Higher Education Loan Authority of the State of Missouri

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, Supplemental Schedule for the Year Ended June 30, 2007, and Independent Auditors' Reports

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

TABLE OF CONTENTS

	Page
REQUIRED SUPPLEMENTARY INFORMATION —	
Management's Discussion and Analysis (Unaudited)	1–9
INDEPENDENT AUDITORS' REPORT	10–11
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006:	
Statements of Net Assets	12
Statements of Revenues, Expenses, and Changes in Net Assets	13
Statements of Cash Flows	14–15
Notes to Financial Statements	16–34
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*	35–36
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	37–38
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007	39
NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007	40
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007	41
STATUS OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007	42

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007 (UNAUDITED)

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 more than $5 billion in assets and annual loan purchases in excess of $1.5 billion.

The Authority was created by the General Assembly of the State of Missouri through passage of HB 326, signed into law on June 15, 1981. The Authority was created in order to insure that all eligible post-secondary education students have access to guaranteed student loans. The act was amended, effective August 28, 1994, and again effective August 28, 2003 to provide the Authority with generally expanded powers to finance, 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, allows the Authority to originate Parental Loans for Undergraduate Students (PLUS loans) and extends the maximum length for repayment of bonds issued by the Authority from 30 to 40 years. The Bill also repeals 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. Passage of SB389 on August 28, 2007 further amended the Authority's purpose in order to support the efforts of public colleges and universities in creating and funding 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 later) and authorized the Authority to participate in any type of financial aid program that provides grants and scholarships to students.

The Authority is governed by a seven member Board of Directors, five of whom are appointed by the Governor of the State, subject to the advice and consent of the Senate of the State, 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., selected 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 the Federal Family Education Loan Program (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 students, graduate students, 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 guarantor for supplemental loans made available predominantly to students in the Midwestern area who have reached the maximum available funding under the FFELP. There are several types of loans under the supplemental

program which provide funding for eligible borrowers attending eligible law, undergraduate, technical, graduate, medical and pharmacy schools.

During fiscal year 2007, the Authority purchased/originated $2,414 million of gross principal student loans from a variety of financial institutions. This compares to $2,016 million gross principal during fiscal year 2006 and $1,698 million during fiscal year 2005 representing a 20% and 19% increase respectively in gross purchases over the previous two fiscal years. For fiscal 2007, approximately $1,265 million of loans purchased were Stafford and PLUS loans. Gross Consolidation loan originations totaled $1,092 million with $754 million representing the consolidation of the Authority's existing Stafford and PLUS portfolio. The remaining $57 million primarily consists of supplemental loan purchases/originations within the CASH loan program.

The net loan activity of new purchases less existing loan principal decreases through borrower, consolidation, and claim payments, cancellation activity, and loan sales, including loan sales of $1,430 million in principal in anticipation of funding the Lewis and Clark Discovery Initiative (the "Initiative"), described later in detail, resulted in a decrease of 11% from $5,238 million to $4,666 million in the student loan portfolio from fiscal 2006 to fiscal 2007 as compared to a 20% increase from $4,370 million to $5,238 million from fiscal 2005 to fiscal 2006. As of the end of this fiscal year the student loan portfolio held by the Authority is made up of approximately 44.4% Consolidation Loans, 41.4% Stafford Loans, 8.8% PLUS Loans, 5.3% Supplemental Loans, and 0.1% HEAL Loans. This compares to 52% Consolidation Loans, 37% Stafford Loans, 7% PLUS Loans, 3% Supplemental Loans, and 1% HEAL Loans in at year end Fiscal 2006. The shift in portfolio is a result of the $1,430 million loan sale. The portfolio sold consisted of out-of-state Consolidation loans.

The Authority is 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. During fiscal 2006 purchases were funded by tax-exempt bond deals of $218.8 million in November and $164.1 million in April as well as taxable bonds of $126 million in June and an $800 million line of credit. Early in fiscal 2007, the $800 million line of credit was replaced with a $1,020 million multi-seller asset backed commercial paper conduit, which was utilized as the primary funding source until the September taxable bond issuance. In September the issuance of a $750 million dollar Libor Indexed Student Loan Revenue Bond and the liquidity in other bonds generated from the consolidation loan sale was sufficient to repay the facility and subsequently reduce the fund availability in the credit facility to $500 million by fiscal year end. In addition, the loan sale resulted in redemptions of over $806 million in principal amount of outstanding taxable bonds of the Authority. No additional tax-exempt bonds were issued in fiscal 2007, however, early in fiscal 2008 an additional $245.8 million was issued in tax-exempt bonds.

For the past few years, the Authority primarily utilized some form of credit facility (line of credit or conduit) in conjunction with recycled funds to purchase loans. This strategy gives the Authority the ability to fully collateralize any subsequent bonds issued at the time of issuance or shortly thereafter. It also allows the Authority additional flexibility, efficiency, and the ability to better match collateral to a particular bond structure prior to issuance.

The tax-exempt financings are utilized to house loans held by borrowers who are Missouri residents and/or attending Missouri schools and thereby eligible for additional borrower benefits. The passage of SB389 provides for the Authority to receive approximately 30% of the State's allocation of tax-exempt bond value cap allocation through 2013. The allocation totaled $150 million for 2007 of which $75 million was included in the $245.8 million issuance discussed previously.

The Authority continues to focus on the development of creative solutions to support the Authority's mission of providing lower-cost student loans and other financial and educational resources to benefit a diverse group of students so they can access higher education and to enable them to successfully complete postsecondary educational programs. The Authority offers various rate reduction programs to borrowers who establish payments through automatic deduction and/ or qualify for rate reduction through the Public Service Reward Program as well as various loan forgiveness and principal reduction programs.

Stafford and PLUS borrowers who are in repayment can participate in the Authority's Rate Relief program. Borrowers who establish payments through automatic deduction can receive a 2% interest rate reduction. An additional .5% can be received if the borrower's loan is guaranteed by the Missouri Department of Higher Education (MDHE). If the borrower attended a Missouri school and has loans guaranteed by MDHE the interest rate reduction can be up to 3%.

In addition to the Rate Relief program, the Authority offers the Public Service Reward Program. The Public Service Reward Program provides rate reductions for people who have chosen careers in public service in the state of Missouri including police officers, first responders, teachers, social workers, nurses, Missouri National Guard and Reserves, and Missouri State Government employees. The program reduces the rate for qualifying Stafford and PLUS borrowers who are in repayment to 3.25%.

The Authority has also granted over $34 million in loan forgiveness for a variety of student borrowers including teachers, Pell Grant recipients, and those in military service. Borrowers received over $5.8 million in loan forgiveness during fiscal 2007, in addition to $6.1 million during fiscal 2006 and $4.7 million during fiscal 2005.

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 Governmental 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)

	2007	2006 (As restated)	2005 (As restated)
Cash and cash equivalents	$ 226,645	$ 318,614	$ 126,278
Accrued interest receivable	153,113	132,452	85,585
Capital assets	14,315	14,470	14,413
Investments held by Trustee	2,585	12,885	10,966
Other	24,348	27,348	28,820
Student loans receivable	4,665,584	5,238,174	4,370,105
Total assets	$ 5,086,590	$ 5,743,943	$ 4,636,167
Current liabilities	$ 40,876	$ 743,829	$ 157,361
Long-term liabilities	4,705,691	4,766,202	4,270,328
Total liabilities	$ 4,746,567	$ 5,510,031	$ 4,427,689
Invested in capital assets	$ 14,315	$ 14,470	$ 14,413
Restricted	49,653	129,839	112,310
Unrestricted	276,055	89,603	81,755
Total net assets	$ 340,023	$ 233,912	$ 208,478

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

	2007	2006	2005
Interest on loans	$ 264,069	$ 196,990	$ 134,107
Special allowances	96,201	101,101	51,178
Investment income and other	20,262	8,770	10,145
Total operating revenue	380,532	306,861	195,430
Bond expenses	314,092	246,674	140,390
Administrative and general expenses	41,916	38,089	33,180
Increase / (reduction) of arbitrage rebate liability	5,778	(3,336)	(312)
Total operating expenses	361,786	281,427	173,258
Operating income before special items	18,746	25,434	22,172
Special items	87,365		
Change in net assets	$ 106,111	$ 25,434	$ 22,172

For further information regarding the restated amounts, see Note 2 to the financial statements.

Financial Analysis

Financial Position

Total assets decreased $657 million compared to a decrease in liabilities of $763 million resulting in an increase to the Authority's net assets of $106.1 million. This increase compares to an increase of $25.4 million in fiscal 2006 and is primarily tied to activity relative to the Initiative discussed later in detail. The net loan activity of new purchases less existing loan principal decreases through borrower, consolidation, and claim payments, cancellation activity, and loan sales, including loan sales of $1,432 million in principal in anticipation of funding the Initiative, resulted in a decrease of 11% from $5,238 million to $4,666 million in the student loan portfolio from fiscal 2006 to fiscal 2007. In addition, the loan sale resulted in redemptions of over $806 million in principal amount of outstanding taxable bonds of the Authority.

Cash and cash equivalents decreased by 29% to $226.6 million from $318.6 million in fiscal 2006, as compared to an 152% increase from $126.3 million in fiscal 2005 to fiscal 2006. The current year decrease in cash, cash equivalents, and investments was due to the recycling of bond proceeds and the utilization of a credit facility. The prior year increase in cash was attributable to the issuance of $126 million in student loan revenue bonds in late June 2006 resulting in a substantial cash balance at 2006 fiscal year end. As required by the bond resolutions, this cash must predominantly be utilized for the purchase and origination of additional loans.

Accrued interest receivable is up 16% over fiscal 2006 as compared to a 55% increase from fiscal 2005 to fiscal 2006 and is a direct result of the increase in interest rates on student loans from fiscal 2006 to 2007. The increase in rates net of the principal outstanding activity in the student loan portfolio defines the increase in accrued interest receivable.

Student Loans Receivable decreased 11% from $5,238 million in fiscal 2006 to $4,666 million in fiscal 2007 as compared to a 20% increase from $4,370 million in fiscal 2005 to fiscal 2006 reflecting the net of the purchase activity and the $1.43 billion loan sale less loan principal reductions during fiscal 2006 and fiscal 2007.

For fiscal 2007, current liabilities decreased by $703 million due to the decreased borrowing against the credit facility of approximately $700 million. Long term liabilities realized a decrease of $61 million or 1%. The overall decrease in total liabilities is the net result of reducing the borrowing on the credit facility, issuing $750 million in taxable bonds, and the early retirement of approximately $806 million in taxable bonds.

For fiscal 2006, current liabilities increased by $586 million due to the increased borrowing of the revolving credit facility. Long term liabilities realized an increase of $496 million or 12%. The increase is the net result of the issuance of $508.9 million in Student Loan Revenue Bonds, the timing of the maturity on certain existing Student Loan Revenue Bonds (long-term to current, and retirement), and a decrease in arbitrage rebate liability as a result of loan principal forgiveness.

Operating Results

Operating income before special items posted a positive gain of $18.7 million for fiscal 2007. This is a year over year decrease by $6.7 million from fiscal 2006, as compared to an increase of $3.3 million from fiscal 2005 to fiscal 2006. As indicated in detail below, changes in student loan interest and special allowance subsidy relative to portfolio growth and the interest rate environment are a few of the key components for operating income variances. Additionally, fiscal 2007 also had investment income generated from higher cash levels during the period between loan sales relative to the Initiative and early bond retirements. However, an increase to the arbitrage rebate liability of $5.8 million and bond expense of $67.4 million were the key components to the negative year over year comparison in operating income. During the prior fiscal year the decrease of $3.3 million arbitrage rebate liability assisted in boosting the operating income results. Adjusting for arbitrage, operating income for fiscal 2007 was $24.5 million. This is a year over year increase of $2.4 million compared to fiscal 2006 at $22.1 million adjusted for arbitrage.

Total operating revenue increased 24% from fiscal 2006 to fiscal 2007 as compared to a 57% increase from fiscal 2005 to fiscal 2006. Continued gains in student loan interest and a spike in investment income associated with loan sales and Initiative activities offset the dip in special allowance of $4.9 million. The decrease in special allowance resulted from a decrease in the consolidation portfolio and the loss of 9.5% floor income for the last three quarters of the fiscal year. Examples of the rates driving student loans and an explanation regarding 9.5% floor income follow in the next several paragraphs.

Fixed rate subsidized and unsubsidized Stafford loans made on or after July 1, 2006 in all loan statuses bear interest at 6.8%. Subsidized and unsubsidized Stafford loans made on or after 7/1/98 and before 7/1/06 that are in status other than in-school, grace and 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 2007, the rate on these loans were set at 7.14% and 6.54%, respectively. The rate on the same loans during fiscal 2006 was 5.30% and 4.70% respectively. The rate on the same loans during fiscal 2005 was 3.37% and 2.77% respectively.

PLUS loans first disbursed on or after 7/1/06 bear a fixed rate at 8.5%. Variable rate PLUS Loans made on or after 7/1/98 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 2007 was 4.92% which set the rate at 7.94% as compared to 6.1% for fiscal 2006 and 4.17% for fiscal 2005.

Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998, bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

The Authority realized a year over year reduction in special allowance subsidy issued by the Department of Education to lenders participating in the FFELP. The special allowance subsidy is paid on the spread between student loan interest rates, which are relatively fixed for a year, and the increase in commercial paper and 91-day T-Bill rates which rose incrementally during fiscal years 2005 through 2006, but decreased slightly throughout fiscal 2007. In addition, qualified loans within tax-exempt bonds issued prior to October 1993 are eligible to receive a subsidy based upon the greater of the same spread or 9.5%. However, in a Dear

Colleague Letter issued on January 23, 2007, the Department of Education restated the requirements of the statute and regulations that control the qualifications for loans eligible for the 9.5% floor. The Department provided further guidance on this restatement in a Dear Colleague Letter dated April 27, 2007. These requirements include a special audit to determine the eligibility for 9.5% special allowance billings. The Department 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 Department of Education receives results of the special audit of the bonds and the loans within those bonds. This audit is due to commence in the latter part of September 2007. Pending the outcome of the audit, the Authority has not realized income of an estimated $2 million relative to the 9.5% billings for the affected quarters.

Total operating expense realized a 29% increase, or $80.4 million from fiscal 2006 to fiscal 2007 and a 62% increase, or $108.2 million from fiscal 2005 to fiscal 2006. Bond expense increased 27% over the prior year. Interest rates related to bond debt service expenses remained relatively flat dipping slightly at the beginning of the year, then increasing slightly toward the end of the year. However, bonds outstanding increased by $750 million in September and the $806 million in early retirement transpired over the course of several months beginning in February with the majority being retired in March and April. This compares to the 76% increase realized from fiscal 2005 to fiscal 2006 which was the result of significant increases in debt service interest and new bond issuances.

Administrative and general expenses increased 10% or $3.8 million in the current year. This was primarily attributable to the default fees the Authority has paid in the current year on behalf of certain borrowers who meet the established requirements. This is compared to a 15% increase in the prior year which was relative to the 20% portfolio increase.

Arbitrage liability is calculated based upon the earnings of tax-exempt debt. The arbitrage liability is affected by increased bond earnings and the reduction of those earnings through student borrower benefit programs. During fiscal 2007 the Authority processed loan forgiveness of approximately $5.8 million. The forgiveness benefit was targeted to Pell Grant recipients and math and science teachers. While the increase in participation in borrower benefits through rate reduction and loan principal forgiveness contribute to the adjustment in the arbitrage liability, annual calculations for all bonds during this fiscal year added to the accumulated accrual as they were calculated prior to the loan forgiveness. The result was an increase in arbitrage rebate liability of $5.8 million. This compares to a reduction of rebate liability in the two prior fiscal years.

Special items represent a one time net gain relative to the sale of a portion of the consolidation loan portfolio and one time charges relative to the early retirement of bonds such as the remaining amortization of cost of issuance.

Continuing Developments

On August 28, 2007, legislation establishing 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 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 will be $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.

In anticipation of the LCDI Legislation, the Authority utilized two methods to obtain the necessary funds to fulfill the initial payment to the Fund. One method was the sale of $1,432 million in principal of federal consolidation loans as discussed previously. The second method was the transfer of net assets from the bond resolutions. Removal of the net assets from the bond resolutions is 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 parties prior to the approval and transfer of net assets. During the year ended June 30, 2007 the Authority obtained the necessary approvals and transferred $132 million from the bond resolutions.

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.

The impact of the LCDI legislation was not included in our fiscal 2007 financial statements as the LCDI was not effective until August 28, 2007.

On September 7, 2007 the U. S. Congress passed House Resolution 2669, The College Cost Reduction and Access Act, which includes significant cuts in the FFELP within which the Authority operates. These cuts for eligible not-for-profit FFELP participants include a 40 basis point reduction in special allowance for Stafford and Consolidation loans, a 70 basis point reduction in special allowance for PLUS loans, an increase in lender fees at origination of 50 basis points, and the elimination of the exceptional performer designation for loan servicers like the Authority, which lowers insurance from 99% to 97% effective October 1, 2007 and from 97% to 95% for loans made on or after October 1, 2012. The legislation also creates a Parent PLUS Auction Program beginning on July 1, 2009. Under this program FFELP Parent PLUS loans will be subject to an origination rights auction every two years. Auctions are expected to be state based and will only allow the two lowest bidders to originate Parent PLUS loans for those cohorts of students within that state until those students graduate.

The Act reduces interest rates for subsidized Stafford FFELP and Federal Direct Loan Program (FDLP) borrowers to undergraduate students from 6.8% as follows for loans first disbursed between: July 1, 2008 and June 30, 2009 to 6.0%, between July 1, 2009 and June 30, 2010 to 5.6%, between July 1, 2010 and June 30, 2011 to 4.5% and between July 1, 2011 to June 30, 2012 to 3.4%. Loans first disbursed after June 30, 2012, return to the 6.8% fixed rate. The Act also allows Stafford and Grad PLUS borrowers in FFELP and FDLP to elect for a period of up to 10 years to have payments limited to the monthly amount by which the borrower's

(and his or her spouse's) annual adjusted gross income exceeds 150% of the poverty line for the borrower's family size. In addition, HR 2669, permits reconsolidation of FFELP consolidation loans into FDLP consolidation loans to allow qualifying borrowers to utilize a new public service loan forgiveness program.

Deloitte.

Deloitte & Touche LLP
100 South 4th Street
St. Louis, Missouri 63102-1821
USA

Tel: +1 314 342 4900
www.deloitte.com

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, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These 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, such financial statements present fairly, in all material respects, the financial position of the Authority, as of June 30, 2007 and 2006, and the changes in net assets 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 1–9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority'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 performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. 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 schedule is the responsibility of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered 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 28, 2007, 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 28, 2007

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006
(Dollars in thousands)

	2007	2006 (As Restated, See Note 2)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 30,320	$ 36,134
Unrestricted	196,325	282,480
Total cash and cash equivalents	226,645	318,614
Investments held by Trustee — restricted	2,585	4,460
Total investments held by Trustee	2,585	4,460
Student loans receivable	51,113	50,629
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	18,731	8,732
Special allowance	19,992	35,079
Investments held by Trustee	1,088	752
Student loans receivable	113,302	87,889
Miscellaneous receivables and prepaid expenses	1,861	1,685
Deferred charges	1,004	1,074
Total current assets	436,321	508,914
LONG-TERM ASSETS:		
Investments held by Trustee:		
Restricted		2,585
Unrestricted		5,840
Total investments held by Trustee	-	8,425
Student loans receivable (less allowance for doubtful loans, $4,640 in 2007 and $4,642 in 2006)	4,614,471	5,187,545
Pension asset	3,425	3,225
Deferred charges, at cost less accumulated amortization of $3,685 in 2007 and $2,573 in 2006	18,058	21,364
Capital assets, at cost less accumulated depreciation of $4,470 in 2007 and $3,998 in 2006	14,315	14,470
Total long-term assets	4,650,269	5,235,029
TOTAL	$5,086,590	$5,743,943

	2007	2006 (As Restated, See Note 2)
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Line of credit	$ -	$ 706,600
Other liabilities	12,107	12,528
Bonds payable	4,400	3,555
Accrued interest payable	24,369	21,146
Total current liabilities	40,876	743,829
LONG-TERM LIABILITIES:		
Bonds payable	4,682,780	4,743,230
Arbitrage rebate payable	22,911	22,972
Total long-term liabilities	4,705,691	4,766,202
Total liabilities	4,746,567	5,510,031
NET ASSETS:		
Invested in capital assets	14,315	14,470
Restricted	49,653	129,839
Unrestricted	276,055	89,603
Total net assets	340,023	233,912
TOTAL	$5,086,590	$5,743,943

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, 2007 AND 2006 (Dollars in thousands)

	2007	2006
OPERATING REVENUES:		
Interest on student loans	$ 217,351	$ 164,417
U.S. Secretary of Education:		
Interest subsidy	46,718	32,573
Special allowance	96,201	101,101
Investment income — interest on cash, cash equivalents and investments	20,072	8,322
Other	190	448
Total operating revenues	380,532	306,861
OPERATING EXPENSES:		
Interest expense	275,651	211,704
Consolidation fees	27,933	25,095
Salaries and employee benefits	17,248	17,928
Increase in (reduction of) arbitrage rebate liability	5,778	(3,336)
Origination fees	5,640	6,939
Postage and forms	4,816	3,963
Third party servicing fees	4,210	3,117
Default fee payments	3,898	
Computer services	3,853	3,588
Bond maintenance fees	3,089	1,680
Professional fees	2,324	2,161
Occupancy expense	1,904	1,782
Letter of credit fees	1,779	1,256
Depreciation	854	838
Other operating expenses	2,809	4,712
Total operating expenses	361,786	281,427
OPERATING INCOME BEFORE SPECIAL ITEMS	18,746	25,434
SPECIAL ITEMS:		
Net gain on sale of loans	91,356	
Loss on early extinguishment of long-term debt	(3,991)	
CHANGE IN NET ASSETS	106,111	25,434
NET ASSETS — Beginning of year	233,912	208,478
NET ASSETS — End of year	$ 340,023	$ 233,912

See notes to financial statements.

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	$ (2,536,868)	$ (2,502,716)
Student loan repayments	1,821,224	1,754,862
Payment to employees and vendors	(68,000)	(58,546)
Cash received for interest	167,669	122,874
Other	10	1,316
Net cash used in operating activities	(615,965)	(682,210)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds — net	748,274	506,596
Proceeds from line of credit	29,900	738,000
Repayment of bonds	(809,605)	(47,345)
Interest paid on bonds and line of credit	(271,317)	(203,321)
Repayment on line of credit	(736,500)	(116,600)
Cash received for sale of loans and interest	1,553,565	
Net cash provided by noncapital financing activities	514,317	877,330
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Purchase of capital assets	(699)	(935)
Proceeds from sale of capital assets		48
Net cash used in capital activities	(699)	(887)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments held by Trustee	10,378	5,538
Purchase of investments held by Trustee		(7,435)
Net cash provided by (used in) investing activities	10,378	(1,897)
CHANGE IN CASH AND CASH EQUIVALENTS	(91,969)	192,336
CASH AND CASH EQUIVALENTS — Beginning of year	318,614	126,278
CASH AND CASH EQUIVALENTS — End of year	$ 226,645	$ 318,614

(Continued)

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in thousands)

	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income before special items	$ 18,746	$ 25,434
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization:		
Capital assets	854	838
Premium/discount on investments held by Trustee	94	(22)
Prepaid pension	187	188
Loan and bond charges	36,122	34,210
Interest expense	275,651	211,704
Write-offs of federally insured loans	818	2,133
Increase in (reduction of) arbitrage rebate liability	5,778	(3,336)
Loss on sale of investments held by Trustee	(172)	
Loss on sale of fixed assets		(8)
Other		(20)
Change in assets and liabilities:		
Increase in student loans receivable	(930,619)	(909,222)
Increase in accrued interest receivable	(20,661)	(46,867)
(Increase) decrease in miscellaneous receivables and prepaid expenses	(2,342)	1,314
Arbitrage rebate payments		(50)
Increase in other liabilities	(421)	1,494
Total adjustments	(634,711)	(707,644)
Net cash used in operating activities	$ (615,965)	$ (682,210)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES — Student loan principal and interest forgiveness	$ 5,839	$ 6,166

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. 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 is the lender and guarantor for supplemental loans made available to students in the Midwestern region who have reached the maximum available under the Federal Family Education Loan Program provided under the Higher Education Act. The balance of these loans outstanding is approximately 5% of the total loan receivable balance.

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, 2007, 85% are with ten financial institutions and their branches. The most significant financial institutions individually comprise 28%, 11%, and 10% 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 by another financial institution or directly by the federal government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restatement – In order to correct a prior year error detected in the current year, management has recorded an adjustment as of June 30, 2006, to properly record bond issuance costs as deferred charges which were previously recorded as a contra liability within bonds payable. Total assets and total liabilities increased by $17,270. There was no impact to net assets, the statement of revenues, expenses, and changes in net assets, or the statement of cash flows.

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. The various bond funds are combined as one segment for financial statement purposes (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.

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).

Investments Held by Trustee — Investment securities with original maturities of 90 days or greater are classified as investments held by Trustee. Investments with a remaining maturity of less than one year are considered current; all others are considered long-term. Investments are recorded at fair market value. In accordance with the bond resolutions, such investments consist of cash, securities of the Federal government or its agencies and repurchase agreements. The securities underlying the repurchase agreements are book entry securities. During the years ended June 30, 2007 and 2006, the securities were delivered by appropriate entry into a third-party custodian's account designated by the Authority under a written custodial agreement that explicitly recognizes the Authority's interest in the securities. All investments whose proceeds are restricted for debt service reserve or the payment of rebate liabilities are classified as restricted investments (see Note 7).

Student Loans Receivable — Student loans receivable 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, 2007 and 2006, the estimated life of new loans purchased was three years. In addition, for the years ended June 30, 2007 and 2006, 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 Federal Family Education Loan Program. 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. 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.

Allowance for Doubtful Loans — The Authority has established an allowance for doubtful self insured supplemental loans. Each year the provision for the allowance for doubtful loans runs through other operating expenses.

Miscellaneous Receivables and Prepaid Expenses — Miscellaneous receivables and prepaid expenses consist primarily of 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 from investing the proceeds from certain of its tax-exempt bond issues. The excess yields are payable to the U.S. Treasury and are accrued in the accompanying statements of net assets.

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 — Bond and note issuance is the principal source of the funds necessary to carry out the purposes of the Authority, which are to originate and acquire student loans. The Authority's revenue is derived primarily from income on student loans, and secondarily, from

investment income. 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.

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 charged to the borrower.

Origination Fees — The Authority must remit each month to the Department a 0.5% origination fee on each consolidation loan made. This fee is not 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 the Federal Family Education Loan Program ("FFELP"). The cost of this default fee may either be passed on to the borrower or paid from another non-federal source. The Authority is paying the default fee for FFELP loans to students and parents of students attending Missouri institutions that utilize 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 MDHE guarantee. The Authority will continue to pay these default fees as long as in its sole determination, it is financially able. This resolution provides for the payment of these default fees only if the MDHE uniformly imposes the fee upon all FFELP participants that utilize its guarantee. The Authority shall determine the scope of this pledge in its sole discretion.

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 from a claim 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.

New Accounting Pronouncement – In May 2007, the GASB issued Statement No. 50, *Pension Disclosures* (GASB 50). GASB 50 amends GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No.

27, *Accounting for Pensions by State and Local Governmental Employees*, to require state and local governmental entities to do the following: (1) disclose the funded status of a pension plan as of the most recent actuarial valuation date in the notes to the financial statements, (2) disclose a schedule of funding progress within required supplementary information ("RSI") by using the entry age actuarial cost method if the aggregate actuarial cost method is used to determine the annual required contribution, and (3) link the funded status disclosure in the notes to financial statements to the require schedule of funding progress in the RSI. This Statement is effective for periods beginning after June 15, 2007, with early adoption permitted. As of June 30, 2007, the Authority was evaluating the impact to the financial statements and disclosures of adopting GASB 50.

3. CASH AND CASH EQUIVALENTS

At June 30, 2007 and 2006, the Authority's carrying amount of cash on deposit was $25,390 and $19,327, respectively. The bank balance of deposits are insured and collateralized with securities held by the Authority or by its agent in the Authority's name.

At June 30, 2007 and 2006, the Authority's cash equivalent balances of $201,255 and $299,287, respectively, represented investments in money market funds with credit ratings of AAAm.

4. INVESTMENTS HELD BY TRUSTEE

As of June 30, 2007 and 2006, the Authority had the following investments:

Investment	Weighted Average Maturities (Years)	Fair Value 2007	Fair Value 2006
U.S. Treasury bonds	-	$ -	$ 976
U.S. Treasury strips			
Federal National Mortgage Association			3,588
Federal Home Loan Bank bonds			5,736
Repurchase agreements	0.63	2,585	2,585
Total portfolio weighted average maturity	0.63	$ 2,585	$ 12,885

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, 2007 and 2006, the Authority's investment in repurchase agreements was fully collateralized by U.S. government-backed securities.

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 Nebraska 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, 2007 and 2006, are as follows:

	2007	2006
MDHE	$2,204,431	$2,017,733
AES	641,086	939,261
SLGFA	405,664	867,115
USA FUNDS	324,246	401,950
NSLP	180,692	181,099
CSAC	174,141	167,104
TSAC	154,767	154,578
ASA	76,375	64,469
KHEAA	53,563	63,252
NYSHESC	46,400	43,207
TGSLC	41,395	41,074
ISAC	33,777	34,760
EAC	24,097	17,844
ECMC	16,500	10,468
NELA	9,720	9,007
GLHEC	9,171	6,268
Other	24,928	17,197
Total federal loans	4,420,953	5,036,386
Supplemental loans:		
Third party insured	26,269	30,790
Self-insured	223,002	175,640
Allowance for doubtful loans	(4,640)	(4,642)
Total supplemental loans	244,631	201,788
Total student loans receivable	$4,665,584	$5,238,174
Weighted average yield at end of year	6.43 %	5.12 %

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 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 supplemental loans for the years ended June 30, 2007 and 2006, is as follows:

	2007	2006
Beginning balance	$ 4,642	$ 3,286
Provision for loan losses		1,394
Write off of loan	(2)	(38)
	$ 4,640	$ 4,642

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 3,304	$ -	$ -	$ 3,304
Depreciable capital assets:				
Building	11,499	247		11,746
Furniture and equipment	3,665	452	(382)	3,735
Total depreciable capital assets	15,164	699	(382)	15,481
Less accumulated depreciation:				
Building	1,593	390		1,983
Furniture and equipment	2,405	464	(382)	2,487
	3,998	854	(382)	4,470
Net depreciable capital assets	11,166	(155)	-	11,011
Total	$ 14,470	$ (155)	$ -	$ 14,315

Capital asset activity for the year ended June 30, 2006, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 3,304	$ -	$ -	$ 3,304
Depreciable capital assets:				
Building	11,499			11,499
Furniture and equipment	2,880	935	(150)	3,665
Total depreciable capital assets	14,379	935	(150)	15,164
Less accumulated depreciation:				
Building	1,218	375		1,593
Furniture and equipment	2,052	463	(110)	2,405
	3,270	838	(110)	3,998
Net depreciable capital assets	11,109	97	(40)	11,166
Total	$ 14,413	$ 97	$ (40)	$ 14,470

7. BONDS PAYABLE

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

	2007	2006
Beginning bonds payable	$ 4,746,785	$ 4,285,230
Additions	750,000	508,900
Repayments	(809,605)	(47,345)
Ending bonds payable	$ 4,687,180	$ 4,746,785

Bonds payable at June 30 consist of:

	2007	2006
Student loan revenue bonds, variable interest rates ranging from 3.77% to 5.45% at June 30, 2007 and from 3.45% to 5.50% at June 30, 2006 maturing through 2046	$ 4,515,650	$ 4,571,700
Student loan revenue bonds, fixed interest rates ranging from 4.10% to 6.75% at June 30, 2007 and 2006, maturing through 2022	171,530	175,085
Total student loan revenue bonds	4,687,180	4,746,785
Weighted average rate	4.69 %	4.92 %

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

Fiscal Years	Principal	Interest	Total
2008	$ 4,400	$ 234,024	$ 238,424
2009	67,280	232,335	299,615
2010	33,625	229,471	263,096
2011	5,825	228,249	234,074
2012		228,235	228,235
Total fiscal years 2008–2012	111,130	1,152,314	1,263,444
2013–2017	800,000	1,107,114	1,907,114
2018–2022	103,300	919,567	1,022,867
2023–2027	383,000	870,865	1,253,865
2028–2032	880,850	749,641	1,630,491
2033–2037	700,000	418,230	1,118,230
2038–2042	507,900	367,373	875,273
2043–2046	1,201,000	113,003	1,314,003
	$4,687,180	$5,698,107	$10,385,287

Variable student loan revenue bonds consist of variable rate bonds and auction rate certificates. Variable rate bonds bear interest at a rate determined by the remarketing agent. Such rate is determined on a weekly basis. 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 certificates bear interest at the applicable auction rate as determined by a bidding process every 28 or 35 days as stipulated in the related Bond Agreement. The debt service requirements in the table above were prepared using the applicable variable rates on June 30, 2007, 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, 2007, $298,855 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 letters of credit or insurance policies to the Trustees as beneficiaries for the respective bondholders. The purpose of the letters of credit or insurance policies is to 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, 2007 and 2006, is $4,883,703 and $4,870,748, respectively. At June 30, 2007 and 2006, 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, 2007 and 2006, were $29,985 and $35,011, 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 $6,926 at June 30, 2007 and 2006. 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, 2007 and 2006, cash, cash equivalents, and investments held by Trustee were segregated as follows:

	2007	**2006**
Special trust accounts:		
Unrestricted:		
Loan accounts	$ 41,785	$ 212,184
Revenue accounts	29,869	40,273
Restricted:		
Debt service reserve accounts	32,375	38,216
Rebate accounts	530	503
Total special trust accounts	104,559	291,176
Operating Fund:		
Unrestricted	105,669	22,498
Due to special trust accounts	19,002	17,825
Total operating fund	124,671	40,323
Total cash, cash equivalents, and investments held by Trustee	$ 229,230	$ 331,499

8. LINE OF CREDIT

On July 27, 2006, the Authority entered into a financing agreement for a $1,020,000 multi-seller asset backed commercial paper conduit. The proceeds from the financing security were used to satisfy the obligation with the line of credit outstanding which had a balance of $706,600 as of June 30, 2006. In accordance with the financing security agreement, the Authority pledged from the line of credit the cash and cash equivalents, student loan receivable principal, accrued interest, interest subsidy, special allowance, and unamortized financed premium which had a balance of $738,300 as of July 27, 2006. The Indenture charges an interest rate on outstanding borrowings at the base rate, which for Bank of America 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 is payable on the facility limit regardless of usage. The term of the facility is 364 days.

On January 5, 2007, the facility limit was reduced to $500,000. On July 26, 2007, the First Amendment to the Indenture was executed extending the maturity of the facility to July 24, 2008, and reducing the facility limit to $250,000. As of June 30, 2007, the Authority had no amount outstanding under the line of credit.

For the year ended June 30, 2007, the following table displays the aggregate changes in the line of credit borrowings:

Beginning balance	$ 706,600	$ 85,200
Additional borrowings	29,900	738,000
Repayments	(736,500)	(116,600)
Ending balance	$ -	$ 706,600
Yield at end of year	5.50%	5.67%

9. CONTRACTS, COMMITMENTS, AND CONTINGENCIES

The Authority has three 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, 2007 and 2006, are as follows:

	2007	2006
Charges based on loan accounts	$ 8,063	$ 6,705
Hardware rentals	20	18
Total	$ 8,083	$ 6,723

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 September 28, 2007, no such installment has been made by the Authority.

A former executive of the Authority has made a claim against the Authority for certain benefit payments and additional severance monies as part of the separation and release agreement. Management believes the accruals included in these financial statements relative to this agreement are adequate.

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. See discussion within footnote 15 for further information relative to recent claims and lawsuits.

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 2007 and 2006, the Authority contributed $520 and $542 and employees contributed $625 and $594 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"), to supplement the benefits provided under the defined contribution plan. The Pension Plan is administered by A.G. Edwards Trust Company. Employees vest in this Pension Plan after five years of service. A report of the Pension Plan may be obtained by writing to the Authority's Pension Plan Administrator, 633 Spirit Drive, Chesterfield, Missouri 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 origination date.

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 growth and income stocks at the discretion of the trustee. During the current year the Authority contributed the actuarially determined minimum required funding. The annual required contribution for the years ended June 30, 2007, 2006, and 2005, was determined as part of the July 1, 2006, 2005, and 2004, 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.

The following tables detail the components of net periodic pension cost. The amounts recognized in the Authority's financial statements and major assumptions used to determine those amounts as of June 30, 2007, 2006, and 2005, are as follows:

	2007	2006	2005
Net pension obligation ("NPO"):			
NPO — beginning of year	$ (3,800)	$ (3,987)	$ (4,186)
Annual pension cost	2,133	2,054	2,760
Contributions for year	(1,945)	(1,867)	(2,561)
NPO — end of year	$ (3,612)	$ (3,800)	$ (3,987)
The negative NPO represents a pension asset.			
Major assumptions:			
Investment return	7 %	7 %	7 %
Inflation rate	4 %	4 %	4 %
Discount rate used for amortization of NPO	3 %	3 %	3 %
Salary scale	5 %	6 %	5 %
Amortization period (open) (years)	10.0	10.0	10.4
Cost method	Aggregate	Aggregate	Aggregate
Components of annual pension cost:			
Annual required contribution ("ARC")	$ 1,945	$ 1,867	$ 2,561
Interest on NPO	(267)	(280)	(294)
Adjustment to ARC	455	467	493
	$ 2,133	$ 2,054	$ 2,760
Percentage of ARC contributed	100 %	100 %	100 %

11. STUDENT LOAN PURCHASE COMMITMENTS

In addition to the student loans already purchased, the Authority is contractually committed to primary lending institutions to purchase student loans under purchase agreements. Under these agreements the lending institution is required to use in 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 intends to fulfill the commitments using funds held by the Trustee and funds generated through the normal financing operations of the Authority. At June 30, 2007 and 2006, the Authority was servicing $938,428 and $988,225, 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, 2007 and 2006, the liability to be $22,976 and $22,972, 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 ending June 30:

	2007	2006
Beginning balance	$ 22,972	$ 32,443
Increase (reduction) of arbitrage liability	5,778	(3,336)
Student loan forgiveness	(5,839)	(6,085)
Payments		(50)
Ending balance	$ 22,911	$ 22,972

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, 2007		June 30, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 226,645	$ 226,645	$ 318,614	$ 318,614
Investments held by Trustee	2,585	2,585	12,885	12,885
Student loans receivable	4,665,584	4,789,220	5,238,174	5,386,804
Liabilities:				
Bonds payable	4,687,180	4,686,221	4,729,515	4,732,797
Line of credit			706,600	706,600
Off-balance sheet instruments — standby letters of credit		3,206		3,286

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.

Investments Held by Trustee — Investment securities are recorded at fair value.

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; this estimated fair value approximates the amount for which similar loans could currently be purchased on the open market.

Bonds Payable — net — 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.

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

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 are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds 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 one segment that meets the reporting requirements of GASB Statement No. 34.

The outstanding bonds payable of the Authority consist of Student Loan Revenue Bonds. The Student Loan Revenue Bonds are issued in accordance with six separate General Student Loan Program Bond Resolutions adopted by the Board of Directors in various years from 1988 through 2004, as well as in accordance with a Trust Indenture adopted by the Board of Directors in 2005. 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 and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund.

Summary financial information for the Student Loan Revenue Bonds as of June 30, 2007 and 2006, are as follows:

Condensed Statements of Net Assets	**2007** Operating Fund	**2007** Bond Fund	**2006** Operating Fund (As Restated See Note 2)	**2006** Bond Fund (As Restated See Note 2)
Assets:				
Current assets	$ 130,330	$ 305,991	$ 35,279	$ 500,038
Long-term assets	189,881	4,460,388	23,601	5,167,755
Total assets	$ 320,211	$ 4,766,379	$ 58,880	$ 5,667,793
Liabilities:				
Current liabilities	$ 8,515	$ 32,361	$ 8,389	$ 734,632
Long-term liabilities		4,705,691		4,749,740
Interfund payable (receivable)	23,795	(23,795)	21,279	(21,279)
Total liabilities	32,310	4,714,257	29,668	5,463,093
Net assets:				
Invested in capital assets	14,315		14,470	
Restricted		49,653		129,839
Unrestricted	273,586	2,469	14,742	74,861
Total net assets	287,901	52,122	29,212	204,700

Condensed Statements of Revenues, Expenses and Changes in Net Assets	**2007** Operating Fund	**2007** Bond Fund	**2006** Operating Fund	**2006** Bond Fund
Operating revenues	$ 23,835	$ 356,697	$ 1,421	$ 305,440
Operating expenses	16,808	344,978	921	280,506
Operating (loss) income	7,027	11,719	500	24,934
Special items	18,664	68,701		
Interfund transfers	232,998	(232,998)	2,010	(2,010)
Increase (decrease) in net assets	258,689	(152,578)	2,510	22,924
Net assets — beginning of year	29,212	204,700	26,702	181,776
Net assets — end of year	$ 287,901	$ 52,122	$ 29,212	$ 204,700

Condensed Statements of Cash Flow	2007 Operating Fund	2007 Bond Fund	2006 Operating Fund	2006 Bond Fund
Net cash flows from operating activities	$ (193,804)	$ (422,161)	$ 6,890	$ (689,100)
Net cash flows from non-capital financing activities	278,772	235,545		877,330
Net cash flows from capital activities	(699)		(887)	
Net cash flow from investing activities	10,378		(5,035)	3,138
Net increase (decrease) in cash and cash equivalents	94,647	(186,616)	968	191,368
Cash and cash equivalents — beginning of year	30,024	288,590	29,056	97,222
Cash and cash equivalents — end of year	$ 124,671	$ 101,974	$ 30,024	$ 288,590

15. SPECIAL ITEMS

During the year ended June 30, 2007, the Authority sold $1,449,346 in principal and accrued interest of federal consolidation loans to obtain the necessary funds anticipated to be paid in connection with the Lewis and Clark Discovery Initiative (the “Initiative”, as discussed further in Note 16). The Authority recognized a net gain on sale of loans of $91,356 as follows:

Proceeds received from the sale of loans and interest	$ 1,553,565
Less:	
Carrying amount of loan principal and accrued interest	1,449,346
Unamortized premiums related to sold loans	12,863
Net gain on sale of loans	$ 91,356

The Authority redeemed over $806,050 in taxable auction rate bonds payable as a result of the federal consolidation loan sales. The Authority recognized a loss on early extinguishment of long-term debt related to this early extinguishment of $3,991 which primarily consisted of unamortized bond issuance costs.

16. SUBSEQUENT EVENTS

Additional Borrowings — On July 26, 2007, the Higher Education Loan Authority of the State of Missouri entered into an amended financing agreement for a $250,000 multi-seller asset backed commercial paper conduit (conduit). The amended agreement reduced the prior agreement from $500,000. The conduit did not have a borrowing as of September 28, 2007. 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 Authority issued $245,775 in tax-exempt auction rate bonds under the 23rd Supplement to the 11th General Resolution on August 22, 2007. The bonds included $215,775 in Senior Aaa and AAA rated bonds (2007G, H, I and J Series) and $30,000 in Subordinate A2 and A rated bonds (2007K Series) by

Moody's and Fitch, respectively. The bonds will mature on July 15, 2042, except $38,775 of the Series 2007G Senior Bonds, which mature in 2009 and $2,000 in Series 2007G Senior Bonds, which mature in 2014. These Series G Bonds represent in part, the refunding of 1994A bonds of $17,370, 1994F bonds of $21,410 and 1997Q bonds of $2,000. All bonds are in $25 denominations.

Lewis and Clark Discovery Initiative — On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the "Initiative") became law. The legislation, known as 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 will be $150,000 for calendar year 2007. 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 by wire transfer in accordance with an Authority Board Resolution authorizing the same and as required by the LCDI Legislation.

Recently Filed Lawsuit — On August 9, 2007, two individuals filed a lawsuit in Cole County, Missouri naming as defendants, the Authority, its current board Members, its current Executive Director and its current Chief Financial Officer (the "Lawsuit"). The Lawsuit is a purported "class action" in which two plaintiffs seek to represent a class consisting of all persons in the State of Missouri who obtained student loans that were owned or serviced by the Authority. While the precise size is unknown, such a "class" could include a large number and principal amount of loans. The two individual plaintiffs allege that they are Authority borrowers.

The plaintiffs allege that the $350,000 in payments by the Authority to fund the Initiative as required by the new Missouri law described above is an illegal and improper diversion of Authority assets which should instead be used to benefit student borrowers. The plaintiffs seek the imposition of a constructive trust over all Authority assets subject to the Initiative, a declaration that any payment of the Authority pursuant to the new Missouri law is unlawful and the issuance of an immediate injunction preventing the use of Authority funds in connection with the Initiative.

The Lawsuit also alleges that the Authority has engaged in misleading advertising and marketing and the imposition of unreasonable fees and charges relative to student loans. Such actions are alleged to have violated State statutes (including the Missouri Merchandising Practices Act) and also to create liability under other legal theories such as breach of contract, civil conspiracy or concert of action, common law fraud, breach of fiduciary duty and unjust enrichment. The plaintiffs do not request a specific amount of

damages, but request actual, compensatory and punitive damages as appropriate, as well as interest, attorneys' fees and costs of the suit and such other and further relief as is just and proper.

The Authority is not presently aware of facts which would support the plaintiffs' claims or allegations in the Lawsuit justifying any of the relief or damages sought by plaintiffs. Further, the Authority believes that it has strong defenses against the claims and it intends to vigorously defend itself in the Lawsuit. The Authority does not presently believe that the Lawsuit will materially adversely affect the security for the Authority's bonds or the Authority's ability to pay the debt service thereon. However, as with any newly filed case, the outcome of this Lawsuit cannot be predicted with certainty at this time and there is inherent uncertainty in litigation. In addition, it is not possible to predict with certainty the potential financial impact of the Lawsuit on the Authority.

On September 5, 2007, the plaintiffs in the Lawsuit filed a motion for Preliminary Injunction asking the court to enjoin the Authority from transferring $230,000 to the State Treasury as required by the LCDI Legislation. On September 11, 2007, the court held a hearing on the motion. After reviewing written filings, hearing testimony, and hearing arguments from the parties attorneys, the court denied the motion because it found that the plaintiffs failed to meet the requirement that they have a substantial likelihood of success on the merits of the case.

The College Cost Reduction and Access Act — On September 27, 2007, U.S. House Resolution 2669, College Cost Reduction and Access Act (the "Act"), was signed into law with an effective date of October 1, 2007. The Act includes significant cuts in the FFELP within which the Authority operates. These cuts for eligible not-for-profit FFELP participants include a 40 basis point reduction in special allowance for Stafford and Consolidation loans, a 70 basis point reduction in special allowance for PLUS loans, an increase in lender fees at origination of 50 basis points, and the elimination of the exceptional performer designation for loan servicers like the Authority, which lowers insurance from 99% to 97% effective October 1, 2007 and from 97% to 95% for loans made on or after October 1, 2012.

The Act reduces interest rates for subsidized Stafford FFELP and Federal Direct Loan Program (FDLP) borrowers to undergraduate students from 6.8% as follows for loans first disbursed between: July 1, 2008 and June 30, 2009 to 6.0%, between July 1, 2009 and June 30, 2010 to 5.6%, between July 1, 2010 and June 30, 2011 to 4.5% and between July 1, 2011 to June 30, 2012 to 3.4%. Loans first disbursed after June 30, 2012, return to the 6.8% fixed rate. The Act also allows Stafford and Grad PLUS borrowers in FFELP and FDLP to elect for a period of up to 10 years to have payments limited to the monthly amount by which the borrower's (and his or her spouse's) annual adjusted gross income exceeds 150% of the poverty line for the borrower's family size. In addition, the Act, permits reconsolidation of FFELP consolidation loans into FDLP consolidation loans to allow qualifying borrowers to utilize a new public service loan forgiveness program.

* * * * * *

Deloitte.

Deloitte & Touche LLP
100 South 4th Street
St. Louis, Missouri 63102-1821
USA

Tel: +1 314 342 4900
www.deloitte.com

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, 2007, and have issued our report thereon dated September 28, 2007. 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*.

We noted certain matters that we have reported to management of the Authority in a separate letter dated September 28, 2007.

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 28, 2007

Deloitte.

Deloitte & Touche LLP
100 South 4th Street
St. Louis, Missouri 63102-1821
USA

Tel: +1 314 342 4900
www.deloitte.com

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, 2007. The Authority's major federal program is identified in the summary of auditors' 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, 2007.

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 grant agreements 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 that 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 28, 2007

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor	Federal CFDA Number	Interest Subsidy Received
U.S. DEPARTMENT OF EDUCATION:		
Federal Family Education Loan Program — interest on student loans (Note 1)	84.032	$ 46,718,166
Federal Family Education Loan Program — special allowance (Note 1)	84.032	96,200,270
TOTAL FEDERAL FAMILY EDUCATION LOAN PROGRAM	84.032	$ 142,918,436
		Outstanding Balance at June 30, 2007
TOTAL GUARANTEED LOANS OF THE AUTHORITY AT JUNE 30, 2007 — Guaranteed student loans (Note 3)	84.032	$ 4,420,953,000

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, 2007

1. DESCRIPTION OF PROGRAMS

U.S. Department of Education — The Federal Family Education Loan 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 Special Allowance Program provides funding that is primarily an incentive payment in order that money market conditions or interest rates will not impede the granting of student loans.

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 — Federal revenues represent direct federal program allocations. These revenues are used primarily for the purchase of student loans and the administration of the Student Loan Programs.

3. CONTINUING COMPLIANCE REQUIREMENTS

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

* * * * * *

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

PART I — SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the financial statements expressed an unqualified opinion.

2. No instance of noncompliance considered material to the financial statements, was disclosed by the audit.

3. No matters related to internal control over compliance with requirements applicable to major federal awards programs were required to be reported.

4. The independent auditors' report on compliance with requirements applicable to the major federal award program, expressed an unqualified opinion.

5. The audit disclosed no findings required to be reported by OMB Circular A-133.

6. The Authority's major program is:

   Federal Family Education Loan Program CFDA #84.032

7. The threshold of $3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

8. The Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II — FINANCIAL STATEMENT FINDINGS SECTION

None

PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION

None

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATUS OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

None