,656	$ 5,391,327	$ 4,746,567
Invested in capital assets	$ 14,182	$ 14,202	$ 14,315
Restricted	126,276	51,172	49,653
Unrestricted	27,949	46,694	276,055
Total net assets	$ 168,407	$ 112,068	$ 340,023

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(In thousands)

	2009	2008	2007
Interest on loans	$ 237,404	$ 280,835	$ 264,069
Special allowances	(47,953)	22,085	96,201
Investment income and other	4,665	6,241	20,262
Total operating revenues	194,116	309,161	380,532
Bond expenses	154,080	268,337	314,092
Administrative and general expenses	35,348	39,645	41,916
(Reduction of) / increase in arbitrage rebate liability	(297)	(4,736)	5,778
Total operating expenses	189,131	303,246	361,786
Operating income before special items	4,985	5,915	18,746
Special items	51,354	(233,870)	87,365
Change in net assets	$ 56,339	$ (227,955)	$ 106,111

FINANCIAL ANALYSIS

Financial Position

Total assets decreased $766 million compared to a decrease in liabilities of $822 million resulting in an increase to the Authority's net assets of $56 million in fiscal 2009. This increase compares to a decrease of $228 million in fiscal 2008. The change in net assets in fiscal 2009 is primarily tied to gains on the cancellation of debt of $59 million, which when adjusted for the related one-time expenses results in a net gain of $50 million. In fiscal 2008, the primary factor in the decline in net assets was the Authority's distribution of $234 million to the State of Missouri for the Lewis and Clark Discovery Initiative.

Cash and cash equivalents increased by 17% to $145.4 million in fiscal 2009 from $124.0 million in fiscal 2008, as compared to an 45% decrease from $226.6 million in fiscal 2007 to fiscal 2008. The current increase in cash is due to the loss of recycling in many of the trust estates, which prevents cash from being reinvested in student loans. The prior year decrease in cash, cash equivalents, and investments was due to the recycling of bond proceeds and the maintenance of a credit facility, which resulted in the need to keep less cash on hand. As required by the bond resolutions, this cash must predominantly be utilized for the purchase and origination of additional loans, short-term investments, and the redemption of debt.

Accrued interest receivable is down 16% from fiscal 2008 as compared to a 7% increase from fiscal 2007 to fiscal 2008 and is a direct result of the decrease in interest rates on student loans from fiscal 2008 to 2009.

Other assets, which include miscellaneous receivables and prepaid expenses decreased from $32.0 million in fiscal 2008 to $25.0 million in fiscal 2009. The decrease is primarily the result of a decline in the prepaid interest expense to $1.7 million in fiscal 2009 from over $7.6 million in fiscal 2008. The prepaid interest expenses are associated with the Authority's temporary waiver of the maximum auction rates under certain bond documents.

Student loans receivables decreased 15% from $5.2 billion in fiscal 2008 to $4.4 billion in fiscal 2009 as compared to an 11% increase from $4.7 billion in fiscal 2007 to fiscal 2008. The fiscal 2009 decline is primarily related to the Authority's sale of over $1.1 billion in loans. The sale of loans was prompted by a mutual desire of the Authority and certain investors to redeem auction rate bonds. The change also reflects the net of the purchase activity less loan principal reductions during fiscal 2009 and fiscal 2008.

For fiscal 2009, current liabilities increased by $270.0 million due to short-term borrowings from our lender partners to purchase loans of $142.5 million and the increase in current year bond maturities to $107.9 million from $27.5 million in fiscal 2008. Long-term liabilities decreased by $1.1 billion or 22% as the Authority redeemed significant amounts of long-term debt at a discount. The overall decrease in total liabilities is the result of the aforementioned bond redemptions. Despite the overall decrease in liabilities, the Authority did issue $262.5 million in tax-exempt bonds and utilized the federal ECASLA participation program to finance $285.6 million in student loans. In addition, the Authority entered into a new $80 million revolving line of credit with three banks to serve as a "bridge" financing for the Authority's utilization of the ECASLA Federal Loan Participation Program.

Operating Results

Operating income before special items resulted in a gain of $5.0 million for fiscal 2009. This is a year over year decrease of $0.9 million from fiscal 2008, as compared to a decrease of $12.8 million from fiscal 2007 to fiscal 2008. As indicated in detail below, changes in the special allowance subsidy program due to loan mix changes as well as the interest rate environment were the key components for the operating income variance. The primary factor impacting the change in net assets before special items was the reduction in the lender yield on the Authority's assets, which is represented by the $70.0 million decline in special allowance subsidy, the $39.4 million reduction in interest income and the $13.3 million reduction in interest subsidies totaling $122.7 million, which exceeds the $107.2 million reduction in interest expense on the bonds that finance those assets. Additionally, fiscal 2009 saw reductions of $4.3 million in investment income due to a lower yield on investments during the period. Operating income in fiscal 2009 benefited from a $9.2 million reduction in loan premium expenses from $30.8 million in fiscal 2008 to $21.6 million in fiscal 2009, and from $2.6 million in servicing fee income.

Total operating revenue decreased 37% from fiscal 2008 to fiscal 2009 as compared to a 19% decrease from fiscal 2007 to fiscal 2008. The decrease in special allowance is a result of the drop in the 90-day AA financial commercial paper rate (CP rate) from an average of 4.1% in fiscal 2008 to an average of 1.7% in fiscal 2009 and an increase in the percentage of loans in the portfolio subject to a rebate of excess special allowance payments. 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 CP rate plus 1.94%. The CP rate for quarter ended June 30, 2009 was just 0.41%, which means the Authority's annual yield for that quarter was only 2.35%. The Authority is required to rebate the additional interest paid by the borrower of 6.15% (8.5% - 2.35%) to the U. S. Department of Education through the rebate of excess special allowance. Examples of the rates driving student loans and an explanation regarding 9.5% floor income follow in the next several paragraphs.

Fixed rate unsubsidized Stafford loans made on or after July 1, 2006 and subsidized Stafford loans made between July 1, 2006 and June 30, 2008 in all loan statuses bear interest at 6.8%. Fixed rate subsidized Stafford loans made between July 1, 2008 and June 30, 2009 bear interest at 6.0%. 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, grace or deferment bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.30%, with a maximum rate of 8.25%. Loans made within the same period with in-school, grace, and 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 on the last auction date in May. During fiscal 2009, the rate on these loans was set at 4.21% and 3.61% respectively. The rate on the same loans during fiscal 2008 was 7.22% and 6.62% respectively and during fiscal 2007 was 7.14% and 6.54% respectively.

PLUS loans first disbursed on or after July 1, 2006 bear a fixed rate at 8.5%. Variable rate PLUS Loans made on or after July 1, 1998 bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.10%, with a maximum rate of 9%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate on the last auction date in May. The T-Bill rate used for fiscal 2009 was 1.91%, which set the rate at 5.01% as compared to 8.02% for fiscal 2008 and 7.94% for fiscal 2007. 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%.

As noted above, the Authority realized a year over year reduction in special allowance subsidy issued by the U.S. Department of Education to lenders participating in FFELP. The special allowance subsidy is paid on the spread between student loan borrower interest rates, which are relatively fixed for a year, and the increase in commercial paper and 91-day T-Bill rates, which decreased significantly throughout fiscal 2008 and fiscal 2009. This decrease was in large part due to falling 90-day AA financial commercial paper rates and the increase in the percentage of loans subject to the rebate of excess special allowance payments from 43% in fiscal 2008 to 45% in fiscal 2009. In addition, qualified loans within tax-exempt bonds issued prior to October 1993 are eligible to receive a subsidy based upon the greater of the same spread or 9.5%. However, in a Dear Colleague Letter issued on January 23, 2007, the U.S. Department of Education clarified the requirements of the statute and regulations that control the qualifications for loans eligible for the 9.5% floor. The U.S. Department of Education provided further guidance on this clarification in a Dear Colleague Letter dated April 27, 2007. These requirements include a special audit to determine the eligibility for 9.5% special allowance billings. The U.S. Department of Education paid special allowance at the standard rate on any loans that were included in the 9.5% minimum from quarter ending December 31, 2006 until the U.S. Department of Education receives results of the special audit of the bonds and the loans within those bonds. This audit was completed and the Authority received a payment of $0.8 million from the U.S. Department of Education for the quarters ended December 31, 2006 through December 31, 2007. The principal balance of loans receiving 9.5% special allowance dropped from $79.1 million in fiscal 2008 to $16.3 million in fiscal 2009, which represents a drop of over 79%.

Total operating expense realized a 38% decrease, or $114.1 million from fiscal 2008 to fiscal 2009 compared to a 16% decrease, or $58.5 million from fiscal 2007 to fiscal 2008. The primary reason for the decline in operating expenses is the decline in bond interest expense from $231.9 million in fiscal 2008 to $124.7 million in fiscal 2009, which represents a decrease of 46%. While bond interest rates generally fell as broader market interest rates declined, these declines did not keep pace with the drop in yields on the Authority's assets. While not as significant as in fiscal 2008, the Authority continued to experience various interest rate spikes on its debt in fiscal 2009 due to issues with the bond insurer that insures the Authority's variable rated demand notes, and the failure of the auction rate market, which set those bonds at the maximum rate under the bond documents. Bonds outstanding decreased by $1 billion primarily due to the purchase and cancellation of $1.1 billion in bonds at a discount. As previously noted, the Authority issued $262.5 million in variable rate demand note bonds in October 2008 of which $37.5 million refinanced existing bonds. While the Authority refinanced its $300 million warehouse line of credit into a term bond deal under the 2008 Trust, it borrowed an additional $34.5 million under the commercial paper conduit and utilized two new short-term financings including $285.6 million under the ECASLA Federal Loan Participation Purchase Program and $142.5 million in short-term debt from its lender partners.

Other key factors in the decline in operating expenses before special items was a decrease of $5.6 million in Authority paid borrower benefit default fees, a $2.0 million decrease in origination fees, a $1.9 million decrease in consolidation rebate fees, and a $0.8 million decrease in provisions for loan losses in the supplemental or alternative loan portfolio, which does not have a conditional federal guaranty. Under federal law, borrowers under the FFELP are charged a 1% default fee at each loan disbursement. During fiscal 2007 and 2008, the Authority agreed to pay this fee on behalf of all Missouri students and parents that utilized the Missouri guaranty agency and an Authority lender. The $6.1 million in default fees paid in fiscal 2008 represented a 56% increase over the $3.9 million in fiscal 2007. While the Authority discontinued the payment of default fees on behalf of borrowers for loans guaranteed on or after July 1, 2008, the Authority paid $0.5 million in default fees for loans guaranteed before July 1, 2008 but disbursed after July 1, 2008. During fiscal 2009, the Authority continued to experience increases in delinquencies in its supplemental loan portfolio as the percentage of supplemental loans over 150 days past due increased to 6.26% from 4.72% in fiscal 2008. This increase includes the charge-off of over $1.8 million in supplemental loans, net of recoveries that were over 270 days past due. In the FFEL portfolio, the Authority wrote off $0.3 million and provisioned $0.3 million for probable losses.

Administrative and general expenses, which include salaries and fringe benefits, postage and forms, third party servicing fees, computer services, professional fees, occupancy expense, depreciation, and other operating expenses decreased 10% compared to a 17% decline in fiscal 2008. Salaries and employee benefits decreased 12.4% from fiscal 2008 to fiscal 2009, computer services and third party loan servicing increased by 11.9% and 3.4%, respectively, and other operating expenses declined by 40.3%.

Arbitrage rebate liability is calculated based upon the earnings of tax-exempt debt. The arbitrage liability was affected by decreased bond earnings and the further reduction of those earnings through student borrower benefit programs. During fiscal 2009, the Authority processed loan forgiveness of approximately $2.1 million. The forgiveness benefits were targeted to student teachers and pre-engineering students in Missouri. The arbitrage rebate liability declined $2.4 million in fiscal year 2009 to $14.2 million compared to a decrease of $4.7 million in fiscal 2008.

As noted above, the primary reason for the increase in net assets was related to activity associated with the redemptions of bonds at a discount, which is found under special items on the Statement of Revenues, Expenses and Changes in Net Assets. Most of the $50 million net gain on the cancellation of debt came from two transactions that the Authority completed by selling loans to lender partners at par and then using the cash proceeds from the loan sale to buy bonds back from those lenders at a discount. The first transaction, conducted in December 2008, involved the sale of $377 million in loans (principal and accrued interest) at par and the purchase and cancellation of $369 million in bonds at a discount resulting in a $10.6 million gain before related one-time expenses. The second transaction, which occurred in May 2009, involved the sale of $802 million in loans (principal and accrued interest) at par and the purchase and cancellation of $785 million in bonds at a discount resulting in a $46.6 million gain before related one-time expenses. The one-time expenses in each case involve the accelerated amortization of $4.5 million in unamortized loan purchase premiums proportional to the loans sold and the accelerated amortization of $4.9 million in unamortized costs of issuance associated with bonds cancelled. In addition to the two large transactions noted above, the Authority also utilized cash to buy $12.1 million in bonds back directly from bondholders at a discount in the open market, which resulted in a $2.1 million gain on cancellation of debt. Each of the cancellation of debt transactions involved loans and bonds under the 11th General Bond Resolution, so in each case the related gains remain within and subject to the requirements of the 11th General bond documents. These one-time gains from the cancellation of debt are the key components to the $75 million increase in restricted net assets from $51 million in fiscal 2008 to $126 million in fiscal 2009. The other components are directly related to the decline in unrestricted net assets, which fell from $47 million in fiscal 2008 to $26 million in fiscal 2009. This decline is the result of the Authority's equity contributions to the new 2008 Trust Indenture and the commercial paper conduit. The Authority also realized a $1.5 million gain related to the termination of an excess pension benefit plan. The proceeds of the terminated plan were put into the Authority's regular pension benefit plan.

Continuing Developments

On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the "Initiative") became law. The legislation, known as Senate Bill 389 (the "LCDI Legislation") directs the Authority to distribute $350 million into a new fund in the State Treasury known as the Lewis and Clark Discovery Fund ("Fund") on the following schedule: $230 million no later than September 15, 2007; an additional $5 million by December 31, 2007; and further installments of $5 million each calendar quarter ending September 30, 2013. Investment earnings on the Fund are credited against subsequent payments by the Authority. In addition, the law 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. However, the entire $350 million is to be paid by September 30, 2013 unless otherwise approved by the Authority and the Missouri Commissioner of the Office of Administration. The General Assembly has appropriated amounts to be deposited in the Fund for certain capital projects at public colleges and universities.

The Authority receives a significant benefit pursuant to the LCDI Legislation. The new law provides that following the initial September 15, 2007 distribution by the Authority, the Missouri Director of Economic Development shall allocate to and reserve for the Authority in 2007 and the next 14 years at least 30% of

Missouri's tax-exempt, private activity bond cap allocation. This allocation was $150 million for 2007. The amount of this allocation may be reduced for 2014 and later years by the percentage of the $350 million not paid by the Authority to the Fund by the end of the preceding year.

On September 7, 2007 the Members of the Authority's Board approved a resolution to fund the initial payment of $230 million to the Lewis and Clark Discovery Fund in the Missouri State Treasury no later than September 14, 2007 pursuant to the terms of the new law relative to the LCDI Legislation. On September 14, 2007, in accordance with the Board's Resolution and Missouri Senate Bill 389, the Authority sent a $230 million wire to the Missouri State Treasury. On November 6, 2007, the Members of the Authority's Board approved a resolution to fund the first quarterly payment of $5 million less interest income earned on the funds on deposit with the State Treasurer. The net payment paid on December 31, 2007 was $2.9 million. On March 28, 2008, the Members voted to make a partial payment for March 31, 2008, equivalent to the interest income already earned and on deposit in the fund at the State Treasurer's Office. On June 26, 2008, the Board approved a resolution to make a payment of $0.9 million, which after including interest income earned from December 1, 2007 through June 30, 2008 of $4.1 million, results in the Authority making the full $5 million payment that was due on March 31, 2008. The Board also voted on June 26, 2008 to delay making the June 30, 2008 quarterly payment. On September 12, 2008, the Board voted to make a partial quarterly payment on September 30, 2008 of $0.1 million. For each subsequent quarterly payment for the year ended June 30, 2009, the Board did not authorize payment.

On May 7, 2008, the President signed House Resolution 5715, the Ensuring Continued Access to Student Loans Act of 2008. A key provision of the Act grants temporary authority to the Secretary of Education to purchase or enter into forward commitments to purchase student loans first disbursed under sections 428, 428B or 428H of the Act on or after October 1, 2003 and before July 1, 2009 on such terms as the Secretary determines are in the best interest of the United States.

The U.S. Department of Education (USDE) in implementing House Resolution 5715 has created two programs the Federal Family Education Loan Participation Purchase program and the Federal Family Education Loan Purchase Commitment program. The Authority filed its intent to participate in both programs on July 3, 2008 and also successfully encouraged many of its lender partners to file their intent to participate. The Authority began actively utilizing the ECASLA Loan Participation Purchase program in November 2008 for eligible Authority originated loans and the Authority has also utilized the program to purchase ECASLA eligible loans from its lender partners. In June 2009, the Authority completed its first put (sale of loans) of $2.7 million in loans to the U. S. Department of Education under the ECASLA Master Loan Sale Agreement. Since fiscal 2009 year-end, the Authority has continued to put loans to the USDE with over $381 million put through August 31, 2009 and another $333 million in scheduled puts planned through October 8, 2009. The utilization of this program is the reason for the new classification of Student loan receivable available for sale on the Authority's Statement of Net Assets.

The Master Participation Agreement is designed to provide short-term liquidity to eligible lenders for the purpose of financing the origination of FFELP loans. Loans participated in the program are charged a rate of commercial paper plus 50 basis points on the principal amount. All loans under the Participation Program must be either refinanced by the lender or sold to the Department under the Purchase Program. The Master Loan Sale Agreement allows eligible lenders to sell FFELP loans originated for the 2008-2009 academic year to the Department of Education through the Purchase Program at 101% plus $75 per loan. The agreement expires on September 30, 2009, allowing a lender to hold and service loans for a longer period of time and giving them the opportunity to finance and keep loans if the market were to improve. Any lender participating must represent to the Department that it will continue to participate in the FFELP program. On October 7, 2008, the Participation and Purchase Programs were extended to September 30, 2010 for loans made in the 2009-2010 academic year.

In May 2009, the Department in conjunction with industry partners established the Asset-Backed Commercial Paper (ABCP) Conduit Program that will help ensure the continued availability of FFELP loans to students and parents for the 2009-2010 academic year. Participants in the Conduit Program must use 100 percent of the net proceeds of funds received from the Conduit to originate and disburse new FFELP loans. Loans eligible for the Conduit Program include Stafford and PLUS loans with first disbursement dates on or after October 1, 2003 and no later than June 30, 2009 and fully disbursed before September 30, 2009. The Department entered into a put agreement with the Straight-A Funding LLC Conduit using the authority provided by and consistent with the requirements of the Ensuring Continued Access to Student Loans Act (P.L. 110-227).

The Conduit will purchase notes secured by eligible FFELP loans from eligible FFELP lenders and holders, which in turn will serve as the underlying asset against which the Conduit sells commercial paper. The Conduit Program provides an advance of 97% of the student loan value. The commercial paper will have variable maturities, but in no case longer than 90 days. As previously-issued commercial paper matures, proceeds from newly-issued commercial paper will be used to satisfy investors holding earlier maturities. If necessary, the Federal Financing Bank will provide a short-term liquidity backstop to re-finance maturing commercial paper. The Department will purchase loans from the Conduit in order to allow the Conduit to repay such short-term liquidity loans to the extent required. The Conduit Program has a term of five years and expires on May 8, 2014. On July 30, 2009, the Authority had $190.2 million in loans funded through the Asset-Backed Commercial Paper Conduit Program.

On August 31, 2009, the Trustee for the 2005 Trust Estate filed a petition in Minnesota State Court asking the court to decide whether an event of default, an insurer adverse change and/or an automatic termination event has occurred under the 2005 Trust Indenture and/or its related documents. This petition was filed due to differing assertions by the parties to the transaction. If the court finds the additional default rate of interest is applicable and due, the 2005 Trust Indenture would owe an additional 2% of interest or $3.0 million to the bank bond holder. Additional information regarding this event can be found in Subsequent Events Note 16.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Higher Education Loan Authority
of the State of Missouri
Chesterfield, Missouri

We have audited the accompanying statements of net assets of the Higher Education Loan Authority of the State of Missouri (the "Authority") as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These basic financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Higher Education Loan Authority of the State of Missouri, as of June 30, 2009 and 2008, and its changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1–10 and the Schedule of Funding Progress on page 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Higher Education Loan Authority of the State of Missouri's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Higher Education Loan Authority of the State of Missouri's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Higher Education Loan Authority of the State of Missouri's management. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 22, 2009

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008
(Dollars in thousands)

ASSETS	2009	2008
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 25,331	$ 26,772
Unrestricted	120,032	97,252
Total cash and cash equivalents	145,363	124,024
Student loans receivable	40,505	46,968
Student loans receivable - available for sale	422,238	-
Accrued interest receivable:		
Interest subsidy - U.S. Secretary of Education:	18,590	12,972
Short-term Investments held by Trustee	49	267
Student loans receivable (less allowance for doubtful amounts, $1,104 in 2009 and $848 in 2008)	110,404	150,092
Student loans receivable - available for sale	7,825	-
Miscellaneous receivables and prepaid expenses	5,143	9,586
Deferred charges	802	986
Total current assets	750,919	344,895
LONG-TERM ASSETS:		
Student loans receivable (less allowance for doubtful loans, $6,158 in 2009 and $4,392 in 2008)	3,952,915	5,122,890
Pension asset	5,151	3,249
Deferred charges, at cost less accumulated amortization of $10,358 in 2009 and $4,738 in 2008	13,896	18,159
Capital assets, at cost less accumulated depreciation of $6,140 in 2009 and $5,240 in 2008	14,182	14,202
Total long-term assets	3,986,144	5,158,500
TOTAL	$ 4,737,063	$ 5,503,395

LIABILITIES AND NET ASSETS	2009	2008
CURRENT LIABILITIES:		
Line of credit	$ -	$ 300,000
Conduit payable	180,000	145,500
Other liabilities	155,796	8,815
Bonds payable	107,875	27,500
ECASLA payable	285,600	-
Accrued interest payable	12,398	27,372
Special allowance subsidy payable	41,467	4,228
Total current liabilities	783,136	513,415
LONG-TERM LIABILITIES:		
Bonds payable	3,771,325	4,861,275
Arbitrage rebate payable	14,195	16,637
Total long-term liabilities	3,785,520	4,877,912
Total liabilities	4,568,656	5,391,327
NET ASSETS:		
Invested in capital assets	14,182	14,202
Restricted	126,276	51,172
Unrestricted	27,949	46,694
Total net assets	168,407	112,068
TOTAL	$ 4,737,063	$ 5,503,395

See notes to financial statements.

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Dollars in thousands)

	2009	2008
OPERATING REVENUES:		
Interest on student loans	$ 198,906	$ 229,079
U.S. Secretary of Education:		
Interest subsidy	38,498	51,756
Special allowance	(47,953)	22,085
Investment income — interest on cash, cash equivalents, and investments	1,975	6,235
Servicing fee	2,630	-
Other	60	6
Total operating revenues	194,116	309,161
OPERATING EXPENSES:		
Interest expense	124,679	231,851
Bond maintenance fees	3,899	2,262
Letter of credit fees	2,443	1,689
Total Bond Related Expenses	131,021	235,802
Consolidation fees	21,620	23,458
Origination fees	921	2,950
Default fee payments	518	6,127
Reduction of arbitrage rebate liability	(297)	(4,736)
Provision for loan losses	3,990	4,833
Total Student Loan Related Expenses	26,752	32,632
Salaries and employee benefits	15,517	17,713
Postage and forms	2,362	2,818
Third party servicing fees	3,397	3,286
Computer services	3,772	3,371
Professional fees	2,025	1,956
Occupancy expense	1,202	1,217
Depreciation	915	818
Other operating expenses	2,168	3,633
Total General and Administrative Expenses	31,358	34,812
Total operating expenses	189,131	303,246
OPERATING INCOME BEFORE SPECIAL ITEMS	4,985	5,915
SPECIAL ITEMS:		
Net gain on repurchase of bonds	49,911	-
Loss on extinguishment of long term debt	-	(44)
Net gain on termination of excess benefit plan	1,543	-
Lewis and Clark distribution	(100)	(233,826)
CHANGE IN NET ASSETS	56,339	(227,955)
NET ASSETS — Beginning of year	112,068	340,023
NET ASSETS — End of year	$ 168,407	$ 112,068

See notes to financial statements.

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Dollars in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases and originations	$(717,493)	$(1,320,545)
Student loan repayments	655,284	999,338
Payment to employees and vendors	(54,670)	(64,715)
Cash received for interest	22,778	105,822
Other	(9)	(77)
Net cash used in operating activities	(94,110)	(280,177)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	262,500	245,775
Proceeds from line of credit	78,518	300,000
Proceeds from conduit	79,000	478,000
Proceeds from ECASLA	289,913	-
Repayment of bonds	(115,799)	(44,180)
Interest paid on debt	(128,750)	(236,465)
Repayment on line of credit	(378,518)	-
Repayment on conduit	(44,500)	(332,500)
Repayment on ECASLA	(4,313)	-
Cash paid for bond issuance costs	(1,409)	(1,135)
Cash received for the cancellation of debt	79,797	-
Lewis and Clark distribution	(100)	(233,826)
Net cash provided by noncapital financing activities	116,339	175,669
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Purchase of capital assets	(904)	(739)
Proceeds from sales of capital assets	14	41
Net cash used in capital activities	(890)	(698)
CASH FLOWS FROM INVESTING ACTIVITIES — Proceeds from sales and maturities of investments held by Trustee	-	2,585
Net cash provided by investing activities	-	2,585
CHANGE IN CASH AND CASH EQUIVALENTS	21,339	(102,621)
CASH AND CASH EQUIVALENTS — Beginning of year	124,024	226,645
CASH AND CASH EQUIVALENTS — End of year	$ 145,363	$ 124,024

(Continued)

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Dollars in thousands)

	2009	2008
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income before special items	$ 4,985	$ 5,915
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization:		
Capital assets	915	818
Prepaid pension	187	187
Loan, letter of credit and bond fees	33,084	32,521
Provision for loan losses	3,990	4,833
Interest expense	122,528	232,986
Write-off of loans	2,523	5,081
Recoveries on supplemental loans	(299)	-
Reduction in arbitrage rebate liability	(297)	(4,736)
Change in assets and liabilities:		
Increase in student loans receivable	(323,481)	(546,562)
Decrease (increase) in accrued interest receivable	28,977	(10,218)
Increase in miscellaneous receivables and prepaid expenses and pension asset	(4,451)	(1,894)
Increase in other liabilities, special allowance subsidy payable, and interest payable	37,229	936
Total adjustments	(99,095)	(286,092)
Net cash used in operating activities	$ (94,110)	$ (280,177)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES —		
Student loan principal and interest forgiveness	$ 2,145	$ 1,538
In-transit student loan purchases (including interest and premium)	145,110	
Exchange of student loan receivables for the cancellation of debt	1,156,276	-

See notes to financial statements. (Concluded)

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 provided for by the Higher Education Act (FFELP). 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 has also historically been one of the lenders for supplemental loans made available to students in the Midwestern region who have reached the maximum available under the FFELP. The balance of these loans outstanding is approximately 5% of the total loan receivable balance. During fiscal year 2008, the Authority discontinued originating supplemental and consolidated loans. However, the Authority is considering reentering the supplemental loan market in fiscal 2010 or 2011.

Under the bond agreements from the various bond issuances, the Authority purchases loans from a variety of financial institutions with whom they have loan purchase commitments. Of the total remaining commitments at June 30, 2009, 95% are with ten financial institutions and their branches. The most significant financial institutions individually comprise 29%, 17%, and 17% of the total remaining commitments. The Authority relies on these sources of loans to increase the loans owned by the Authority. Should any of these ten primary financial institutions cease business operations, management believes that the student loans would be originated directly by the Authority, by another financial institution or directly by the federal government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting — In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*: *Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*, the Authority's financial statements have been prepared on the basis of the governmental enterprise fund concept which pertains to financial activities that operate similarly to a private business enterprise. The Authority's funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. In accordance with GASB 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 1989 except those that conflict or contradict with GASB pronouncements.

In accordance with the bond and other borrowing resolutions, the Authority utilizes fund accounting principles, whereby each fund is a separate set of self-balancing accounts. The assets of each bond fund are restricted pursuant to the bond resolutions. To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, the Authority records financial activities in the various operating and bond related funds (see Note 14). 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 one proprietary fund type.

Use of Estimates — The preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net assets dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the arbitrage rebate payable and allowance for doubtful loans.

Cash Equivalents — The Authority considers all investment securities with original maturities of less than 90 days at date of purchase to be cash equivalents. All cash equivalents whose proceeds are restricted for debt service reserve or the payment of rebate liabilities are classified as restricted cash equivalents (see Note 7).

Student Loans Receivable — Student loans receivables are stated at the principal amount outstanding adjusted for premiums. The related interest income generated from the loans is offset by premium amortization expense. Premiums on student loans are amortized over the estimated life of new loans purchased using a method that approximates the effective interest method. Because the Authority holds a large number of similar loans, the life of the loans can be estimated while considering expected amounts of prepayments from borrowers and loan consolidations. During the years ended June 30, 2009 and 2008, the estimated life of new loans purchased was three years. In addition, for the years ended June 30, 2009 and 2008, the Authority expensed all premiums for pools of loan purchases with less than $40 of initial premiums.

Interest on student loans is accrued based upon the actual principal amount outstanding. The U.S. Secretary of Education makes quarterly interest payments on subsidized loans until the student is required, under the provisions of the Higher Education Act, to begin repayment. Repayment must begin generally within six months after the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution.

The U.S. Secretary of Education provides a special allowance to student loan owners participating in the FFELP. The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the three-month financial Commercial Paper (CP) rate, to the average daily unpaid principal balance and capitalized interest of student loans held by the Authority. The special allowance is accrued as earned or payable. For loans first disbursed prior to January 1, 2000, the 91-day Treasury bill rate is used rather than the three-month financial CP rate.

The Authority as a loan owner, does not necessarily earn what a borrower pays. Special allowance was designed to ensure loan owners earned 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. Borrower interest rates for Stafford and PLUS loans first disbursed between July 1, 1998 and June 30, 2006 were variable rates set annually based on the 91-day Treasury bill plus a spread of 1.70% to 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 90-day AA CP rate plus a spread of 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. However, 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 U. S. Department of Education. This situation was magnified by additional change in federal law that implemented fixed borrower interest rates from 6.8% to 8.5% for loans first disbursed after July 1, 2006. Furthermore for loans first disbursed after October 1, 2007, the spread lender’s receive over the CP rate was reduced by 40 to 70 basis points. The Authority’s total special allowance became negative in fiscal 2009 due the Authority’s loan portfolio mix and the decline in the CP rate.

Student Loans Receivable Available for Sale –Loans classified as student loans receivable available for sale are loans which have been placed into the ECASLA Participation Program or were purchased with the intent to place the loans into the ECASLA Participation Program. Student loans that are placed into the ECASLA Participation Program must be either refinanced by the lender or sold to the Department of Education under the Purchase Program by the end of the program year. The intent of the Authority is to sell loans in the Participation Program to the Department under the Purchase Program.

Allowance for Doubtful Loans — The Authority has established an allowance for doubtful loans that is an estimate of probable losses incurred in the FFELP and supplemental loan portfolios at the statements of net assets date. The Authority presents student loans net of the allowance on the statements of net assets. 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.

The supplemental loans in the Authority’s portfolio present the greatest risk of loan loss since the loans are either self-insured or insured by a third-party as opposed to the United States Department of Education, who insures FFELP loans. 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 payment status (e.g., repayment versus in school non-paying status) delinquency, and the age of the receivable. When calculating the allowance for doubtful loans for the supplemental loan portfolio, the Authority’s methodology divides the portfolio into categories of similar risk characteristics based on status and age of the receivable. The Authority then applies default and recovery rate projections to each category. 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.

The Authority utilizes true write-offs experienced over the three preceding years to estimate the current year allowance on the FFELP loans. Up to 98% of the principal and interest within the Authority’s FFELP loan portfolio is conditionally guaranteed by the Department of Education.

The allowance associated with the accrued interest receivable on student loans represents 100% of the outstanding interest greater than 270 days past due.

Miscellaneous Receivables and Prepaid Expenses — Miscellaneous receivables and prepaid expenses consist primarily of prepaid bond interest expense, receivables from service bureaus, prepaid letter of credit fees and prepaid pension costs.

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

Capital Assets — Capital assets consist of land, building, and office furniture and equipment recorded at cost. The Authority's policy is to capitalize all expenditures in excess of $10. Depreciation is charged to operations on the straight-line method over the estimated useful lives of the related assets, which is 30 years for the building and generally five years for all other asset classes. The Authority reviews capital assets for impairment in accordance with GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

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

Net Assets — The net assets of the Authority are classified into three categories: unrestricted, restricted and invested in capital assets. Unrestricted net assets include net assets available for the operations of the Authority and other activities accounted for in either the Operating Fund or the Bond Funds. Unrestricted net assets accounted for in the Bond Funds are pledged and subject to the requirements of the Bond Funds in which those unrestricted net assets are maintained. Removal of unrestricted net assets from the Bond Funds are typically subject to the approval of one or more of the following: credit rating agencies, bond insurers, letter of credit providers, liquidity providers, bondholders and/or the trustee. Furthermore, extensive financial analysis is required and performed by the Authority and the approving party prior to the approval and removal of net assets. Restricted net assets consist of the minimum collateral requirements discussed in Note 7, net of related liabilities, as defined in the bond resolutions. The net assets invested in capital assets are discussed in Note 6.

Operating Revenues and Expenses — While bond and note issuance has historically been the principal source of the funds necessary to carry out the purposes of the Authority, which are to originate and acquire student loans, during the last year the Authority has relied extensively on Federal ECASLA programs to carry out its purpose. The Authority's revenue is derived primarily from income on student loans, and secondarily, from servicing fee income, investment income, and income from put fees associated with ECASLA programs. The primary cost of the program is interest expense on bonds and notes outstanding. Therefore loan income, net investment income and interest expense are shown as operating revenues and expenses in the statements of revenue, expenses, and changes in net assets.

Servicing Fee Revenue — The Authority provides services to lending institutions for guarantee processing, loan origination, loan disbursement and loan servicing with respect to Student Loans. Fees charged for these services are classified as Servicing Fee.

Interest Expense — Interest expense primarily includes scheduled interest payments on bonds and other borrowings as well as accretion of bond discounts, broker commission fees, repricing fees, and auction agent fees.

Consolidation Fees — The Authority must remit each month to the U.S. Department of Education (the "Department") an interest payment rebate fee for all of its Federal consolidation loans made on or after October 1, 1993. This fee is equal to 1.05% per annum of the unpaid principal balance and accrued interest of 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 principal and accrued interest of the loans. This fee is not and cannot be charged to the borrower.

Origination Fees — The Authority must remit each month to the Department a 1% origination fee on each consolidation loan made. The fee was increased by 50 basis points on October 1, 2007. This fee is not and cannot be charged to the borrower.

Default Fee Payments — The state and private organizations which insure the Authority's student loans are required to deposit a 1% default fee in their respective federal funds for all loans guaranteed under FFELP. The cost of this default fee may either be passed on to the borrower or paid from another non-federal source. The Authority did pay the default fee for FFELP loans to students and parents of students attending Missouri institutions that utilized either the Authority as a lender or one of the Authority's lender partners that will be required to ultimately sell the loan to the Authority, and that have the Missouri Department of Higher Education (MDHE) guarantee. The Authority discontinued paying these default fees on loans guaranteed after July 1, 2008.

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

Special Items — Special items represent significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. Special items are discussed further in Note 15.

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

Income Taxes — The Authority is a tax-exempt organization under the provisions of the Internal Revenue Code and accordingly, no provision for income taxes has been made in the accompanying financial statements.

3. CASH AND CASH EQUIVALENTS

At June 30, 2009 and 2008, the Authority's carrying amount of cash on deposit was \$15,595 and \$15,627, respectively. The bank balance of deposits are insured by the FDIC.

At June 30, 2009 and 2008, the Authority's cash equivalent balances of \$129,768 and \$108,397, respectively, represented investments in money market funds with credit ratings of AAAm.

4. INVESTMENTS HELD BY TRUSTEE

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

As of June 30, 2009 and 2008, the Authority held no investments.

5. STUDENT LOANS RECEIVABLE

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

Student loans receivable at June 30, 2009 and 2008, are as follows:

	2009	2008
MDHE	$2,259,315	$2,515,734
AES	517,321	768,671
SLGFA	263,491	389,597
USA FUNDS	249,285	311,558
NSLP	166,214	223,707
CSAC	144,963	187,020
TGSLC	112,004	52,377
TSAC	105,925	136,400
ASA	105,637	101,827
NYSHESC	55,754	42,398
KHEAA	53,240	46,700
EAC	35,378	31,532
ECMC	28,302	21,896
ISAC	26,503	38,123
GLHEC	17,457	20,750
NELA	12,437	12,660
Other	31,109	28,155
Total federal loans	4,184,335	4,929,105
Supplemental loans:		
Third party insured	18,440	22,117
Self-insured	219,041	223,028
Total supplemental loans	237,481	245,145
Allowance for doubtful loans	(6,158)	(4,392)
Total student loans receivable	$4,415,658	$5,169,858
Weighted average yield — end of year	5.26 %	6.16 %

The Authority's yield on federal student loan receivables is set by federal law and is generally variable based on either 90-day AA CP rate or the 91-day Treasury bill, plus a factor. These yields are based on the type of loan, the date of loan origination and in some cases, the method of financing. Consolidation loans, Stafford loans, and Parental Loans for Undergraduate Students (PLUS loans), originated after July 1, 2006, have a fixed rate for the borrower. The Authority's yield on supplemental loans are variable rate, based on either the Treasury bill or the prime rate, plus a factor, depending on when the loan originated and the credit worthiness or the borrower and/or co-signor.

The activity for the allowance for doubtful loans for the years ended June 30, 2009 and 2008, is as follows:

	2009	**2008**
Beginning balance	$ 4,392	$ 4,640
Provision for loan losses	3,990	4,833
Write offs of loans	(2,523)	(5,081)
Recoveries	299	-
	$ 6,158	$ 4,392

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, is as follows:

	Beginning Balance	**Additions**	**Retirements**	**Ending Balance**
Land	$ 3,304	$ -	$ -	$ 3,304
Depreciable capital assets:				
Building	11,746	226	-	11,972
Furniture and equipment	4,392	678	(24)	5,046
Total depreciable capital assets	16,138	904	(24)	17,018
Less accumulated depreciation:				
Building	2,433	411	-	2,844
Furniture and equipment	2,807	504	(15)	3,296
	5,240	915	(15)	6,140
Net depreciable capital assets	10,898	(11)	(9)	10,878
Total	$ 14,202	$ (11)	$ (9)	$ 14,182

Capital asset activity for the year ended June 30, 2008, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 3,304	$ -	$ -	$ 3,304
Depreciable capital assets:				
Building	11,746	-	-	11,746
Furniture and equipment	3,735	739	(82)	4,392
Total depreciable capital assets	15,481	739	(82)	16,138
Less accumulated depreciation:				
Building	1,983	450	-	2,433
Furniture and equipment	2,487	368	(48)	2,807
	4,470	818	(48)	5,240
Net depreciable capital assets	11,011	(79)	(34)	10,898
Total	$ 14,315	$ (79)	$ (34)	$ 14,202

7. BONDS PAYABLE

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

	2009	2008
Beginning bonds payable	$ 4,888,775	$4,687,180
Additions	262,500	245,775
Repayments	(115,799)	(44,180)
Cancellation of debt	(1,156,276)	-
Ending bonds payable	$ 3,879,200	$4,888,775

Bonds payable at June 30 consist of:

	2009	2008
Student loan revenue bonds, variable interest rates ranging from 0% to 7.86% at June 30, 2009, and 0% to 17% at June 30, 2008, maturing through 2046	$3,770,850	$4,761,425
Student loan revenue bonds, fixed interest rates ranging from 4.10% to 5.85% at June 30, 2009, and June 30, 2008, maturing through 2022	108,350	127,350
Total student loan revenue bonds	$3,879,200	$4,888,775
Weighted average rate	1.24 %	2.74 %

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

Fiscal Years	Principal	Interest	Total
2010	$ 107,875	$ 53,110	$ 160,985
2011	91,550	48,366	139,916
2012	85,725	44,494	130,219
2013	85,725	40,637	126,362
2014	-	39,190	39,190
Total fiscal years 2010–2014	370,875	225,797	596,672
2015–2019	800,000	182,287	982,287
2020–2024	101,500	164,129	265,629
2025–2029	388,100	108,438	496,538
2030–2034	1,005,400	74,338	1,079,738
2035–2039	63,750	55,329	119,079
2040–2044	1,023,575	37,006	1,060,581
2045–2046	126,000	-	126,000
	$ 3,879,200	$ 847,324	$ 4,726,524

Variable student loan revenue bonds consist of variable rate demand notes and auction rate notes. Variable rate demand notes bear interest at a rate determined by the remarketing agent. Such rate is determined every 7 days. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. The repricing fee is expensed as incurred and included within interest expense on the statements of revenues, expenses, and changes in net assets. Auction rate notes, which represent 76% of the outstanding variable rate debt, bear interest at the applicable auction rate as determined by a bidding process every 7, 28, or 35 days as stipulated in the related Bond Agreement. Starting in November 2007 and continuing through June 30, 2009, the auction rate notes experienced failures in the bidding process. As of June 30, 2009, due to the failures in the auction market, the interest rate was calculated based upon the rate provisions as stipulated in the Bond Agreements and amended by supplemental resolutions agreed to by the Authority in the current year. The interest rates continued to reprice every 7, 28 or 35 days under a failed auction but were determined based upon a 91-Day Treasury Bill (T-Bill) indexed rate for taxable debt or a JJ Kenny indexed rate for tax-exempt debt taken in consideration with the annual average auction rate as of the current repricing date. The debt service requirements in the table above were prepared using the applicable variable rates on June 30, 2009, and may significantly differ from the rates paid in future periods. Fixed rate bonds pay interest at a rate specified in the related Bond Agreement.

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 Agreement. In addition, at June 30, 2009, $225,025 of the bonds are subordinate to the remainder of the outstanding bonds.

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including monies and securities therein. For certain bonds, the Authority has entered into agreements with the Municipal Bond Investors Assurance Corporation, Bank of America N.A., State Street Bank and Trust, DEPFA Bank plc, and AMBAC Indemnity, whereby the parties have issued standby bond purchase agreements, letters of credit, or insurance policies to the Trustees as beneficiaries for the respective bondholders. In December of 2007, State Street Bank and Trust was replaced by Bank of America N.A.

The purpose of the standby bond purchase agreements, letters of credit or insurance policies is to provide liquidity to bondholders, guarantee payment of the bonds upon maturity or earlier redemption. The agreements contain certain covenants which, among other requirements, include minimum collateral requirements. The Authority maintains a minimum amount of assets pledged under required bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2009 and 2008, is $4,021,977 and $5,075,318, respectively. At June 30, 2009 and 2008, the Authority was in compliance with all financial covenants.

The respective bond resolutions establish the following special trust accounts for each bond series, unless otherwise indicated:

Loan Accounts — The loan accounts are used to account for the proceeds of bond issues not required to be deposited in the debt service reserve accounts. Generally, amounts in the loan accounts may be expended (a) to finance eligible student loans, (b) to pay bond issue costs, (c) to make deposits to the revenue accounts for the purpose of paying principal and/or interest on the bonds, and (d) to pay letter of credit fees.

Revenue Accounts — The revenue accounts are used to account for all revenues received by the Authority. Generally, amounts in the revenue accounts are used (a) to make principal and/or interest payments on the bonds, (b) to fund debt service reserve accounts, (c) to pay estimated program expenses to the operating account, and (d) to reimburse the issuers of letters of credit guaranteeing the bonds for amounts committed under the letters of credit. Excess amounts in the revenue account may be transferred to the loan accounts or to optional redemption accounts.

Operating Accounts — Amounts deposited in operating accounts are used to pay reasonable and necessary program expenses for the bond issues.

Debt Service Reserve Accounts — Under the terms of certain bond provisions, minimum amounts are required to be maintained in the debt service reserve accounts for related bond series. The total of these minimum requirements at June 30, 2009 and 2008, were $17,037 and $25,855, respectively. These funds are only to be used to make principal and/or interest payments on the bonds and any interest due on the borrowed funds. In accordance with the bond provisions, the Authority has purchased a non-cancelable Surety Bond in lieu of cash deposits in the debt service reserve accounts for certain of the bond obligations in the amount of $6,614 and $6,926 at June 30, 2009 and 2008, respectively. Such Surety Bonds expire on the earlier of the bond maturity date or the date in which the Authority satisfies all required payments related to such bond obligations.

Rebate Accounts — Amounts deposited in the rebate accounts are used to pay the United States Treasury amounts required by Section 148 of the Internal Revenue Code.

As of June 30, 2009 and 2008, cash and cash equivalents were segregated as follows:

	2009	2008
Special trust accounts:		
Unrestricted:		
Loan accounts	$ 61,635	$ 20,003
Revenue accounts	31,435	45,649
Restricted:		
Debt service reserve accounts	24,769	26,218
Rebate accounts	562	554
Total special trust accounts	118,401	92,424
Operating Fund:		
Unrestricted	14,500	19,301
Due to special trust accounts	12,462	12,299
Total operating fund	26,962	31,600
Total cash and cash equivalents	$ 145,363	$ 124,024

8. FINANCINGS

Conduit — On July 26, 2007, the Authority entered into an amended financing agreement for a $250,000 multi-seller asset backed commercial paper conduit (the "Conduit"). On November 23, 2007, the Authority amended the current agreement to increase the Conduit to $500,000. In accordance with the financing security agreement, the Authority pledged the appropriate cash and cash equivalents, student loan receivable principal, accrued interest, interest subsidy, special allowance, and unamortized financed premium. The Conduit charged an interest rate on outstanding borrowings at the base rate, which for conduit commercial paper historically trades 6 to 8 basis points below 30-day LIBOR, plus a 9 basis point facility fee, an 11 basis point program fee and a 5 basis point dealer fee resulting in a LIBOR plus 18 basis points spread. The facility fee of 9 basis points was payable on the facility limit regardless of usage. The term of the facility was 364 days.

On July 24, 2008, the Authority entered into an amended financing agreement for a $500,000 multi-seller asset backed commercial paper conduit. In accordance with the financing security agreement, if the Authority borrows under the agreement, it will pledge the appropriate cash and cash equivalents, student loan receivable principal, accrued interest, interest subsidy, special allowance and unamortized financed premium. The charges, which increased significantly from the prior conduit included a 25 basis point facility fee, a 35 basis point program fee and a 5 basis point dealer fee. The facility fee of 25 basis points is payable on the facility limit regardless of usage. The term of the facility was 364 days. On October 16, 2008, the financing agreement was amended to reduce the facility limit to $375,000. As a result of a margin call by the bank demanding more equity which the Authority could not meet, the facility was amended on December 23, 2008. The amendment reduced the facility limit to $250,000 with a payout schedule through July 2009. The amended facility also restricted the use of proceeds to include only (a) the purchase or origination of Eligible Department Loans, (b) the purchase of Stafford and/or PLUS Loans in an aggregate amount not to exceed $20,000 after December 23, 2008 and before January 31, 2009, (c) written consent from the Administrative Agent for specified withdrawals. On July 23, 2009, the facility was amended to extend the Maturity Date (see Note 16).

Line of Credit — The Authority had a $300,000 revolving credit facility with a financial institution. This facility required repayment of principal and interest every 7 to 90 days at an interest rate of LIBOR plus 33 basis points or the Federal funds rate plus 100 basis points, as appropriate. The Authority pledged the appropriate cash and cash equivalents, student loan receivable principal, accrued interest, interest subsidy, special allowance, and unamortized financed premium. The facility was to terminate on September 30, 2008. On September 30, 2008, the Authority entered into an amended financing agreement for the credit facility to extend the termination date to October 31, 2008, under the same terms present in the original agreement. The revolving credit facility was paid in full and terminated on October 16, 2008**.**

For the years ended June 30, 2009 and June 30, 2008, the following table displays the aggregate changes in the line of credit and commercial paper conduit borrowings:

	2009	2008
Beginning balance	$ 445,500	$ -
Additional borrowings	157,518	778,000
Repayments	(423,018)	(332,500)
Ending balance	$ 180,000	$ 445,500
Yield at end of year	0.50%	3.00%

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

The Master Participation Agreement is designed to provide short-term liquidity to eligible lenders for the purpose of financing the origination of FFELP loans. Loans participated in the program are charged a rate of commercial paper plus 50 basis points on the principal amount. All loans under the Participation Program must be either refinanced by the lender or sold to the Department under the Purchase Program. This ECASLA participation line of credit for the 2008-09 program year was available to the Authority until October 15, 2009. During the year ended June 30, 2009, the Authority had $282,244 loans under the Participation Program, which are classified as available for sale on the statement of net assets. As of June 30, 2009, the Authority received $285,600 in funding to purchase these student loans. In addition, on June 29, 2009, the Authority purchased $139,994 student loans with the intent to place the loans into the Participation Program. The loans were placed into the Participation Program in July 2009. These loans are classified as available for sale on the statement of net assets for the year ended June 30, 2009. Loans classified as available for sale are expected to be sold to the Department under the Purchase Program in the year ending June 30, 2010.

The Master Loan Sale Agreement allows eligible lenders to sell FFELP loans originated for the 2008–2009 academic year to the Department of Education through the Purchase Program at 101% plus $75 per loan. The agreement expires on September 30, 2009, allowing a lender to hold and service loans for a longer period of time and giving them the opportunity to finance and keep loans if the market were to improve. Any lender participating must represent to the Department that it will continue to participate in the FFELP program. During the year ending June 30, 2009, the Authority sold to the Department under the Purchase Program $2,685 loans.

On October 7, 2008, the Participation and Purchase Programs were extended to September 30, 2010, for loans made in the 2009–2010 academic year.

Bridge Financing — On June 24, 2009, the Authority entered into a new $80,000 revolving line of credit with three banks to serve as a "bridge" financing for the Authority's utilization of the ECASLA Federal Loan Participation Program. The interest rate is based on three options from which the Authority may choose: (i) Base Rate Option, based on the highest of (a) the Federal Funds Open Rate, plus 0.5%, and (b) the Prime Rate, and (c) the Daily LIBOR Rate, plus 100 basis points (1.0%) (ii) LIBOR Rate Option, or (iii) Daily LIBOR Rate Option. Different Interest Rate Options and different Interest Periods may be selected simultaneously for the loans comprising different borrowing tranches. Unused fee on the facility is 0.25%. The line of credit expires on June 23, 2010. In accordance with the terms of this transaction the Authority must maintain a cash collateral account deposit with one or more the bridge financing lenders in an aggregate amount equal to no less than the greater of four percent of the principal amount of loans outstanding or $1,500. In addition, pending approval from the required parties, the Authority agreed to move the trust business for the 6^{th} and 8^{th} General Resolutions as well as the 2008 Trust Indenture to one of the lenders under the bridge financing. As of June 30, 2009, there was no outstanding balance associated with the bridge financing.

9. CONTRACTS, COMMITMENTS, AND CONTINGENCIES

The Authority has four contracts to utilize electronic data processing systems. The contracts provide for monthly charges based on the number of student loan accounts serviced and the amount of computer equipment supplied.

Charges incurred under the contracts for the years ended June 30, 2009 and 2008, are as follows:

	2009	2008
Charges based on loan accounts	$ 7,132	$ 6,592
Hardware rentals	37	21
Total	$ 7,169	$ 6,613

To the extent permitted under applicable law, the Authority has authorized an expenditure of a maximum of $550 in five equal annual installments beginning July 1, 2006, to support the University of Missouri — St. Louis GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) Partnership (the "Partnership"), which provides need-based scholarships and grants to students seeking higher education. Actual expenditures may be less in the event funding for these grants and scholarships is obtained by members of the Partnership. As of the report date, no such installment has been made by the Authority.

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

10. EMPLOYEE BENEFITS

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"), with investment management performed by Goldman Sachs and recordkeeping provided by Edward Jones for all employees who are at least 21 years of age, and who work in excess of 1,000 hours per plan year, and who have been employed at least one year by the Authority. 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. Sixteen investment fund options are available for choice by the employee. 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 2009 and 2008, the Authority contributed $501 and $478 and employees contributed $553 and $615 to the 401(k) Plan.

The Authority offers a noncontributory defined benefit pension plan, the Higher Education Loan Authority of the State of Missouri Pension Plan (the "Pension Plan"). The Authority previously offered a defined benefit Excess Benefit Plan, to supplement the benefits provided under the defined contribution plan. The Excess Benefit Plan was terminated in December 2008. The Pension Plan is administered by Wachovia Securities. Employees vest in the Pension Plan after five years of service. The Excess Benefit Plan, which was also administered by Wachovia Securities, was a closed plan with a limited number of participants remaining. All obligations of the Excess Benefit Plan were settled and the remaining over funding was returned to the Authority resulting in a gain of $1,543 after all expenditures (See Note 15). The Authority then contributed that balance from the Excess Benefit Plan to the Pension Plan. A report of the Pension Plan may be obtained by writing to the Authority's Pension Plan Administrator, 633 Spirit Drive, Chesterfield, MO 63005-1243 or by calling (636) 532-0600 with your request for a copy of the report of the Pension Plan. The Authority has elected to recognize prior service costs over a period which represents the estimated remaining service lives of the employees at the Pension Plan and Excess Benefit Plan origination dates.

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.

Pension Plan assets are invested primarily in debt and equity securities at the discretion of the trustee. Those securities are valued at market value. The investment objective of the Plan is to ensure that assets will be available to meet the Plan's benefit obligations. The expected return on the Plan's assets is based on the historical and anticipated returns for each asset category. At June 30, 2009 and 2008, the allocation was 53:44:3 and 47:50:3 debt securities to equity securities to cash.

During the current year, the Authority contributed the actuarially determined minimum required funding. The annual required contribution for the years ended June 30, 2009, 2008, and 2007, was determined as part of the July 1, 2008, 2007, and 2006, respectively, actuarial valuations. The Authority's policy is to contribute annually not less than the actuarially determined minimum required contribution determined by using the Aggregate Actuarial Cost Method. Because this method is used, the amortization is a level percentage of payroll over the average remaining service life of active members. Separate determination and amortization of the unfunded actuarial liability are not part of such method and are not required when that method is used. There are no annual maximum contribution rates.

The following table establishes a display of the funding status measured as the ratio of Plan assets to actuarial accrued liability. This actuarial accrued liability is determined using the entry age actuarial cost method, as required for plans that use the Aggregate Cost Method to determine the recommended contribution.

Actuarial Valuation Date	Actuarial Value of Assets Available for Benefits	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
Pension Plan						
7/1/2008	$18,939	$19,224	98.5 %	$285	$10,195	2.8 %

The following tables detail the components of annual pension cost. The amounts recognized in the Authority's financial statements and major assumptions used to determine those amounts as of June 30, 2009, 2008, and 2007, are as follows:

	2009	2008		2007	
	Pension Plan	Pension Plan	Excess Benefit Plan	Pension Plan	Excess Benefit Plan
Net pension Obligation (NPO):					
NPO — beginning of year	$ (3,412)	$ (3,581)	$ (31)	$ (3,759)	$ (36)
Annual pension cost	1,878	2,207	6	2,123	5
Contributions for year	(4,036)	(2,038)	-	(1,945)	-
NPO — end of year	$ (5,570)	$ (3,412)	$ (25)	$ (3,581)	$ (31)
The negative NPO represents a pension asset.					
Components of annual pension cost:					
Annual required contribution (ARC)	$ 1,717	$ 2,038	$ -	$ 1,945	$ -
Interest on NPO	(239)	(251)	(2)	(263)	(3)
Adjustment to ARC	400	420	8	441	8
Annual Pension Cost (APC)	$ 1,878	$ 2,207	$ 6	$ 2,123	$ 5
Percentage of ARC contributed	235 %	100 %	100 %	100 %	100 %
Major assumptions:					
Investment return	7 %	7 %	7 %	7 %	7 %
Inflation rate	4	4	4	4	4
Discount rate used for amortization of NPO	3	3	3	3	3
Salary scale	5	5	5	5	5
Amortization period (open) (years)	10.0	10.0	5.0	10.0	5.0
Cost method	Aggregate	Aggregate	Level Dollar	Aggregate	Level Dollar
Mortality table	1994 Group Annuity Mortality table				

11. STUDENT LOAN PURCHASE COMMITMENTS

In addition to the student loans already purchased, the Authority has contractual commitments to purchase $127,506 and $38,488 in FFELP loans from two of its lender partners under certain agreements. As it relates to the $38,488 commitment, if the Authority is unable to buy these loans the Authority's liability is limited to $2,890. In addition, as of August 31, 2009, the Authority has contractual commitments to purchase $27,364 in supplemental (alternative) loans from four lender partners. As it relates to $20,636 of that commitment (3 of the 4 lender partners), if the Authority is unable to buy these loans the Authority's liability is limited to $725. The Authority also has agreements with lending institutions that require the lender to use its best efforts to make and sell student loans to the Authority up to a contractually agreed-upon amount; however, the Authority has the right to refuse the purchase. The average length of the purchase commitments is three years. Management plans to fulfill the commitments using funds held by the Trustee, funds generated through the normal financing operations of the Authority and through the use of the Federal ECASLA programs. At June 30, 2009 and 2008, the Authority was servicing $2,454,893 and $1,459,808, respectively, in student loans for these and other lending institutions.

12. ARBITRAGE REBATE PAYABLE

In accordance with Section 148 and the regulations thereunder of the Internal Revenue Code of 1986, as amended, the Authority is required to pay to the United States Treasury certain amounts related to the Authority's tax-exempt bond issues. The amount required to be paid represents the excess of amounts earned over the interest cost of the tax-exempt borrowings. Non-purpose rebate payments are due every fifth year and when the bonds are retired. Purpose rebate payments are due every tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. The rebate calculation utilizes various assumptions and allows for the selection of alternative calculation options under the Code. Management estimates at June 30, 2009 and 2008, the liability to be $14,195 and $16,637, respectively, which has been provided for in the financial statements, however, the ultimate liability, if any, is dependent on investment yields and bond rates in the future.

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

	2009	2008
Beginning balance	$ 16,637	$ 22,911
Reduction of arbitrage liability	(297)	(4,736)
Student loan forgiveness	(2,145)	(1,538)
Ending balance	$ 14,195	$ 16,637

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

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair value amounts have been determined by the Authority using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Authority could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of the Authority's financial instruments are as follows:

	June 30, 2009		June 30, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 145,363	$ 145,363	$ 124,024	$ 124,024
Student loans receivable	4,415,658	4,382,174	5,169,858	5,148,151
Liabilities:				
Line of credit	$ -	$ -	$ 300,000	$ 300,000
Conduit payable	180,000	180,000	145,500	145,500
Bonds payable	3,879,200	3,877,584	4,888,775	4,882,270
ECASLA payable	285,600	285,600	-	-
Off-balance sheet instruments — standby letters of credit	$ -	$ 6,661	$ -	$ 7,165

Cash and Cash Equivalents — For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value based on the short-term nature of the security.

Student Loans Receivable — Loans are categorized by repayment type (in-school, grace, repayment, and delinquent). The fair value is estimated using the Authority's current pricing policies and the present value of the future cash flow stream. This estimated fair value approximates the amount for which similar loans could currently be purchased on the open market.

Line of Credit — For the line of credit, the carrying value is a reasonable estimate of fair value as the line of credit has a variable rate.

Conduit Payable — For the conduit payable, the carrying value is a reasonable estimate of fair value as the line of credit has a variable rate.

Bonds Payable —For fixed bonds, fair value was calculated from quoted market prices of the bonds. For variable rate bonds, the carrying amount is a reasonable estimate of fair value.

Standby Letters of Credit — The fair value is based on fees currently charged for similar agreements at the reporting date.

14. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds or other financing is outstanding. A segment has a specific identifiable revenue stream pledged in support of the related debt and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately. The Authority has nine segments that meets the reporting requirements of GASB Statement No. 34.

The outstanding debt of the Authority consists of Student Loan Revenue Bonds, a line of credit, the Federal ECASLA Loan Participation program and commercial paper conduit. The Student Loan Revenue Bonds are issued in accordance with four separate General Student Loan Program Bond Resolutions adopted by the Board of Directors in various years from 1988 through 2007, as well as in accordance with a two Trust Indenture (the "Indenture") adopted by the Board of Directors in 2005 and 2008. The Resolutions provide that the bonds are payable from the eligible loans pledged under the Resolutions, amounts deposited in the accounts pledged under the Resolutions and all other revenues and recoveries of principal from the loans purchased with the bond proceeds.

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

Summary financial information for the Student Loan Revenue Bonds as of June 30, 2009 and 2008, are as follows:

	2009											
	Bond Funds											
Condensed Statements of Net Assets	**6th General Resolution Trust Estate**	**8th General Resolution Trust Estate**	**9th General Resolution Trust Estate**	**11th General Resolution Trust Estate**	**12th General Resolution Trust Estate**	**2005 Trust Indenture**	**2008 Trust Indenture**	**Commercial Paper Conduit**	**ECASLA**	**Line of Credit**	**Operating Fund**	**Total**
Assets:												
Current assets	$ 3,042	$ 2,659	$ -	$ 192,998	$ 37,013	$ 18,245	$ 12,861	$ 13,369	$289,072	$3,260	$ 178,400	$ 750,919
Long-term assets	53,401	38,347	-	2,770,214	312,370	321,840	272,380	198,835	-	400	18,357	3,986,144
Total assets	$56,443	$41,006	$ -	$2,963,212	$349,383	$340,085	$285,241	$212,204	$289,072	$3,660	$ 196,757	$4,737,063
Liabilities:												
Current liabilities	$ 544	$ 208	$ -	$ 93,857	$ 1,525	$ 55,866	$ 4,449	$185,627	$292,881	$ 530	$ 147,649	$ 783,136
Long-term liabilities	50,000	41,359	-	2,792,709	341,189	297,226	263,037	-	-	-	-	3,785,520
Interfund payable (receivable	(367)	(627)	-	(5,842)	(1,953)	(227)	(507)	(359)	(3,785)	(395)	14,062	-
Total liabilities	50,177	40,940	-	2,880,724	340,761	352,865	266,979	185,268	289,096	135	161,711	4,568,656
Net assets:												
Invested in capital assets	-	-	-	-	-	-	-	-	-	-	14,182	14,182
Restricted	5,018	66	-	82,488	5,226	(12,780)	15,821	26,936	(24)	3,525	-	126,276
Unrestricted	1,248	-	-	-	3,396	-	2,441	-	-	-	20,864	27,949
Total net assets	6,266	66	-	82,488	8,622	(12,780)	18,262	26,936	(24)	3,525	35,046	168,407
Total liabilities and net assets	$56,443	$41,006	$ -	$2,963,212	$349,383	$340,085	$285,241	$212,204	$289,072	$3,660	$ 196,757	$4,737,063

Condensed Statements of Net Assets	2008 Bond Funds 6th General Resolution Trust Estate	8th General Resolution Trust Estate	9th General Resolution Trust Estate	10th General Resolution Trust Estate	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2005 Trust Indenture	Commercial Paper Conduit	Line of Credit	Operating Fund	Total
Assets:											
Current assets	$ 2,895	$ 3,678	$ 4,447	$ -	$ 228,227	$ 34,338	$ 25,487	$ 5,625	$ 7,055	$ 33,143	$ 344,895
Long-term assets	54,280	38,946	35,105	-	3,840,663	337,833	364,301	147,674	302,048	37,650	5,158,500
Total assets	$57,175	$42,624	$ 39,552	$ -	$ 4,068,890	$372,171	$389,788	$153,299	$ 309,103	$ 70,793	$ 5,503,395
Liabilities:											
Current liabilities	$ 116	$ (5)	$ 901	$ -	$ 32,376	$ 20,165	$ 7,676	$146,201	$ 301,121	$ 4,864	$ 513,415
Long-term liabilities	50,000	42,895	38,135	-	4,021,543	342,181	383,158	-	-	-	4,877,912
Interfund payable (receivable)	(442)	(688)	(1,312)	-	(8,123)	2,701	(1,424)	(226)	(284)	9,798	-
Total liabilities	49,674	42,202	37,724	-	4,045,796	365,047	389,410	145,975	300,837	14,662	5,391,327
Net assets:											
Invested in capital assets	-	-	-	-	-	-	-	-	-	14,202	14,202
Restricted	5,018	422	765	-	23,094	5,905	378	7,324	8,266	-	51,172
Unrestricted	2,483	-	1,063	-	-	1,219	-	-	-	41,929	46,694
Total net assets	7,501	422	1,828	-	23,094	7,124	378	7,324	8,266	56,131	112,068
Total liabilities and net assets	$57,175	$42,624	$ 39,552	$ -	$ 4,068,890	$372,171	$389,788	$153,299	$ 309,103	$ 70,793	$ 5,503,395

Condensed Statements of Revenues, Expenses and Changes in Net Assets	2009 Bond Funds: 6th General Resolution Trust Estate	8th General Resolution Trust Estate	9th General Resolution Trust Estate	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2005 Trust Indenture	2008 Trust Indenture	Commercial Paper Conduit	ECASLA	Line of Credit	Operating Fund	Total
Operating revenues	$ 1,944	$1,445	$ 420	$140,531	$16,831	$ 12,513	$ 6,684	$ 7,883	$1,270	$ 4,781	$ (186)	$194,116
Operating expenses	3,179	1,794	1,376	131,966	15,332	25,490	5,638	6,951	1,294	3,767	(7,656)	189,131
Operating (loss) income	(1,235)	(349)	(956)	8,565	1,499	(12,977)	1,046	932	(24)	1,014	7,470	4,985
Special items	-	(7)	(359)	50,459	(1)	(181)	-	-	-	-	1,443	51,354
Interfund transfers	-	-	(513)	370	-	-	17,216	18,680	-	(5,755)	(29,998)	-
Increase (decrease) in net assets	(1,235)	(356)	(1,828)	59,394	1,498	(13,158)	18,262	19,612	(24)	(4,741)	(21,085)	56,339
Net assets — beginning of year	7,501	422	1,828	23,094	7,124	378	-	7,324	-	8,266	56,131	112,068
Net assets — end of year	$ 6,266	$ 66	$ -	$ 82,488	$ 8,622	$(12,780)	$18,262	$26,936	$ (24)	$ 3,525	$ 35,046	$168,407

Condensed Statements of Revenues, Expenses and Changes in Net Assets	2008 Bond Funds: 6th General Resolution Trust Estate	8th General Resolution Trust Estate	9th General Resolution Trust Estate	10th General Resolution Trust Estate	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2005 Trust Indenture	Commercial Paper Conduit	Line of Credit	Operating Fund	Total
Operating revenues	$ 2,862	$2,013	$ 1,818	$ 112	$ 231,240	$ 26,480	$21,836	$11,923	$4,102	$ 6,775	$309,161
Operating expenses	2,460	2,877	1,535	77	237,456	28,292	23,762	10,960	3,350	(7,523)	303,246
Operating (loss) income	402	(864)	283	35	(6,216)	(1,812)	(1,926)	963	752	14,298	5,915
Special items	-	-	-	-	(44)	-	-	-	-	(233,826)	(233,870)
Interfund transfers	-	-	-	(326)	(1,272)	(7)	-	6,333	7,514	(12,242)	-
Increase (decrease) in net assets	402	(864)	283	(291)	(7,532)	(1,819)	(1,926)	7,296	8,266	(231,770)	(227,955)
Net assets — beginning of year	7,099	1,286	1,545	291	30,626	8,943	2,304	28	-	287,901	340,023
Net assets — end of year	$ 7,501	$ 422	$ 1,828	$ -	$ 23,094	$ 7,124	$ 378	$ 7,324	$8,266	$ 56,131	$112,068

Condensed Statements of Cash Flow	2009 Bond Funds 6th General Resolution Trust Estate	8th General Resolution Trust Estate	9th General Resolution Trust Estate	11th General Resolution Trust Estate	12th General Resolution Trust Estate	2005 Trust Indenture	2008 Trust Indenture	Commercial Paper Conduit	ECASLA	Line of Credit	Operating Fund	Total
Net cash flows from operating activities	$ 2,343	$ 1,847	$ 35,202	$ 41,276	$ 37,241	$ 51,280	$(256,541)	$(26,911)	$(280,576)	$ 304,378	$ (3,649)	$ (94,110)
Net cash flows from non-capital financing activities	(2,050)	(2,457)	(38,236)	(31,258)	(24,583)	(57,501)	259,899	30,917	284,530	(302,822)	(100)	116,339
Net cash flow from capital activities	-	-	-	-	-	-	-	-	-	-	(890)	(890)
Net increase (decrease) in cash and cash equivalents	293	(610)	(3,034)	10,018	12,658	(6,221)	3,358	4,006	3,954	1,556	(4,639)	21,339
Cash and cash equivalents — beginning of year	245	1,896	3,034	65,834	4,017	13,862	-	1,892	-	1,645	31,599	124,024
Cash and cash equivalents — end of year	$ 538	$ 1,286	$ -	$ 75,852	$ 16,675	$ 7,641	$ 3,358	$ 5,898	$ 3,954	$ 3,201	$26,960	$ 145,363

	2008											
	Bond Funds											
Condensed Statements of Cash Flow	**6th General Resolution Trust Estate**	**8th General Resolution Trust Estate**	**9th General Resolution Trust Estate**	**10th General Resolution Trust Estate**	**11th General Resolution Trust Estate**	**12th General Resolution Trust Estate**	**2005 Trust Indenture**	**2008 Trust Indenture**	**Commercial Paper Conduit**	**Line of Credit**	**Operating Fund**	**Total**
Net cash flows from operating activities	$ 1,280	$ 1,195	$ 1,458	$ (79)	$(33,469)	$ 25,326	$ 14,013	$ -	$(135,158)	$(296,195)	$141,452	$ (280,177)
Net cash flows from non-capital financing activities	(2,057)	(1,327)	(1,525)	(3,601)	24,212	(26,449)	(14,636)	-	137,038	297,840	(233,826)	175,669
Net cash flow from capital activities	-	-	-	-	-	-	-	-	-	-	(698)	(698)
Net cash flow from investing activities	-	-	-	2,585	-	-	-	-	-	-	-	2,585
Net increase (decrease) in cash and cash equivalents	(777)	(132)	(67)	(1,095)	(9,257)	(1,123)	(623)	-	1,880	1,645	(93,072)	(102,621)
Cash and cash equivalents — beginning of year	1,022	2,028	3,101	1,095	75,091	5,140	14,485	-	12	-	124,671	226,645
Cash and cash equivalents — end of year	$ 245	$ 1,896	$ 3,034	$ -	$ 65,834	$ 4,017	$ 13,862	$ -	$ 1,892	$ 1,645	$ 31,599	$ 124,024

15. SPECIAL ITEMS

Lewis and Clark Distribution — On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the "Initiative") became law. The legislation, known as Senate Bill 389 (the "LCDI Legislation") directs the Authority to distribute $350,000 into a new fund in the State Treasury known as the Lewis and Clark Discovery Fund (the "Fund") on the following schedule: $230,000 no later than September 15, 2007; an additional $5,000 by December 31, 2007; and further installments of $5,000 each calendar quarter through September 30, 2013. Investment earnings on the Fund are credited against subsequent payments made 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. However, the entire $350,000 is to be paid by September 30, 2013, unless otherwise approved by the Authority and the Missouri Commissioner of the Office of Administration.

The Authority receives a significant benefit pursuant to the LCDI Legislation. The new law provides that following the initial September 15, 2007, distribution by the Authority, the Missouri Director of Economic Development shall allocate to and reserve for the Authority in 2007 and the next 14 years at least 30% of Missouri's tax-exempt, private activity bond cap allocation. This allocation was $150,750 and $150,000 for calendar years 2009 and 2008, respectively. The amount of this allocation may be reduced for 2014 and later years by the percentage of the $350,000 not paid by the Authority to the Fund by the end of the preceding year.

On September 14, 2007, the Authority remitted to the State Treasurer $230,000 for the initial payment in accordance with an Authority Board Resolution and as required by the LCDI Legislation. Two subsequent quarterly payments totaling $3,826 have been made which represents the difference between the required payment of $5,000 and interest earned, bringing the Authority current through March 31, 2008. On June 26, 2008, the Board voted to delay making the June 30, 2008, quarterly payment and on September 12, 2008, the Board voted to make a partial quarterly payment on September 30, 2008 of $100. For each subsequent quarterly payment for the year ended June 30, 2009, the Board did not authorize payment. Accrued interest earned and paid for the year ended June 30, 2009 totaled $3,744.

The Board will continue analyzing and determining on a quarterly basis what, if any, distribution the Authority should make to the LCDI Fund. Regardless of what distribution the Board authorizes in any given quarter, the LCDI Fund will continue to receive quarterly distributions of interest earned on the LCDI Fund. While the quarterly interest income distributions are not paid directly by the Authority, it reduces the amount the Authority has to pay under the LCDI statute.

Excess Benefit Plan — Effective July 2001, the Authority adopted the Excess Benefit Plan. The Plan was intended to make up the benefits not available under the Qualified Pension Plan benefit formula solely because of the Internal Revenue Code Section 15 Restriction. The Excess Benefit Plan was a closed plan with a limited number of participants remaining.

In June 2008, the Board approved the termination of the Excess Benefit Plan. After all obligations were settled, the gain recognized from the Excess Benefit Plan termination was $1,543. The over funding gain from the Excess Benefit Plan was contributed to the Qualified Pension Plan in addition to the annual required contribution. The distribution in excess of the annual required contribution was capitalized within the prepaid asset within the Statement of Net Assets.

Gain on Cancellation of Debt — During the year ending June 30, 2009, a $49,911 gain on cancellation of debt was recognized. Most of the gain was a result of two transactions in which the Authority sold student loans to financial institutions at par and purchased failed auction rate bonds at a discount from the financial institutions. The bonds were immediately cancelled upon purchase. The gain on cancellation of the bonds was $47,811 after one-time expenses for the accelerated amortization of $4,521 in unamortized loan purchase premiums proportional to the loans sold and the accelerated amortization of $4,894 in unamortized costs of issuance associated with the bonds cancelled. In addition, during the year ending June 30, 2009 the Authority purchased bonds directly from bondholders at a discount in the open market and cancelled the bonds, resulting in a $2,100 gain on cancellation of debt.

16. SUBSEQUENT EVENTS

Asset Back Commercial Paper Conduit — On July 23, 2009, the Authority entered into an agreement to extend the termination date on the asset back commercial paper conduit to August 21, 2009, under the same terms present in the original agreement. On July 30, 2009, the asset back commercial paper conduit was paid in full.

The Ensuring Continued Access to Student Loans Act — Conduit Program — In May 2009, the Department issued Asset-Backed Commercial Paper (ABCP) Conduit Program that will help ensure the continued availability of Federal Family Education Loan Program (FFELP) loans to students and parents for the 2009-2010 academic year. Participants in the Conduit Program must use 100 percent of the net proceeds of funds received from the Conduit to originate and disburse new FFELP loans. Loans eligible for the Conduit Program include Stafford and PLUS loans with first disbursement dates on or after October 1, 2003 and no later than June 30, 2009 and fully disbursed before September 30, 2009. The Department entered into a PUT Agreement with the Straight-A Funding LLC Conduit using the authority provided by, and consistent with the requirements of the Ensuring Continued Access to Student Loans Act (P.L. 110-227).

The Conduit will purchase notes secured by eligible FFELP loans from eligible FFELP lenders and holders, which in turn will serve as the underlying asset against which the Conduit sells commercial paper. The commercial paper will have variable maturities, but in no case longer than 90 days. As previously-issued commercial paper matures, proceeds from newly-issued commercial paper will be used to satisfy investors holding earlier maturities. If necessary, the Federal Financing Bank will provide a short-term liquidity backstop to re-finance maturing commercial paper. The Department will purchase loans from the Conduit in order to allow the Conduit to repay such short-term liquidity loans to the extent required. The Conduit Program provides an advance of 97 percent of the student loan value for loans in the program. The term of the Conduit Program is five years and expires on May 8, 2014. On July 30, 2009, the Authority had $190,158 loans funded through the Asset-Backed Commercial Paper Conduit Program.

2005 Trust Indenture — There is a dispute between the bond insurers, and the standby bond purchase or liquidity provider, regarding the appropriate interest rate due under the applicable bond documents for the 2005 Trust Indenture. The liquidity provider has asserted that the default rate of interest of prime plus 3% (6.5%) is due on the bank bonds it holds due to their assertion that an insurer adverse change has occurred. While the insurers, assert that the bank bond rate of prime plus 1% (4.5%) remains in effect because an insurer adverse change has not occurred. As a part of ongoing negotiations between the parties, the Trustee for the 2005 Trust paid the liquidity provider the bank bond rate of interest of prime plus 1% on August 17, 2009 on the semi-annual interest payment due date. Since that payment, negotiations between the parties have broken down and the liquidity provider is now demanding that the default rate, a difference of 2% ($3,041), is due on the bank bonds they hold. The Trustee has escrowed these funds and due to the ongoing dispute filed a petition in Minnesota State Court asking the court to decide whether an event of default, an insurer adverse change and/or automatic termination event has occurred, as well as the applicable rate of interest. The Authority is disclosing the possibility that an additional interest would be due if the court determines the default rate of interest is applicable. The Authority believes that it is possible but not probable that the court will rule in favor of the liquidity provider and declare that the default rate is in effect.

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HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2009, 2008 AND 2007
(Dollars in thousands)
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets Available for Benefits	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
Pension Plan 7/1/2008	$18,939	$19,224	98.5 %	$ 285	$10,195	2.8 %
Pension Plan 7/1/2007	18,148	18,585	97.6 %	437	12,159	3.6 %
Excess Benefit Plan 7/1/2007	4,656	2,481	187.7 %	-	220	-
Pension Plan 7/1/2006	15,045	16,798	89.6 %	1,753	10,427	16.8

Information for the Excess Benefit Plan for the fiscal year as of 7/1/2006 is not presented herein as amounts are immaterial.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Higher Education Loan Authority
of the State of Missouri:

We have audited the financial statements of the Higher Education Loan Authority of the State of Missouri (the "Authority") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Deloitte + Touche LLP

September 22, 2009

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Higher Education Loan Authority
of the State of Missouri:

Compliance

We have audited the compliance of the Higher Education Loan Authority of the State of Missouri (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Deloitte + Touche LLP

September 22, 2009

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009
(Dollars in thousands)

Federal Grantor	Federal CFDA Number	Federal Expenditures Received
U.S. DEPARTMENT OF EDUCATION — Federal Family Education Loan Program (FFEL) — interest on student loans	84.032	$ 38,498
U.S. DEPARTMENT OF EDUCATION — Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) — Debt	84.032	285,600
TOTAL	84.032	$ 324,098

		Outstanding Balance at June 30, 2009
TOTAL GUARANTEED LOANS OF THE AUTHORITY AT JUNE 30, 2009 — Guaranteed student loans		
FFEL Program	84.032	$ 4,183,641
Health Education Assistance Loan Programs (HEAL)	93.108	694
TOTAL		$ 4,184,335

See notes to supplementary schedule of expenditures of federal awards.

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

1. DESCRIPTION OF PROGRAMS

U.S. Department of Education — The FFEL Programs enable 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.

The ECASLA programs enable the Authority to access affordable funding to purchase and originate loans and continue to carry out its purpose.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the federal awards 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 interest is used primarily for the purchase of student loans and the administration of the Student Loan Programs. The ECASLA debt is used to purchase student loans.

3. CONTINUING COMPLIANCE REQUIREMENTS

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

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HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Part I — Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued — unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	X no
Significant deficiencies identified not considered to be material weakness(es)?	_____ yes	X N/A
Noncompliance material to financial statements noted?	_____ yes	X no

Federal Awards:

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	X no
Significant deficiencies identified not considered to be material weakness(es)?	_____ yes	X N/A

Type of auditors' report issued on compliance for major programs — unqualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs — $3,000,000

Auditee qualified as a low-risk auditee?	X yes	___ no

Part II — Financial Statement Finding Section

No matters are reportable.

Part III — Federal Awards Findings and Questioned Cost Section

No matters are reportable.

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

None