Higher Education Loan Authority of the State of Missouri

Financial Statements as of and for the
Years Ended June 30, 2008 and 2007,
Supplemental Schedule for the
Year Ended June 30, 2008, 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, 2008 AND 2007:	
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	16–35
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)	36
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*	37–38
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	39–40
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008	41
NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008	42
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008	43
STATUS OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008	44

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

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

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

THE AUTHORITY

The Authority is recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education. The Authority is a leading holder and servicer of student loans with over $5.5 billion in assets, and annual loan purchases and originations in excess of $1.0 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, 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, effective August 28, 2003, and again effective May 2, 2008, to provide the Authority with generally expanded powers to finance, originate, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act.

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 The bill also repealed sections of law setting restrictions on variable-rate unsecured loans.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

The passage of SB389, effective August 28, 2007, further amended the Authority's purpose in order to support the efforts of public colleges and universities to create and fund capital projects, and in order to support the Missouri Technology corporation's ability to work with colleges and universities in identifying opportunities for commercializing technologies, transferring technologies, and to develop, recruit, and retain entities engaged in innovative technologies. In addition, powers of the Authority were amended to include fund transfers to the Lewis and Clark Discovery Fund (discussed in the footnotes to the financial statements) and authorized the Authority to participate in any type of financial aid program that provides grants and scholarships to students.

The enactment of SB967 on May 2, 2008, allows the Authority to originate Stafford loans, however "the Authority's origination of Stafford loans under the Federal Family Education Loan Program (FFELP) shall not exceed ten percent of the previous year's total Missouri FFELP volume as determined by the Student Market Measure report, data from the U.S. Department of Education or other reputable sources." The Authority originated and disbursed just over $114 thousand in Stafford loans during the final two months of fiscal 2008.

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 State Senate, and two others who are designated by statute, the State Commissioner of Higher Education, and a member of the State Coordinating Board for Higher Education. Raymond H. Bayer, Jr., appointed by the Board during fiscal 2007, serves as Executive Director and Chief Executive Officer of the Authority.

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

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

The Authority purchased/originated $1.3 billion of gross principal student loans from a variety of financial institutions, during fiscal 2008. This compares to $2.4 billion of gross principal during fiscal year 2007 and $2.0 billion of gross principal during fiscal year 2006 representing a 46% decrease and 20% increase, respectively in gross purchases over the previous two fiscal years. For fiscal 2008, approximately $872 million of loans purchased were Stafford and PLUS loans. Gross Consolidation Loan originations totaled $346 million with $113 million representing the consolidation of the Authority's existing Stafford and PLUS portfolio. The remaining $43 million consists of $36 million in rehabilitated loans purchased from the Missouri guaranty agency and $7 million in 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, resulted in an increase of 11% from $4.7 billion to $5.2 billion in the student loan portfolio from fiscal 2007 to fiscal 2008 as compared to a 11% decrease from $5.2 billion to $4.7 billion from fiscal 2006 to fiscal 2007. As of the end of this fiscal year the student loan portfolio held by the Authority is made up of approximately 43.2% Consolidation Loans, 43.7% Stafford Loans, 8.3% PLUS Loans, 4.7% Supplemental Loans, and less than 0.1% HEAL Loans. This compares to 44.4% Consolidation Loans, 41.4% Stafford Loans, 8.8% PLUS Loans, 5.3% Supplemental Loans, and 0.1% HEAL Loans as of June 30, 2007.

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 2008

purchases were funded by a tax-exempt bond deal of $245.8 million in August as well as short-term financings provided by a $500 million multi-seller commercial paper conduit and a $300 million line of credit. The commercial paper conduit was renewed on July 24, 2008 with an extension to July 23, 2009. On September 30, 2008, the Authority entered into an agreement to extend the termination date on their line of credit to October 31, 2008, under the same terms present in the original agreement.

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 finance 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 2008 and the Authority also has a $75 million carryforward allocation from 2007 that can be utilized.

The Authority continues to focus on the development of creative solutions to support the Authority's mission. In the past, the Authority has offered various rate reduction programs to borrowers who establish payments through automatic deduction as well as various loan forgiveness programs. Stafford and PLUS borrowers who are in repayment can participate in the Authority's Rate Relief program. Beginning in fiscal 2009, borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction. The Authority reserves the right to modify these programs as needed. The Authority has granted over $35.8 million in loan forgiveness for a variety of student borrowers including teachers, Pell Grant recipients, and those in military service. Borrowers received over $1.5 million in loan forgiveness during fiscal 2008, in addition to $5.8 million during fiscal 2007 and $6.2 million during fiscal 2006.

FINANCIAL POSITION

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

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

CONDENSED STATEMENTS OF NET ASSETS
(In thousands)

	2008	2007	2006
Cash and cash equivalents	$ 124,024	$ 226,645	$ 318,614
Investments held by Trustee		2,585	12,885
Accrued interest receivable	163,331	153,113	132,452
Capital assets	14,202	14,315	14,470
Other	31,980	24,348	27,348
Student loans receivable	5,169,858	4,665,584	5,238,174
Total assets	$ 5,503,395	$ 5,086,590	$ 5,743,943
Current liabilities	$ 513,415	$ 40,876	$ 743,829
Long-term liabilities	4,877,912	4,705,691	4,766,202
Total liabilities	$ 5,391,327	$ 4,746,567	$ 5,510,031
Invested in capital assets	$ 14,202	$ 14,315	$ 14,470
Restricted	51,172	49,653	129,839
Unrestricted	46,694	276,055	89,603
Total net assets	$ 112,068	$ 340,023	$ 233,912

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

	2008	2007	2006
Interest on loans	$ 280,835	$ 264,069	$ 196,990
Special allowances	22,085	96,201	101,101
Investment income and other	6,241	20,262	8,770
Total operating revenues	309,161	380,532	306,861
Bond expenses	268,337	314,092	246,674
Administrative and general expenses	39,645	41,916	38,089
(Reduction of) / increase in of arbitrage rebate liability	(4,736)	5,778	(3,336)
Total operating expenses	303,246	361,786	281,427
Operating income (loss) before special items	5,915	18,746	25,434
Special items	(233,870)	87,365	
Change in net assets	$ (227,955)	$ 106,111	$ 25,434

Financial Analysis

Financial Position

Total assets increased $417 million compared to an increase in liabilities of $644 million resulting in a decrease to the Authority's net assets of $227 million. This decrease compares to an increase of $106 million in fiscal 2007. The changes in net assets in fiscal 2007 and fiscal 2008 are primarily tied to activity relative to the Lewis and Clark Discovery Initiative. In fiscal 2007, the Authority had one time gains from the sale of student loans at a premium that resulted in a temporary increase in net assets. In fiscal 2008, the Authority distributed those gains as well as other previously accumulated net assets for the Lewis and Clark Discovery Initiative, which resulted in a total distribution of $234 million for the fiscal year.

Cash and cash equivalents decreased by 45% to $124.0 million from $226.6 million in fiscal 2007, as compared to an 29% decrease from $318.6 million in fiscal 2006 to fiscal 2007. The current and prior year decrease in cash, cash equivalents, and investments was due to the recycling of bond proceeds and the maintenance of a credit facility, which results in the need to keep less cash on hand. As required by the bond resolutions, this cash must predominantly be utilized for the purchase and origination of additional loans.

Accrued interest receivable is up 7% over fiscal 2007 as compared to a 16% increase from fiscal 2006 to fiscal 2007 and is a direct result of the increase in interest rates on student loans from fiscal 2007 to 2008.

Other assets, which include miscellaneous receivables and prepaid expenses increased over $7 million from $24.3 million in fiscal 2007 to $32.0 million in fiscal 2008. The increase is the result of over $7.6 million in prepaid bond interest expenses associated with the Authority's temporary waiver of the maximum auction rates under certain bond documents.

Student loans receivable on loans outstanding increased 11% from $4.7 billion in fiscal 2007 to $5.2 billion in fiscal 2008 as compared to a 11% decrease from $5.2 billion in fiscal 2006 to fiscal 2007, reflecting the net of the purchase activity less loan principal reductions during fiscal 2007 and fiscal 2008. In addition, the loan sales in fiscal 2007 resulted in redemptions of over $806 million in principal amount of outstanding taxable bonds of the Authority.

For fiscal 2008, current liabilities increased by $472.5 million due to the increased borrowing against the credit facilities of approximately $445.5 million and the increase in current year bond maturities to $27.5 million from just $4.4 million in fiscal 2007. Long-term liabilities increased by $172.0 million or 4%. The overall increase in total liabilities is the result of increased borrowing on the credit facilities of $445.5 million and the issuance of $245.8 million in tax-exempt bonds. 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 fiscal 2007 decrease is the net result of the decreased borrowing under the credit facility, the issuance of $750 million in taxable Libor indexed bonds, and the early retirement of approximately $806 million in taxable auction bonds.

Operating Results

Operating income before special items and arbitrage resulted in a gain of $5.9 million for fiscal 2008. This is a year over year decrease of $12.8 million from fiscal 2007, as compared to a decrease of $6.8 million from fiscal 2006 to fiscal 2007. As indicated in detail below, changes in the special allowance subsidy due to portfolio growth and mix changes as well as the interest rate environment were the key components for the operating income variance. The primary factor impacting the change in net assets before arbitrage rebate liability and special items was the reduction in the lender yield on the Authority's assets, which is represented by the $74.1 million decline in special allowance subsidy, significantly exceeded the $43.8 million reduction

in interest expense on the bonds, which finance those assets. Additionally, fiscal 2008 saw reductions of $14.2 million in investment income due to lower cash levels and a lower yield on those investments during the period.

Other key factors in the decline in operating income before arbitrage rebate liability and special items were an increase of $2.2 million in Authority paid borrower benefit default fees and a $4.7 million increase in provisions for loan losses in the supplemental or alternative loan portfolio that does not have a conditional federal guaranty. Under federal law, borrowers under the FFELP are charged a 1% default fee at each loan disbursement. During the last two fiscal years, the Authority agreed to pay this fee on behalf of all Missouri students and parents that utilized the Missouri guaranty agency and an Authority lender. The $6.1 million in default fees paid in fiscal 2008 represented a 56% increase over the $3.9 million in fiscal 2007. The Authority discontinued the payment of default fees on behalf of borrowers for loans guaranteed on or after July 1, 2008. During fiscal 2008, the Authority experienced increases in delinquencies in its supplemental loan portfolio, which resulted in the charge-off of over $4.9 million in supplemental loans that were over 270 days past due. In addition, the Authority wrote off $144 thousand. This charge-off depleted the Authority's loan loss reserve making it necessary for a $4.4 million allowance for doubtful loans for FFELP and supplemental loans.

Total operating revenue decreased 19% from fiscal 2007 to fiscal 2008 as compared to a 19% increase from fiscal 2006 to fiscal 2007. The decrease in special allowance is a result of the drop in the 90-day AA financial commercial paper rate from an average of 5.4% in fiscal 2007 to an average of 4.1% in fiscal 2008. Examples of the rates driving student loans and an explanation regarding 9.5% floor income follow in the next several paragraphs.

Fixed rate unsubsidized Stafford loans made on or after July 1, 2006 and subsidized Stafford loans made between July 1, 2006 and June 30, 2008 in all loan statuses bear interest at 6.8%. Fixed rate subsidized Stafford loans made between July 1, 2008 and June 30, 2009 bear interest at 6.0%. Subsidized and unsubsidized Stafford loans made on or after July 1, 1998 and before July 1, 2006 that are in a status other than in-school, grace or deferment bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.30%, with a maximum rate of 8.25%. Loans made within the same period with in-school, grace, and deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. The variable rate loans are adjusted annually on July 1 based on the 91-day T-Bill rate on the last auction date in May. During fiscal 2008 the rate on these loans set at 7.22% and 6.62% respectively. The rate on the same loans during fiscal 2007 was 7.14% and 6.54%, respectively, and during fiscal 2006 was 5.30% and 4.70%, 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 2008 was 4.92% which set the rate at 8.02% as compared to 7.94% for fiscal 2007 and 6.1% for fiscal 2006. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998, bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

As noted above, the Authority realized a year over year reduction in special allowance subsidy issued by the U.S. Department of Education to lenders participating in FFELP. The special allowance subsidy is paid on the spread between student loan borrower interest rates, which are relatively fixed for a year, and the increase in commercial paper and 91-day T-Bill rates, which remained relatively stable throughout fiscal 2007, but decreased significantly throughout fiscal 2008. This decrease was in large part due to falling 90-day AA financial commercial paper rates and the increase in the principal balance of loans subject to negative special allowance payments from $1.5 billion in fiscal 2007 to $2.2 billion in fiscal 2008. In addition, qualified loans within tax-exempt bonds issued prior to October 1993 are eligible to receive a subsidy based upon the greater

of the same spread or 9.5%. However, in a Dear Colleague Letter issued on January 23, 2007, the U.S. Department of Education restated the requirements of the statute and regulations that control the qualifications for loans eligible for the 9.5% floor. The U.S. Department of Education provided further guidance on this 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 U.S. Department of Education paid special allowance at the standard rate on any loans that were included in the 9.5% minimum from quarter ending December 31, 2006 until the U.S. Department of Education receives results of the special audit of the bonds and the loans within those bonds. This audit was completed and the Authority is due to receive a payment of $768 thousand from the U.S. Department of Education for the quarters ended December 31, 2006 through December 31, 2007.

Total operating expense decreased by 16%, or $58.5 million from fiscal 2007 to fiscal 2008 compared to a 22% increase, or $80.3 million from fiscal 2006 to fiscal 2007. Bond expense decreased 15% over the prior year. While bond interest rates generally fell as broader market interest rates declined, these declines did not keep pace with the drop in yields on the Authority's assets. The Authority experienced various interest rate spikes on its debt due to the issues with the bond insurer that insures most of the Authority's variable rated demand notes, and the failure of the auction rate market, which set those bonds at the maximum rate under the bond documents. Bonds outstanding increased by $201.5 million in part as a result of the issuance of tax-exempt bonds in August 2007. Borrowings under the short-term financings also grew throughout the year from $0 to $445.5 million. In addition, one time charges of $44 thousand related to the early retirement of bonds such as the remaining amortization of cost of issuance were realized during this fiscal year. This compares to the 22% increase in bond expenses realized from fiscal 2006 to fiscal 2007, which was primarily the result of an increase in bonds outstanding by $750 million in September 2006.

Administrative and general expenses, which include salaries and fringe benefits, postage and forms, third party servicing fees, computer services, professional fees, occupancy expense, depreciation and other operating expenses; decreased 17% due to reductions in salaries, postage, printed forms, professional fees, office supplies, third party loan servicing and computer services.

Arbitrage rebate liability is calculated based upon the earnings of tax-exempt debt. The arbitrage liability was affected by decreased bond earnings and the further reduction of those earnings through student borrower benefit programs. During fiscal 2008 the Authority processed loan forgiveness of approximately $1.5 million. The forgiveness benefit was targeted to math, science and special education teachers in Missouri. The result was a reduction of arbitrage rebate liability of $4.7 million in fiscal year 2008. This compares to an increase of $5.8 million in the rebate liability in fiscal year 2007.

Continuing Developments

On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the "Initiative") became law. The legislation, known as Senate Bill 389 (the "LCDI Legislation") directs the Authority to distribute $350 million into a new fund in the State Treasury known as the Lewis and Clark Discovery Fund ("Fund") on the following schedule: $230 million no later than September 15, 2007; an additional $5 million by December 31, 2007; and further installments of $5 million each calendar quarter ending September 30, 2013. Investment earnings on the Fund are credited against subsequent payments by the Authority. In addition, the law provides that the Authority may delay payments if the Authority determines that any such distribution may materially adversely affect the service and benefits provided to Missouri students or residents in the ordinary course of the Authority's business, the borrower benefit programs of the Authority or the economic viability of the Authority. However the entire $350 million is to be paid by September 30, 2013 unless otherwise approved by the Authority and the Missouri Commissioner of the Office of Administration. The General Assembly has appropriated amounts to be deposited in the Fund for certain capital projects at public colleges and universities.

The Authority receives a significant benefit pursuant to the LCDI Legislation. The new law provides that following the initial September 15, 2007 distribution by the Authority, the Missouri Director of Economic Development shall allocate to and reserve for the Authority in 2007 and the next 14 years at least 30% of Missouri's tax-exempt, private activity bond cap allocation. This allocation 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.

On September 7, 2007 the Members of the Authority's Board approved a resolution to fund the initial payment of $230 million to the Lewis and Clark Discovery Fund in the Missouri State Treasury no later than September 14, 2007 pursuant to the terms of the new law relative to the LCDI Legislation. On September 14, 2007, in accordance with the Board's Resolution and Missouri Senate Bill 389, the Authority sent a $230 million wire to the Missouri State Treasury. On November 6, 2007, the Members of the Authority's Board approved a resolution to fund the first quarterly payment of $5 million less interest income earned on the funds on deposit with the State Treasurer. The net payment paid on December 31, 2007 was $2.9 million. On March 28, 2008, the Members voted to make a partial payment for March 31, 2008, equivalent to the interest income already earned and on deposit in the fund at the State Treasurer's Office. On June 26, 2008, the Board approved a resolution to make a payment of $927 thousand, which after including interest income earned from December 1, 2007 through June 30, 2008 of $4.1 million, results in the Authority making the full $5 million payment that was due on March 31, 2008. The Board also voted on June 26, 2008, to delay making the June 30, 2008, quarterly payment.

On September 27, 2007, President Bush signed House Resolution 2669, The College Cost Reduction and Access Act, which includes significant cuts in 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, 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 the 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 4.8% 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 the 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.

On May 7, 2008, the President signed House Resolution 5715, the Ensuring Continued Access to Student Loans Act of 2008. Some of the key provisions of the Act include: an increase in certain annual and aggregate loan limits for dependent and independent unsubsidized Stafford loan borrowers; the creation of a six month grace period for PLUS loans that doesn't begin until the student is no longer enrolled at least half time similar to Stafford loans; the creation of an extenuating circumstances requirement that a lender may determine for PLUS loan borrowers 180 days or fewer days delinquent on their home mortgage or medical bill payments and 89 days or fewer on the payment of any other debt between January 1, 2007 and December 31, 2009; the

clarification of existing lender of last resort laws and regulations; the ability to apply the lender of last resort program at the institution level versus the individual level through June 30, 2009; making clear the authority for the Secretary of Education to advance funds to guaranty agencies for the lender of last resort program; and grants temporary authority to the Secretary of Education to purchase or enter into forward commitments to purchase student loans first disbursed under sections 428, 428B or 428H of the Act on or after October 1, 2003 and before July 1, 2009 on such terms as the Secretary determines are in the best interest of the United States.

The U.S. Department of Education in implementing House Resolution 5715 has created two programs the Federal Family Education Loan Participation Purchase program and the Federal Family Education Loan Purchase Commitment program. While the Authority has not reached a final determination regarding participation in either program, consistent with the recommendation of the U.S. Department of Education, the Authority filed its intent to participate in both programs on July 3, 2008. The Authority has also successfully encouraged many of its lender partners to file their intent to participate.

On August 14, 2008, President Bush signed the Higher Education Opportunity Act, which included the reauthorization of the Higher Education Act of 1965, as amended. Some of the key provisions of the act include: the extension of the authority to make interest subsidized loans through 2014, lender code of conduct requirements, additional loan disclosure requirements, the ability for eligible servicemembers under Section 207 of the Servicemembers Civil Relief Act to request that the rate on their FFELP loan be reduced to 6%, and the creation of Title X under the Act that deals with private education loans.

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INDEPENDENT AUDITORS' REPORT

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

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, 2008 and 2007, 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 Higher Education Loan Authority of the State of Missouri, as of June 30, 2008 and 2007, and their changes in net assets and their 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 and the Schedule of Funding Progress on page 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Higher Education Loan Authority of the State of Missouri's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Higher Education Loan Authority of the State of Missouri's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Higher Education Loan Authority of the State of Missouri's

management. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2008, 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.

October 16, 2008

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007
(Dollars in thousands)

ASSETS	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 26,772	$ 30,320
Unrestricted	97,252	196,325
Total cash and cash equivalents	124,024	226,645
Investments held by Trustee — restricted	-	2,585
Student loans receivable	46,968	51,113
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	12,972	18,731
Special allowance		19,992
Investments held by Trustee	267	1,088
Student loans receivable	150,092	113,302
Miscellaneous receivables and prepaid expenses	9,586	1,861
Deferred charges	986	1,004
Total current assets	344,895	436,321
LONG-TERM ASSETS:		
Student loans receivable (less allowance for doubtful loans, $4,392 in 2008 and $4,640 in 2007)	5,122,890	4,614,471
Pension asset	3,249	3,425
Deferred charges, at cost less accumulated amortization of $4,738 in 2008 and $3,685 in 2007	18,159	18,058
Capital assets, at cost less accumulated depreciation of $5,240 in 2008 and $4,470 in 2007	14,202	14,315
Total long-term assets	5,158,500	4,650,269
TOTAL	$ 5,503,395	$ 5,086,590

LIABILITIES AND NET ASSETS	2008	2007
CURRENT LIABILITIES:		
Line of credit	$ 300,000	$ -
Conduit payable	145,500	-
Other liabilities	8,815	12,107
Bonds payable	27,500	4,400
Accrued interest payable	27,372	24,369
Special allowance subsidy payable	4,228	-
Total current liabilities	513,415	40,876
LONG-TERM LIABILITIES:		
Bonds payable	4,861,275	4,682,780
Arbitrage rebate payable	16,637	22,911
Total long-term liabilities	4,877,912	4,705,691
Total liabilities	5,391,327	4,746,567
NET ASSETS:		
Invested in capital assets	14,202	14,315
Restricted	51,172	49,653
Unrestricted	46,694	276,055
Total net assets	112,068	340,023
TOTAL	$ 5,503,395	$ 5,086,590

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, 2008 AND 2007 (Dollars in thousands)

	2008	2007
OPERATING REVENUES:		
Interest on student loans	$ 229,079	$ 217,351
U.S. Secretary of Education:		
Interest subsidy	51,756	46,718
Special allowance	22,085	96,201
Investment income — interest on cash, cash equivalents, and investments	6,235	20,072
Other	6	190
Total operating revenues	309,161	380,532
OPERATING EXPENSES:		
Interest expense	231,851	275,651
Consolidation fees	23,458	27,933
Salaries and employee benefits	17,713	17,248
(Reduction of) increase in arbitrage rebate liability	(4,736)	5,778
Origination fees	2,950	5,640
Postage and forms	2,818	4,816
Third party servicing fees	3,286	4,210
Default fee payments	6,127	3,898
Provision for loan losses	4,833	
Computer services	3,371	3,853
Bond maintenance fees	2,262	3,089
Professional fees	1,956	2,324
Occupancy expense	1,217	1,904
Letter of credit fees	1,689	1,779
Depreciation	818	854
Other operating expenses	3,633	2,809
Total operating expenses	303,246	361,786
OPERATING INCOME BEFORE SPECIAL ITEMS	5,915	18,746
SPECIAL ITEMS:		
Lewis and Clark distribution	(233,826)	
Net gain on sale of loans		91,356
Loss on extinguishment of long-term debt	(44)	(3,991)
CHANGE IN NET ASSETS	(227,955)	106,111
NET ASSETS — Beginning of year	340,023	233,912
NET ASSETS — End of year	$ 112,068	$ 340,023

See notes to financial statements.

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	$(1,320,545)	$(2,536,868)
Student loan repayments	999,338	1,821,224
Payment to employees and vendors	(64,715)	(68,000)
Cash received for interest	105,822	167,669
Other	(72)	10
Gain on sale of capital assets	(5)	-
Net cash used in operating activities	(280,177)	(615,965)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	245,775	748,274
Proceeds from line of credit	300,000	29,900
Proceeds from conduit	478,000	
Repayment of bonds	(44,180)	(809,605)
Interest paid on debt	(236,465)	(271,317)
Repayment on line of credit	-	(736,500)
Repayment on conduit	(332,500)	-
Cash paid for bond issuance costs	(1,135)	-
Cash received for sale of loans and interest	-	1,553,565
Lewis and Clark distribution	(233,826)	-
Net cash provided by noncapital financing activities	175,669	514,317
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Purchase of capital assets	(739)	(699)
Proceeds from sales of capital assets	41	-
Net cash used in capital activities	(698)	(699)
CASH FLOWS FROM INVESTING ACTIVITIES — Proceeds from sales and maturities of investments held by Trustee	2,585	10,378
Net cash provided by investing activities	2,585	10,378
CHANGE IN CASH AND CASH EQUIVALENTS	(102,621)	(91,969)
CASH AND CASH EQUIVALENTS — Beginning of year	226,645	318,614
CASH AND CASH EQUIVALENTS — End of year	$ 124,024	$ 226,645

(Continued)

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in thousands)

	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income before special items	$ 5,915	$ 18,746
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization:		
Capital assets	818	854
Premium/discount on investments held by Trustee	-	94
Prepaid pension	187	187
Loan, letter of credit and bond fees	32,521	36,122
Provision for loan losses	4,833	-
Gain on sale of capital assets	(5)	-
Interest expense	232,986	279,642
Write-off of loans	5,081	-
(Reduction of) increase in arbitrage rebate liability	(4,736)	5,778
Loss on sale of investments held by Trustee	-	(172)
Loss on early extinguishment of long term debt	(44)	(3,991)
Change in assets and liabilities:		
Increase in student loans receivable	(546,557)	(930,619)
Increase in accrued interest receivable	(10,218)	(20,661)
Increase in miscellaneous receivables and prepaid expenses and pension asset	(1,894)	(2,342)
Increase (decrease) in other liabilities and special allowance subsidy payable	936	(421)
Total adjustments	(286,092)	(634,711)
Net cash used in operating activities	$(280,177)	$(615,965)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES — Student loan principal and interest forgiveness	$ 1,538	$ 5,839

See notes to financial statements.

(Concluded)

1. DESCRIPTION OF THE ORGANIZATION

Legislation, which was signed into law on June 15, 1981, by the Governor of the State of Missouri and became effective on September 28, 1981, created the Higher Education Loan Authority of the State of Missouri (the "Authority") for the purpose of providing a secondary market for loans made under the Federal Family Education Loan Program provided for by the Higher Education Act (FFELP). The 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 for supplemental loans made available to students in the Midwestern region who have reached the maximum available under the FFELP. The balance of these loans outstanding is approximately 5% of the total loan receivable balance. During fiscal year 2008, the Authority discontinued originating supplemental and consolidated loans.

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, 2008, 83% are with ten financial institutions and their branches. The most significant financial institutions individually comprise 26%, 12%, 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

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 and allowance for doubtful loans.

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

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. During the year ended June 30, 2007, 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, 2008 and 2007, the estimated life of new loans purchased was three years. In addition, for the years ended June 30, 2008 and 2007, the Authority expensed all premiums for pools of loan purchases with less than forty dollars of initial premiums.

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

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

Allowance for Doubtful Loans — The Authority has established an allowance for doubtful loans that is an estimate of probable losses incurred in the FFELP and supplemental loan portfolios at the balance sheet date. The Authority presents student loans net of the allowance on the balance sheet. Estimated probable losses are expensed through the provision for loan losses in the period that the loss event occurs. Estimated probable losses contemplate expected recoveries. When a charge-off event occurs, the carrying value of the loan is charged to the allowance for doubtful loans. The amount attributable to expected recoveries remains in the allowance for doubtful loans until received.

The supplemental loans in the Authority's portfolio present the greatest risk of loan loss since the loans are either self-insured or insured by a third-party as opposed to the United States Department of Education. As such, in evaluating the adequacy of the allowance for doubtful loans on the supplemental loan portfolio, the Authority considers several factors including the loan's payment status (e.g., repayment versus in school non-paying status) delinquency, and the age of the receivable. When calculating the allowance for doubtful loans for the supplemental loan portfolio, the Authority's methodology divides the portfolio into categories of similar risk characteristics based on status and age of the receivable. The Authority then applies default and recovery rate projections to each category. Supplemental loan principal is charged off against the allowance when the loan exceeds 270 days delinquency. Subsequent recoveries on loans charged off are recorded directly to the allowance.

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

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

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

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

Arbitrage Rebate — Federal income tax rules limit the investment and loan yields which the Authority may retain for its own use 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 1% origination fee on each consolidation loan made. The fee was increased by 50 basis points on October 1, 2007. 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 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 Missouri Department of Higher Education (MDHE) guarantee. The Authority will discontinue paying these default fees on loans guaranteed after July 1, 2008.

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

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

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

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

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. The Authority adopted GASB 50 on July 1, 2008 which did not have a material impact on the Authority's financial statements.

3. CASH AND CASH EQUIVALENTS

At June 30, 2008 and 2007, the Authority's carrying amount of cash on deposit was $15,627 and $25,390, 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, 2008 and 2007, the Authority's cash equivalent balances of $108,397 and $201,255, respectively, represented investments in money market funds with credit ratings of AAAm.

4. INVESTMENTS HELD BY TRUSTEE

As of June 30, 2008 and 2007, the Authority had the following short-term investments:

	Fair Value	
Investment	**2008**	**2007**
Repurchase agreements	$ -	$ 2,585

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, the Authority's investment in repurchase agreements was fully collateralized by U.S. government-backed securities and had a weighted-average maturity of less than one year.

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, 2008 and 2007, are as follows:

	2008	2007
MDHE	$ 2,515,734	$ 2,204,431
AES	768,671	641,086
SLGFA	389,597	405,664
USA FUNDS	311,558	324,246
NSLP	223,707	180,692
CSAC	187,020	174,141
TSAC	136,400	154,767
ASA	101,827	76,375
KHEAA	46,700	53,563
NYSHESC	42,398	46,400
TGSLC	52,377	41,395
ISAC	38,123	33,777
EAC	31,532	24,097
ECMC	21,896	16,500
NELA	12,660	9,720
GLHEC	20,750	9,171
Other	28,155	24,928
Total federal loans	4,929,105	4,420,953
Supplemental loans:		
Third party insured	22,117	26,269
Self-insured	223,028	223,002
Total supplemental loans	245,145	249,271
Allowance for doubtful loans	(4,392)	(4,640)
Total student loans receivable	$ 5,169,858	$ 4,665,584

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

The activity for the allowance for doubtful loans for the years ended June 30, 2008 and 2007, is as follows:

	2008	2007
Beginning balance	$ 4,640	$ 4,642
Provision for loan losses	4,833	-
Write offs of loans	(5,081)	(2)
	$ 4,392	$ 4,640

6. CAPITAL ASSETS

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

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

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

7. BONDS PAYABLE

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

	2008	2007
Beginning bonds payable	$4,687,180	$4,746,785
Additions	245,775	750,000
Repayments	(44,180)	(809,605)
Ending bonds payable	$4,888,775	$4,687,180

Bonds payable at June 30 consist of:

	2008	2007
Student loan revenue bonds, variable interest rates ranging from 0% to 17% at June 30, 2008, and 3.77% to 5.45% at June 30, 2007 maturing through 2046	$4,761,425	$4,515,650
Student loan revenue bonds, fixed interest rates ranging from 4.10% to 5.85% at June 30, 2008, and 4.10% to 6.75% at June 30, 2007, maturing through 2022	127,350	171,530
Total student loan revenue bonds	4,888,775	4,687,180
Weighted average rate	2.74 %	4.69 %

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

Fiscal Years	**Principal**	**Interest**	**Total**
2009	$ 27,500	$ 147,355	$ 174,855
2010	33,625	146,041	179,666
2011	5,825	144,842	150,667
2012	-	144,828	144,828
2013	-	144,828	144,828
Total fiscal years 2009–2013	66,950	727,894	794,844
2014–2018	800,000	686,409	1,486,409
2019–2023	103,300	602,331	705,631
2024–2028	440,850	537,875	978,725
2029–2033	1,523,000	426,009	1,949,009
2034–2038		295,536	295,536
2039–2043	753,675	214,325	968,000
2044–2046	1,201,000	14,614	1,215,614
	$4,888,775	$3,504,993	$8,393,768

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 every 7 or 14 days. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. The repricing fee is expensed as incurred and included within interest expense on the statements of revenues, expenses, and changes in net assets. Auction rate certificates, which represent 76% of the outstanding variable rate debt, bear interest at the applicable auction rate as determined by a bidding process every 7, 28, or 35 days as stipulated in the related Bond Agreement. Starting in November 2007 and continuing through June 20, 2008, the auction rate certificates experienced failures in the bidding process. As of June 30, 2008 due to the failures in the auction market, the interest rate were calculated based upon the rate provisions as stipulated in the Bond Agreements and amended by supplemental resolutions agreed to by the Authority in the current year. The interest rates continued to reprice every 28 or 35 days under a failed auction but were determined based upon a 91-Day T-Bill indexed rate for taxable debt or a JJ Kenny indexed rate for tax-exempt debt taken in consideration with the annual average auction rate as of the current repricing date. The debt service requirements in the table above were prepared using the applicable variable rates on June 30, 2008, 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, 2008, $286,675 of the bonds are subordinate to the remainder of the outstanding bonds.

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

The purpose of the standby bond purchase agreements, letters of credit or insurance policies is to provide liquidity to bondholders, guarantee payment of the bonds upon maturity or earlier redemption. The agreements contain certain covenants which, among other requirements, include minimum collateral requirements. The Authority maintains a minimum amount of assets pledged under required bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2008 and 2007, is $5,075,318 and $4,883,703, respectively. At June 30, 2008 and 2007, 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, 2008 and 2007, were $25,855 and $29,985, 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, 2008 and 2007. 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, 2008 and 2007, cash, cash equivalents, and investments held by Trustee were segregated as follows:

	2008	2007
Special trust accounts:		
Unrestricted:		
Loan accounts	$ 20,003	$ 41,785
Revenue accounts	45,649	29,869
Restricted:		
Debt service reserve accounts	26,218	32,375
Rebate accounts	554	530
Total special trust accounts	92,424	104,559
Operating Fund:		
Unrestricted	19,301	105,669
Due to special trust accounts	12,299	19,002
Total operating fund	31,600	124,671
Total cash, cash equivalents, and investments held by Trustee	$ 124,024	$ 229,230

8. LINE OF CREDIT AND CONDUIT

On July 26, 2007, the Authority entered into an amended financing agreement for a $250,000 multi-seller asset backed commercial paper conduit (the "conduit"). On November 23, 2007, the Authority amended the current agreement to increase the conduit to $500,000. In accordance with the financing security agreement, the Authority pledged the appropriate cash and cash equivalents, student loan receivable principal, accrued interest, interest subsidy, special allowance, and unamortized financed premium. The conduit charges an interest rate on outstanding borrowings at the base rate, which for conduit commercial paper historically trades 6 to 8 basis points below 30-day LIBOR, plus a 9 basis point facility fee, an 11 basis point program fee and a 5 basis point dealer fee resulting in a LIBOR plus 18 basis points spread. The facility fee of 9 basis points is payable on the facility limit regardless of usage. The term of the facility is 364 days. On July 24, 2008, the Authority entered into an amended financing agreement for the conduit (See Note 16).

The Authority has a $300,000 revolving credit facility with a financial institution. This facility requires repayment of principal and interest every 7–90 days at an interest rate of LIBOR plus 33 basis points or the Federal funds rate plus 100 basis points, as appropriate. The facility terminates September 30, 2008. The Authority pledged the appropriate cash and cash equivalents, student loan receivable principal, accrued interest, interest subsidy, special allowance, and unamortized financed premium. As of June 30, 2008, the Authority was fully extended on the credit facility. On September 30, 2008, the Authority entered into an amended financing agreement for the credit facility. (See Note 16)

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

	2008	2007
Beginning balance	$ -	$ 706,600
Additional borrowings	778,000	29,900
Repayments	(332,500)	(736,500)
Ending balance	$ 445,500	$ -
Yield at end of year	3.00%	5.50%

9. CONTRACTS, COMMITMENTS, AND CONTINGENCIES

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

Charges incurred under the contracts for the years ended June 30, 2008 and 2007, are as follows:

	2008	2007
Charges based on loan accounts	$ 6,592	$ 8,063
Hardware rentals	21	20
Total	$ 6,613	$ 8,083

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

In a prior year, a former executive of the Authority made a claim against the Authority for certain benefit payments and additional severance monies as part of the separation and release agreement. This claim against the Authority settled in June 2008. The Authority expensed an additional $153 during the year ended June 30, 2008, related to this matter.

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

10. EMPLOYEE BENEFITS

The Authority maintains a single employer defined contribution plan, the Higher Education Loan Authority of the State of Missouri 401(k) Plan (the "401(k) Plan"), with investment management performed by Goldman Sachs and recordkeeping provided by Edward Jones for all employees who are

at least 21 years of age, and who work in excess of 1,000 hours per plan year, and who have been employed at least one year by the Authority. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. Sixteen investment fund options are available for choice by the employee. The Authority contributes an amount equal to 100% of the first 8% contributed by the employee. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five-year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. The Authority may make a non-matching contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Authority when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During 2008 and 2007, the Authority contributed $478 and $520 and employees contributed $615 and $625 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"), and a defined benefit Excess Benefit Plan, to supplement the benefits provided under the defined contribution plan. The Pension Plan and Excess Benefit Plan are administered by Wachovia Securities. Employees vest in the Pension Plan after five years of service. The Excess Benefit Plan is a closed plan with a limited number of participants remaining. A report of the Pension Plan may be obtained by writing to the Authority's Pension Plan Administrator, 633 Spirit Drive, Chesterfield, MO 63005-1243 or by calling (636) 532-0600 with your request for a copy of the report of the Pension Plan. The Authority has elected to recognize prior service costs over a period which represents the estimated remaining service lives of the employees at the Pension Plan and Excess Benefit Plan origination dates.

Substantially all employees of the Authority are covered by the Pension Plan. Pension benefits are based upon the employee's length of service and average compensation.

Pension Plan and Excess Benefit Plan assets are invested primarily in debt and equity securities at the discretion of the trustee. Those securities are valued at market value. The investment objective of the Plan is to ensure that assets will be available to meet the Plan's benefit obligations. The expected return on the Plan's assets is based on the historical and anticipated returns for each asset category. At June 30, 2008 and 2007, the allocation was 47:50:3 and 44:53:3 debt securities to equity securities to cash.

During the current year, the Authority contributed the actuarially determined minimum required funding. The annual required contribution for the years ended June 30, 2008, 2007, and 2006, was determined as part of the July 1, 2007, 2006, and 2005, respectively, actuarial valuations. The Authority's policy is to contribute annually not less than the actuarially determined minimum required contribution determined by using the Aggregate Actuarial Cost Method. Because this method is used, the amortization is a level percentage of payroll over the average remaining service life of active members. Separate determination and amortization of the unfunded actuarial liability are not part of such method and are not required when that method is used. There are no annual maximum contribution rates.

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

Actuarial Valuation Date	Actuarial Value of Assets Available for Benefits	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
Pension Plan						
7/1/2007	$18,148	$18,585	97.6 %	$437	$12,159	3.6 %
Excess Benefit Plan						
7/1/2007	4,656	2,481	18.8	-	220	-

The following tables detail the components of annual pension cost. The amounts recognized in the Authority's financial statements and major assumptions used to determine those amounts as of June 30, 2008, 2007, and 2006, are as follows:

	2008		2007		2006	
	Pension Plan	Excess Benefit Plan	Pension Plan	Excess Benefit Plan	Pension Plan	Excess Benefit Plan
Net pension obligation (NPO):						
NPO — beginning of year	$ (3,581)	$ (31)	$ (3,759)	$ (36)	$ (3,945)	$ (41)
Annual pension cost	2,207	6	2,123	5	2,053	5
Contributions for year	(2,038)		(1,945)		(1,867)	
NPO — end of year	$ (3,412)	$ (25)	$ (3,581)	$ (31)	$ (3,759)	$ (36)
The negative NPO represents a pension asset.						
Components of annual pension cost:						
Annual required contribution (ARC)	$ 2,038	$ -	$ 1,945	$ -	$ 1,867	$ -
Interest on NPO	(251)	(2)	(263)	(3)	(276)	(3)
Adjustment to ARC	420	8	441	8	462	8
Annual Pension Cost (APC)	$ 2,207	$ 6	$ 2,123	$ 5	$ 2,053	$ 5
Percentage of ARC contributed	100 %	100 %	100 %	100 %	100 %	100 %
Major assumptions:						
Investment return	7 %	7 %	7 %	7 %	7 %	7 %
Inflation rate	4	4	4	4	4	4
Discount rate used for amortization of NPO	3	3	3	3	3	3
Salary scale	5	5	5	5	5	5
Amortization period (open) (years)	10.0	5.0	10.0	5.0	10.0	5.0
Cost method	Aggregate	Level Dollar	Aggregate	Level Dollar	Aggregate	Level Dollar
Mortality table	1994 Group Annuity Mortality table					

Subsequent to June 30, 2008, management decided to terminate the Excess Benefit Plan. Management believes that this will not have a significant impact on the Authority's operations for the fiscal year ending June 30, 2009.

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 plans to fulfill the commitments using funds held by the Trustee and funds generated through the normal financing operations of the Authority. At June 30, 2008 and 2007, the Authority was servicing $1,459,808 and $938,428, 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, 2008 and 2007, the liability to be $16,637 and $22,911, 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:

	2008	**2007**
Beginning balance	$ 22,911	$ 22,972
Increase (reduction) of arbitrage liability	(4,736)	5,778
Student loan forgiveness	(1,538)	(5,839)
Ending balance	$ 16,637	$ 22,911

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, 2008		June 30, 2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 124,024	$ 124,024	$ 226,645	$ 226,645
Investments held by Trustee			2,585	2,585
Student loans receivable	5,169,858	5,148,151	4,665,584	4,789,220
Liabilities:				
Line of credit	$ 300,000	$ 300,000	$ -	$ -
Conduit payable	145,500	145,500	-	-
Bonds payable	4,888,775	4,882,270	4,687,180	4,686,221
Off-balance sheet instruments — standby letters of credit	$ -	$ 7,165	$ -	$ 3,206

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 and the present value of the future cash flow stream. This estimated fair value approximates the amount for which similar loans could currently be purchased on the open market.

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

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

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

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

14. SEGMENT INFORMATION

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

The outstanding debt of the Authority consists of Student Loan Revenue Bonds, a line of credit and commercial paper conduit. The Student Loan Revenue Bonds are issued in accordance with five separate General Student Loan Program Bond Resolutions adopted by the Board of Directors in various years from 1988 through 2007, as well as in accordance with a Trust Indenture (the "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 not directly associated with the purchase of and revenue streams related to student loans are recorded in the Operating Fund.

Summary financial information for the Student Loan Revenue Bonds as of June 30, 2008 and 2007, are as follows:

	2008		2007	
Condensed Statements of Net Assets	**Operating Fund**	**Bond Fund**	**Operating Fund**	**Bond Fund**
Assets:				
Current assets	$ 33,143	$ 311,752	$ 130,330	$ 305,991
Long-term assets	37,650	5,120,850	189,881	4,460,388
Total assets	$ 70,793	$ 5,432,602	$ 320,211	$ 4,766,379
Liabilities:				
Current liabilities	4,864	508,551	8,515	32,361
Long-term liabilities	-	4,877,912	-	4,705,691
Interfund payable (receivable)	9,798	(9,798)	23,795	(23,795)
Total liabilities	14,662	5,376,665	32,310	4,714,257
Net assets:				
Invested in capital assets	14,202	-	14,315	-
Restricted		51,172		49,653
Unrestricted	41,929	4,765	273,586	2,469
Total net assets	56,131	55,937	287,901	52,122
Total liabilities and net assets	$ 70,793	$ 5,432,602	$ 320,211	$ 4,766,379

Condensed Statements of Revenues, Expenses and Changes in Net Assets	2008		2007	
	Operating Fund	Bond Fund	Operating Fund	Bond Fund
Operating revenues	$ 6,775	$ 302,386	$ 23,835	$ 356,697
Operating expenses	(7,523)	310,769	16,808	344,978
Operating (loss) income	14,298	(8,383)	7,027	11,719
Special items	(233,826)	(44)	18,664	68,701
Interfund transfers	(12,242)	12,242	232,998	(232,998)
Increase (decrease) in net assets	(231,770)	3,815	258,689	(152,578)
Net assets — beginning of year	287,901	52,122	29,212	204,700
Net assets — end of year	$ 56,131	$ 55,937	$ 287,901	$ 52,122
Condensed Statements of Cash Flow				
Net cash flows from operating activities	$ 141,452	$ (421,629)	$ (193,804)	$ (422,161)
Net cash flows from non-capital financing activities	(233,826)	409,495	278,772	235,545
Net cash flows from capital activities	(698)	-	(699)	-
Net cash flow from investing activities	-	2,585	10,378	-
Net increase (decrease) in cash and cash equivalents	(93,072)	(9,549)	94,647	(186,616)
Cash and cash equivalents — beginning of year	124,671	101,974	30,024	288,590
Cash and cash equivalents — end of year	$ 31,599	$ 92,425	$ 124,671	$ 101,974

15. SPECIAL ITEMS

On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the "Initiative") became law. The legislation, known as Senate Bill 389 (the "LCDI Legislation") directs the Authority to distribute $350,000 into a new fund in the State Treasury known as the Lewis and Clark Discovery Fund (the "Fund") on the following schedule: $230,000 no later than September 15, 2007; an additional $5,000 by December 31, 2007; and further installments of $5,000 each calendar quarter through September 30, 2013. Investment earnings on the Fund are credited against subsequent payments made by the Authority. In addition, the LCDI Legislation provides that the Authority may delay payments if the Authority determines that any such distribution may materially adversely affect the service and

benefits provided to Missouri students or residents in the ordinary course of the Authority's business, the borrower benefit programs of the Authority or the economic viability of the Authority. However the entire $350,000 is to be paid by September 30, 2013, unless otherwise approved by the Authority and the Missouri Commissioner of the Office of Administration.

The Authority receives a significant benefit pursuant to the LCDI Legislation. The new law provides that following the initial September 15, 2007, distribution by the Authority, the Missouri Director of Economic Development shall allocate to and reserve for the Authority in 2007 and the next 14 years at least 30% of Missouri's tax-exempt, private activity bond cap allocation. This allocation was $150,000 for calendar year 2008 and 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.

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 Initiative. 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 of $44 and $3,911 as of June 30, 2008 and June 30, 2007, which primarily consisted of unamortized bond issuance costs.

On September 14, 2007, the Authority remitted to the State Treasurer $230,000 for the initial payment in accordance with an Authority Board Resolution and as required by the LCDI Legislation. Two subsequent quarterly payments totaling $3,826 have been made which represents the difference between the required payment of $5,000 and interest earned, bringing the Authority current through March 31, 2008. On June 26, 2008, the Board voted to delay making the June 30, 2008, quarterly payment (See Note 16).

16. SUBSEQUENT EVENTS

Additional Borrowings — On July 24, 2008, the Authority entered into an amended financing agreement for a $500,000 multi-seller asset backed commercial paper conduit (the "amended conduit"). The amended conduit has borrowings of $157,500 as of September 30, 2008. In accordance with the financing security agreement, if the Authority borrows under the agreement, it will pledge the appropriate cash and cash equivalents, student loan receivable principal, accrued interest, interest subsidy, special allowance and unamortized financed premium. The charges, which increased significantly from the prior conduit, are as follows: a 25 basis point facility fee, a 35 basis point program fee and a 5 basis point dealer fee. The facility fee of 25 basis points is payable on the facility limit regardless of usage. The term of the facility is 364 days.

On September 30, 2008, the Authority entered into an agreement to extend the termination date on the line of credit to October 31, 2008, under the same terms present in the original agreement.

Bonds Payable

2005 Trust Indenture — As a result of the recent failures associated with the repricing of the variable rate demand notes during the fiscal year ended June 30, 2008, Depfa Bank was required to buy back all $382,900 in bonds issued under the 2005 Trust Indenture. Under the terms of the bond documents, since the bonds were all owned by Depfa Bank on the interest payment date of August 15, 2008, the bonds are required to be paid down in eight semi-annul payments of $47,900 each beginning August 15, 2009.

2008 Trust Indenture — On October 16, 2008 the Authority closed on a $262,500 bond deal (the "2008 Trust Indenture"). The 2008 Trust Indenture bonds were issued as 7-day variable rate demand notes backed by a letter of credit from Bank of America, N.A. The Senior bonds, which were issued in two series as follows: 2008A-1 for $37,500 and 2008-A2 for $225,000, received a rating of AAA/F1+ from Fitch Ratings. The proceeds from the transaction were used by the Authority to redeem the 9th General Bond Resolution, which had one bond series 1991B for $37,500 outstanding, pay off its short-term warehouse line of credit of $225,000, and the additional borrowing of $67,000 from the amended conduit. In addition, the Authority executed an amendment to the amended conduit, which in part, reduced the Authority's borrowing limit to $375,000 from $500,000. As of October 16, 2008, the total outstanding under the amended conduit was $224,500 compared to $157,500 as of June 30, 2008.

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

The Master Participation Agreement is designed to provide short term liquidity to eligible lenders for the purpose of financing the origination of FFELP loans. The line of credit is available to the Authority until June 30, 2009.

The Master Loan Sale Agreement allows eligible lenders to sell FFELP loans originated for the 2008-2009 academic year to the Department of Education at 101%. The agreement expires on September 30, 2009, allowing a lender to hold and service loans for a longer period of time and giving them the opportunity to finance and keep loans if the market were to improve. In order to take advantage of this option, the lender must notify the Department no later than August 14, 2009 that it wishes to participate. In addition, any lender participating must represent to the Department that it will continue to participate in the FFELP program.

In order to participate in either of these options, each lender must file an "Intent to Participate." The Authority filed such an intent on July 3, 2008. As of the report date, the Authority has not utilized either program.

Lewis and Clark Initiative —The Authority's Board is vested by law with authority to determine the amount of each quarterly distribution or to delay any such distribution. Based on the statutory conditions that permit delaying a distribution and the Board's past actions, Authority management anticipates that relatively small quarterly distributions will be made to the LCDI Fund in fiscal 2009, consistent with the $100,000 distribution approved by the Authority's Board on September 12, 2008. The Board will continue analyzing and determining on a quarterly basis what, if any, distribution the Authority should make to the LCDI Fund. Regardless of what distribution the Board authorizes in any given quarter, the LCDI Fund will continue to receive quarterly distributions of interest earned on the LCDI Fund. While the quarterly interest income distributions are not paid directly by the Authority, it reduces the amount the Authority has to pay under the LCDI statute.

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HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2008, 2007 AND 2006
(Dollars in thousands)
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets Available for Benefits	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
Pension Plan						
7/1/2007	$18,148	$18,585	97.6 %	$ 437	$12,159	3.6 %
Excess Benefit Plan						
7/1/2007	4,656	2,481	187.7 %	-	220	-
Pension Plan						
7/1/2006	15,045	16,798	89.6 %	1,753	10,427	16.8
Pension Plan						
7/1/2005	12,954	15,045	86.1 %	2,091	10,306	20.3

Information for the Excess Benefit Plan for the fiscal years as of 7/1/2005 and 7/1/2006 is not presented herein as amounts are immaterial.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2008, and have issued our report thereon dated October 16, 2008. 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.

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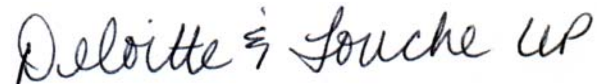
Compliance and Other Matters

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 October 16, 2008.

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.



October 16, 2008

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

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

Compliance

We have audited the compliance of the Higher Education Loan Authority of the State of Missouri (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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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

October 16, 2008

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor	Federal CFDA Number	Interest Subsidy Received
U.S. DEPARTMENT OF EDUCATION:		
Federal Family Education Loan Program — interest on student loans	84.032	$51,755,502
Federal Family Education Loan Program — special allowance	84.032	22,084,740
TOTAL FEDERAL FAMILY EDUCATION LOAN PROGRAM	84.032	$73,840,242
		Outstanding Balance at June 30, 2008
TOTAL GUARANTEED LOANS OF THE AUTHORITY AT JUNE 30, 2008 — Guaranteed student loans	84.032	$4,929,105,000

See notes to supplementary schedule of expenditures of federal awards.

NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

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, 2008

Part I — Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued — unqualified

Internal control over financial reporting:

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

Federal Awards:

Internal control over financial reporting:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.032	Federal Family Education Loan Program

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

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

Part II — Financial Statement Finding Section

No matters are reportable.

Part III — Federal Awards Findings and Questioned Cost Section

No matters are reportable.

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATUS OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

None