



**FINANCIAL STATEMENTS AND SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

Higher Education Loan Authority of the State of Missouri
As of and for the Years Ended June 30, 2019 and 2018
With Reports of Independent Auditors

Higher Education Loan Authority of the State of Missouri

Financial Statements and Schedule of Expenditures of Federal Awards

As of and for the Years Ended June 30, 2019 and 2018

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Higher Education Loan Authority of the State of Missouri (“the Company”), as of and for the year ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Company’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Company as of June 30, 2019 and 2018, and the respective changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 – 21 and Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on pages 91 – 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 12, 2019, on our consideration of the Company'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 solely 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 effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst + Young LLP

September 12, 2019

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (Unaudited)

As of and for the Years Ended June 30, 2019 and 2018

The Management's Discussion and Analysis of the financial performance is required supplementary information for the Higher Education Loan Authority of the State of Missouri including its blended component unit, the Missouri Scholarship and Loan Foundation (the Foundation), collectively, (the Company). This discussion and analysis provides an analytical overview of the Company's condensed financial statements and should be read in conjunction with the financial statements that follow.

The Company

We are recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education (the Department). We are a leading holder and servicer of student loans with \$62.9 billion in student loan assets serviced as of June 30, 2019.

The Company was created by the General Assembly of the State of Missouri through passage of House Bill (HB) 326, signed into law on June 15, 1981, in order to ensure that all eligible post-secondary education students have access to guaranteed student loans. The legislation was amended, effective August 28, 1994, effective August 28, 2003, effective August 28, 2007 and again effective May 2, 2008, to provide the Company 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 Company is governed by a seven-member Board, five of whom are appointed by the Governor of the State, subject to the advice and consent of the State Senate, and two others who are designated by statute – the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. Raymond H. Bayer, Jr., appointed by the Board during fiscal year 2007, serves as Executive Director and Chief Executive Officer of the Company.

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

The passage of Senate Bill (SB) 389, effective August 28, 2007, further amended the Company's purpose in order to support the efforts of public colleges and universities to create and fund capital projects and also to support the Missouri Technology Corporation's ability to work with colleges

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

The Company (continued)

and universities in identifying opportunities for commercializing technologies, transferring technologies, and developing, recruiting, and retaining entities engaged in innovative technologies. In addition, powers of the Company were amended to include fund transfers to the Lewis and Clark Discovery Fund and authorization for the Company to participate in any type of financial aid program that provides grants and scholarships to students.

The enactment of SB 967 on May 2, 2008, allowed the Company to originate Stafford loans; however, according to SB 967, "the Company'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." We disbursed just under \$1.9 million of Stafford loans during fiscal year 2011. We made no disbursements since fiscal year 2011 due to the elimination of FFELP as discussed below.

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

The Company responded to the Sources Sought Notice and was among the first 12 NFP servicers that the Department determined met the NFP servicer eligibility criteria under the HCERA. On September 29, 2010, the Department issued a Solicitation (NFP-RFP-2010) (the Solicitation) seeking proposals from eligible NFP servicers to contract with the Department to service federal assets, including Direct Loan accounts. On November 24, 2010, the Company submitted a proposal to the Department responding to the Solicitation and asking for permission to proceed to execute a Memorandum of Understanding with the Department. On February 2, 2011, the Department published a determination that the Company was permitted to enter into a Memorandum of Understanding to pursue an Authorization to Operate (ATO) and a contract award as an NFP servicer. The Pennsylvania Higher Education Assistance Agency (PHEAA) was identified as a key subcontractor for this arrangement. On March 30, 2011, the Company entered

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

The Company (continued)

into a Memorandum of Understanding with the Department. The Company was awarded an ATO on September 22, 2011, and a servicing contract to become an NFP servicer to service federal assets, including Direct Loans, on September 27, 2011. From fall 2011 to fall 2013, the Company entered into a "teaming arrangement" with 13 other NFP servicers (the MOHELA team). On September 19, 2014, the Company received authorization from the Department to service Common Origination Disbursements (COD). The Company received initial COD volume in December 2014. On July 9, 2015, the Company received approval from the Department to add five additional NFP Servicers to the existing servicing contract. The Company then entered into a "teaming arrangement" with the five NFP Servicers bringing the MOHELA team to a total of 19. The MOHELA team is servicing approximately 2.2 million federal asset accounts, representing approximately \$43.3 billion in student loans, as of June 30, 2019. On May 22, 2015, the Company was awarded a contract with the Department to service the Borrower Defense Call Center. Although the contract for the Borrower Defense Call Center ended in June 2018, the Company earned \$18 thousand in fiscal year 2019 related to a change request from the Department for shutdown activities of the Borrower Defense Call Center. In May 2019, the Company entered into a subcontracting agreement with Accenture Federal Services, LLC. The agreement is limited to an initial work order to provide employees to work full time on Phase I of the new NextGen Servicing Environment. During fiscal year 2019, the Company earned \$25 thousand in contracted revenue.

In addition to a federal loan servicing contract, at June 30, 2019, we serviced \$1.3 billion of our own student loans that will provide us ongoing revenue streams for many years to come. This legacy portfolio and its related revenue have and continue to assist us in a transition to a federal asset servicing business model.

During fiscal year 2019, the Company recognized \$49.1 million in servicing fees from its federal servicing contract compared to \$44.1 million and \$41.1 million in fiscal years 2018 and 2017, respectively, after fees paid to subcontractor team members. In addition, the Company performed contracted loan servicing for another federal student loan servicer and also serviced loans on behalf of several third-party lending institutions. Servicing fee revenue for these services during fiscal years 2019, 2018, and 2017 were \$5.9 million and \$10.7 million, \$7.1 million and \$8.7 million, and \$9.0 million and \$5.4 million, respectively. At June 30, 2019, the Company serviced over \$18.3 billion in private third-party lender loans compared to \$15.7 billion and \$10.4 billion in fiscal years 2018 and 2017, respectively.

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued)

(Unaudited)

The Company (continued)

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

On June 11, 2010, the Company's Board approved the creation of the Missouri Scholarship Foundation, appointed the initial board of directors, and provided initial funding of \$100 thousand. The Missouri Scholarship Foundation was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, raising funds, accepting transfers and contributions, and using the resulting funds for (1) administering grant, scholarship, and related programs on behalf of the Company and other entities and (2) assisting students who are residents of the State of Missouri and students who attend post-secondary institutions located or based in the State of Missouri to gain access to and finance their post-secondary education.

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Company.

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

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

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

The Company (continued)

- (b) Unsubsidized Stafford loans – loans to students made without regard to financial need for which the federal government does not make such interest payments
- (c) PLUS loans – loans to parents of dependent undergraduate and graduate students, or to graduate or professional students
- (d) Consolidation loans – loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans

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

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

The Company purchased \$35.8 million in FFELP student loans from guarantors during fiscal year 2019. This compares to \$20.0 million purchased during fiscal year 2018, representing a 79% increase for fiscal year 2019. During fiscal year 2017, the Company purchased \$13.7 million in student loans from guarantors representing a 46% increase for fiscal year 2018. The population of loans purchased consists of repurchases from various guarantors of loans that had previously been in bankruptcy status, as required by federal law. In addition, in fiscal year 2019 loans purchased also included rehabilitated loans.

There were \$5.4 million MOFELP loans originated during fiscal year 2019 compared to \$4.6 million during fiscal year 2018 representing a \$0.8 million (17%) increase for fiscal year 2019.

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued)

(Unaudited)

The Company (continued)

During fiscal year 2017, the Company originated \$3.6 million loans representing a \$1.0 million (28%) increase for fiscal year 2018.

The student loan portfolio decreased 13% from \$1.5 billion to \$1.3 billion from fiscal year 2018 to fiscal year 2019. The decrease was a result of decreases through borrower and claim payments, and loan consolidations offset by new purchases and originations. This compares to a decrease in the student loan portfolio of 14% from \$1.7 billion to \$1.5 billion from fiscal year 2017 to fiscal year 2018.

The Company continues to focus on the development of creative solutions to support the Company's mission. In the past, the Company has offered various rate reduction programs to borrowers who establish payments through automatic deduction, as well as various loan forgiveness programs. Beginning in fiscal year 2009, the Company modified its borrower benefits to comply with new requirements related to the federal Ensuring Continued Access to Student Loans Act (ECASLA) programs. As a result, borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction. The Company contributed funds for the State of Missouri's need-based scholarship program, the Access Missouri Financial Assistance Program in the amount of \$1.0 million, \$5.0 million, \$30.0 million and \$30.0 million in fiscal years 2019, 2013, 2012 and 2011 respectively. In addition, in fiscal year 2012, the Company provided for the contribution of \$1.0 million to a new state scholarship program titled Advanced Placement Incentive Grants. In fiscal year 2019, the Company made an additional \$35 thousand contribution to the Advanced Placement Incentive Grants, as well as a \$1.3 million contribution to the A+ Scholarship Program. During fiscal year 2019, the Company contributed \$0.5 million to the Bright Flight Scholarship fund, \$1.75 million during fiscal year 2018, \$1.6 million during fiscal year 2017 and \$1.0 million during fiscal year 2015. The Company reserves the right to modify these programs as needed. In addition, since its inception, the Company has granted over \$48 million in loan forgiveness for a variety of student borrowers, including teachers, Pell Grant recipients, and those in military service. The Company has also been providing scholarship and grant funding through the Missouri Scholarship and Loan Foundation by donating \$15.0 million, \$12.6 million, \$10.3 million, \$4.8 million, \$11.1 million, and \$5.7 million in fiscal years 2019, 2018, 2017, 2016, 2015, and 2014, respectively.

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued)

(Unaudited)

Financial Analysis

As a result of adopting GASB Statement No. 80 on July 1, 2016, which requires blending of our component unit, the Foundation, this report includes financial statements blending the financial activity of the Foundation.

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

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

Financial Analysis (continued)

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

Condensed Statements of Net Position (In thousands)

	2019	2018	2017
Capital assets	\$ 19,670	\$ 21,076	\$ 22,677
Other than capital assets	1,524,457	1,701,294	1,943,900
Total assets	1,544,127	1,722,370	1,966,577
Deferred outflows of resources – pension	5,570	5,081	4,839
Current liabilities	193,780	194,596	203,896
Long-term liabilities	974,167	1,168,359	1,422,437
Total liabilities	1,167,947	1,362,955	1,626,333
Deferred inflows of resources – pension	2,759	2,575	2,038
Net investment in capital assets	6,402	21,022	22,257
Restricted for debt service	239,049	227,924	223,228
Unrestricted	133,540	112,975	97,560
Total net position	\$ 378,991	\$ 361,921	\$ 343,045

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

	2019	2018	2017
Interest on student loans and interest subsidy	\$ 77,807	\$ 88,070	\$ 99,978
Special allowance	(5,733)	(16,788)	(30,909)
Servicing income and other	69,590	63,772	59,808
Total operating revenues	141,664	135,054	128,877
Bond expenses	40,894	36,339	30,501
Student loan expenses	9,157	9,593	9,295
General and administrative expenses	71,708	68,496	67,007
Total operating expenses	121,759	114,428	106,803
Operating income	19,905	20,626	22,074
Non-operating (expenses) revenue	(2,835)	(1,750)	(1,600)
Change in net position	\$ 17,070	\$ 18,876	\$ 20,474

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

Financial Position

Total assets decreased \$178.2 million (10%) and total deferred outflows of resources increased \$0.5 million (10%), while liabilities decreased \$195.0 million (14%) and deferred inflows of resources increased \$0.2 million (7%), resulting in an increase to the Company's net position of \$17.1 million (5%) in fiscal year 2019. This increase compares to an increase in net position of \$18.9 million in fiscal year 2018. The change in net position in fiscal year 2019 is primarily due to a \$4.3 million (7%) increase in net servicing fee revenue, which is predominantly from the Company's federal contract. This was partially offset by a \$4.7 million (13%) increase in bond interest expense and a \$3.2 million (5%) increase in general and administrative expenses, which was primarily related to an increase in computer services expenses.

Net investment in capital assets decreased \$14.6 million (70%) in fiscal year 2019 to \$6.4 million from \$21.0 million in fiscal year 2018. The reduction is a result of the adjustment of \$13.0 million for classification to restricted net position related to debt with capital assets as collateral. Restricted net position increased by \$11.1 million (5%) to \$239.0 million in fiscal year 2019 from \$227.9 million in fiscal year 2018. Unrestricted net position increased by \$20.5 million (18%) to \$133.5 million in fiscal year 2019 from \$113.0 million in fiscal year 2018.

For the years ended June 30, 2019 and 2018, the Company recorded deferred outflows of resources related to pension of \$5.6 million and \$5.1 million, respectively, and deferred inflows of resources related to pension in the amount of \$2.8 million and \$2.6 million, respectively. These are as a result of a net difference between expected and actual experience, projected and actual earnings on pension plan investments, and changes in assumptions.

Capital Activities

During fiscal year 2019, the Company began a project to replace the roof on the Columbia building at a cost of \$0.2 million. The Company also made investments in facility upgrades in Chesterfield, Columbia, and Washington DC at a cost of \$0.3 million. Technology expansion and security investments were also made at a cost of \$0.1 million. Investments were made in new vehicles at a cost of \$0.1 million.

During fiscal year 2018, the Company completed the expansion of the parking lot in Chesterfield at a cost of \$1.05 million. The Company also made investments in facility upgrades in both Chesterfield and Columbia at a cost of \$0.18 million.

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

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

Financial Position (continued)

Other than Capital Assets

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

	2019	2018	2017
Cash and cash equivalents	\$ 83,919	\$ 96,122	\$ 98,158
Investments	49,582	38,776	32,769
Student loans receivable, net	1,310,352	1,499,931	1,747,893
Accrued interest receivable	63,388	56,754	51,342
Miscellaneous receivables and prepaid expenses	16,819	8,335	12,185
Net pension asset	397	1,376	1,553
Total other than capital assets	\$ 1,524,457	\$ 1,701,294	\$ 1,943,900

Cash and cash equivalents decreased \$12.2 million (13%) to \$83.9 million at June 30, 2019 from \$96.1 million at June 30, 2018. This compares to a decrease of \$2.0 million (2%) from \$98.2 million at June 30, 2017. Please refer to the statement of cash flows included in the financial statements for detail on the Company's cash activities.

Net student loans receivable decreased \$190.0 million (13%) to \$1.3 billion at June 30, 2019 from \$1.5 billion at June 30, 2018 due to loan principal reductions of \$225.8 million partially offset by purchase activity of \$35.8 million. This compares to a decrease in net student loans receivable of \$248.0 million (14%) from \$1.7 billion at June 30, 2017. This decline relates to loan principal reductions of \$268.0 million partially offset by purchase activity of \$20.0 million.

Accrued interest receivable increased \$6.6 million (12%) to \$63.4 million at June 30, 2019 from \$56.8 million at June 30, 2018 due to rising variable interest rates offset by a decrease of the student loan portfolio. This compares to an increase of \$5.4 million (11%) from \$51.3 million at June 30, 2017, due to rising variable interest rates offset by a decrease of the student loan portfolio.

Miscellaneous receivables and prepaid expenses increased \$8.5 million (102%) to \$16.8 million at June 30, 2019 from \$8.3 million at June 30, 2018 primarily due to an increase in servicing fee receivables related to the timing of receipts of receivables. This compares to a decrease in miscellaneous receivables and prepaid expenses of \$3.9 million (32%) at June 30, 2018 from \$12.2 million at June 30, 2017 primarily due to a decrease in servicing fee receivables related to a more timely receipt of receivables.

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

Financial Position (continued)

At June 30, 2019, there was a net pension asset of \$0.4 million compared to a net pension asset of \$1.4 million at June 30, 2018 and a net pension asset of \$1.6 million at June 30, 2017. Please refer to Note 8 for more information on the Company's net pension asset.

Liabilities

Current liabilities decreased \$0.8 million (0.4%) to \$193.8 million at June 30, 2019 from \$194.6 million at June 30, 2018, due to a decrease in current bonds payable of \$30.2 million, a decrease of \$1.4 million in special allowance payable. The decrease was offset by an additional \$19.1 million in line of credit payable, an additional \$1.1 million in note payable, and an increase of \$10.4 million in lender payables. Long-term liabilities decreased by \$194.2 million (17%) to \$974.2 million at June 30, 2019 as the Company repaid bonds with available cash as required by the respective bond trusts and voluntary early redemptions. This was offset by the \$11.9 million long term portion of the Note Payable addition. The Company did not issue any new bonds during fiscal year 2019; however, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit and also obtained a Direct Borrowing Note Payable from Commerce Bank. See Footnote 6 for more detail on the Line of Credit and the Note Payable.

For fiscal year 2018, current liabilities decreased \$9.3 million (5%) to \$194.6 million at June 30, 2018 from \$203.9 million at June 30, 2017, due to a decrease in current bonds payable of \$20.0 million, a decrease of \$3.7 million in special allowance payable, and an increase of \$13.9 million in lender payables. Long-term liabilities decreased by \$254.1 million (18%) to \$1,168.4 million at June 30, 2018 as the Company repaid bonds with available cash as required by the respective bond trusts and voluntary early redemptions. The Company did not issue any new bonds during fiscal year 2018.

In March 2012, Standard & Poor's Rating Services lowered ratings on seven classes of bonds under the 12th General Bond Resolution from "A (sf)" to "BB (sf)" and removed the Credit Watch negative. The result of the downgrade to the 12th General Bond Resolution was an increased debt service cost spread of 0.25% on the taxable bonds, as well as the loss of a LIBOR limiter, which limited the periodic rate paid by certain taxable bonds on an ongoing basis.

In June 2017, Standard & Poor's Rating Services raised ratings on three classes of bonds under the 12th General Bond Resolution from "BB (sf)" to "BBB (sf)" for 1995-D and 1996-H and "BB (sf)" to "A (sf)" for 2006-J. As a result of the upgrade for bond series 2006-J the bonds regained the use of the LIBOR limiter and a reduction of 0.25% in the debt service cost spread. The three classes of bonds had an outstanding balance of \$56.3 million as of June 30, 2017.

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

Financial Position (continued)

In December 2017, Moody's raised ratings on two classes of bonds under the 12th General Bond Resolution from A2 to Aaa for 1995-D and 1996-H. In addition, Moody's raised the rating on 2006-J to Aaa from Aa2. Subsequently, in February 2018, the Company fully redeemed the 1995-D class. The two remaining classes of bonds under the 12th Resolution, 1996-H and 2006-J, had an outstanding balance of \$28.4 million as of June 30, 2018. In fiscal year 2019, the Company fully redeemed the two remaining classes of bonds under the 12th Resolution.

Operating Results

The change in net position for the period ending June 30, 2019 was \$17.1 million compared to the change in net position for the period ending June 30, 2018 of \$18.9 million, a reduction of \$1.8 million (10%). The reduction is primarily due to a \$0.8 million increase in interest revenue on student loans net of special allowance and interest subsidy, a \$4.6 million increase in bond related expenses, and a \$3.2 million increase in general and administrative expenses, primarily related to computer services. These reductions to the change in net position were partially offset by a \$4.3 million increase in net servicing fee revenue.

For fiscal year 2018, the change in net position was \$18.9 million compared to the change in net position for the period ending June 30, 2017 of \$20.5 million, a reduction of \$1.6 million (8%). The reduction is primarily due to a \$2.2 million increase in interest revenue on student loans net of special allowance and interest subsidy, a \$5.8 million increase in bond related expenses, and a \$1.5 million increase in general and administrative expenses, primarily related to computer services. These reductions to the change in net position were partially offset by a \$3.6 million increase in net servicing fee revenue.

Operating Revenues

Total operating revenues increased \$6.6 million (5%) to \$141.7 million in fiscal year 2019 from \$135.1 million in fiscal year 2018. The primary reason for the increase was an increase in servicing fees, net of subcontractor fees of \$4.3 million. In addition, there was a reduction in special allowance paid to the U.S. Department of Education of \$11.1 million. These increases were partially offset by a decrease in interest on student loans of \$8.6 million and a decrease in interest subsidy of \$1.6 million. Interest on student loans declined primarily due to a \$190.0 million reduction in student loans outstanding. The reduction in interest subsidy was partially a result of ongoing decreases in the level of lower yielding loans in an in-school or in-grace status to \$2.4

Higher Education Loan Company of the State of Missouri

Management's Discussion and Analysis (continued)

(Unaudited)

Operating Results (continued)

million (0.2%) of the portfolio at June 30, 2019 from \$3.7 million (0.2%) of the portfolio at June 30, 2018. The decrease in special allowance in fiscal year 2019 was due to both the reduction in student loans owned and an increase in interest rates. The interest rate that impacts the special allowance calculation is the one-month LIBOR rate. The average one-month LIBOR rate increased 0.80% to 2.35% in fiscal year 2019 from 1.55% in fiscal year 2018. The increase in the rates results in a reduced amount of special allowance that is paid.

For fiscal year 2018, total operating revenues increased \$6.2 million (5%) to \$135.1 million from \$128.9 million in fiscal year 2017. The primary reason for the increase was an increase in servicing fees, net of subcontractor fees of \$3.6 million. In addition, there was a reduction in special allowance paid to the U.S. Department of Education of \$14.1 million. These increases were partially offset by a decrease in interest on student loans of \$9.8 million and a decrease in interest subsidy of \$2.1 million. Interest on student loans declined primarily due to a \$248.0 million reduction in student loans outstanding. The reduction in interest subsidy was partially a result of ongoing decreases in the level of lower yielding loans in an in-school or in-grace status to \$3.7 million (0.2%) of the portfolio at June 30, 2018 from \$6.1 million (0.3%) of the portfolio at June 30, 2017. The decrease in special allowance in fiscal year 2018 was due to both the reduction in student loans owned and an increase in interest rates. The interest rate that impacts the special allowance calculation is the one-month LIBOR rate. The average one-month LIBOR rate increased 0.80% to 1.55% in fiscal year 2018 from 0.75% in fiscal year 2017. The increase in the rates results in a reduced amount of special allowance that is paid.

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

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

Higher Education Loan Company of the State of Missouri

Management's Discussion and Analysis (continued)

(Unaudited)

Operating Results (continued)

of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2019 was 1.93%, which set the rates on these loans at 4.23% and 3.63%, respectively. The rates on the same loans during fiscal year 2018 were 3.28% and 2.68%, respectively, and during fiscal year 2017 were 2.65% and 2.05%, respectively.

PLUS loans first disbursed on or after July 1, 2006 bear interest at a fixed rate of 8.5%. Variable rate PLUS loans made on or after July 1, 1998 bear interest at a rate equivalent to the 91-day T-Bill plus 3.10%, with a maximum rate of 9.0%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2019 was 1.93%, which set the rate on these loans at 5.03%, as compared to 4.08% for fiscal year 2018 and 3.45% for fiscal year 2017. Consolidation loans for which the application was received by an eligible lender on or after October 1, 1998 bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

Special allowance is paid to or rebated by the Company on the spread between student loan borrower interest rates and the one-month LIBOR or 91-day T-Bill rates. For example, federal law requires the Company to charge a parent an 8.5% interest rate on a PLUS loan originated after July 1, 2006, which the Company collects from the parent borrower. However, the Company only earns a yield on that loan at the one-month LIBOR rate plus 1.94%. The one-month LIBOR rate for the quarter ended June 30, 2019 was 2.48%, which means the Company's annual yield for that quarter was 4.42%. The Company is required to rebate the additional interest paid by the borrower of 4.08% (8.5% – 4.42%) to the Department through the rebate of excess special allowance, which is often referred to as negative special allowance.

Operating Expenses

Total operating expenses realized a \$7.3 million (6%) increase in fiscal year 2019 from fiscal year 2018. The increase was a result of an increase in bond related and general and administrative expenses of \$4.6 million and \$3.2 million, respectively. This compares to a \$7.6 million (7%) increase in operating expenses in fiscal year 2018 from fiscal year 2017. The increase in fiscal year 2018 was a result of an increase of bond related and general and administrative expenses of \$5.8 million and \$1.5 million, respectively.

Higher Education Loan Company of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

Operating Results (continued)

General and administrative expenses, which include salaries and employee benefits, postage and forms, computer services, professional fees, occupancy expense, depreciation and amortization, grants, and other operating expenses, increased by \$3.2 million in fiscal year 2019. The increase in general and administrative expenses can be attributed primarily to a \$2.5 million increase in computer services. General and administrative expenses increased due to the increase in the volume of student loans the Company is servicing under its federal contract and the Company's extensive efforts to consult and assist borrowers. The Company began fiscal year 2019 servicing approximately 2.0 million borrower accounts and ended the fiscal year servicing approximately 2.2 million borrower accounts under the federal contract. Comparatively, in fiscal year 2018, general and administrative expenses increased \$1.5 million. The increase in general and administrative expenses can be attributed primarily to a \$1.8 million increase in computer services. General and administrative expenses increased due to the increase in the volume of student loans the Company is servicing under its federal contract and the Company's extensive efforts to consult and assist borrowers.

Interest expense increased \$4.7 million (13%) to \$40.2 million in fiscal year 2019 from \$35.5 million in fiscal year 2018, primarily due to interest rate increases. The increase in interest rates was partially offset by a \$236.3 million (18%) decrease in bonds outstanding debt of the Company. The Company fully redeemed the remaining balance in auction rate securities on April 1, 2019. In fiscal year 2019, the Company obtained a Direct Borrowing Note Payable from Commerce Bank in the amount of \$13.3 million. The Interest rate for the Note Payable is fixed at 4.24%. The Company also entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit in the amount of \$50 million. At June 30, 2019, \$19.1 million was borrowed on the Line of Credit. In fiscal year 2019, the average interest rate for the Line of Credit was 3.17%.

The Company continued to experience various interest rate increases on its debt in fiscal year 2019 due to market interest rate changes. The interest on LIBOR floating rate notes increased throughout the year. Five of the Company's floating rate notes are priced at three month LIBOR plus a spread from 0.85% to 1.05% and two of the LIBOR floating rate notes are priced at one month LIBOR plus a spread of either 0.55% or 0.83%. The average one-month LIBOR rate increased 0.80% to 2.35% and the average three-month LIBOR rate increased 0.78% to 2.54% in fiscal year 2019. Total bond related expenses increased \$4.6 million to \$40.9 million in fiscal year 2019. Comparatively, interest expense increased \$6.1 million in fiscal year 2018 from \$29.4 million in fiscal year 2017. The fiscal year 2018 increase in bond interest expense is primarily due to an increase in interest rates. The negative effect of the increase in interest rates was partially

Higher Education Loan Company of the State of Missouri

Management's Discussion and Analysis (continued) (Unaudited)

Operating Results (continued)

offset by a \$274.0 million (17%) decrease in bond outstanding debt of the Company. Total bond related expenses increased \$5.8 million to \$36.3 million in fiscal year 2018.

Total student loan-related expenses decreased \$0.4 million to \$9.2 million in fiscal year 2019 from \$9.6 million in fiscal year 2018. The decrease was due to a \$1.0 million decrease in consolidation rebate fees to \$7.6 million in fiscal year 2019. The decrease in consolidation rebate fees was due to an \$81.0 million decline in the Company's outstanding consolidation student loan principal during fiscal year 2019. This decrease was partially offset by an increase in provision for loan losses to \$1.6 million in fiscal year 2019 primarily due to the MOFELP and FFELP loan loss increases. In comparison, total student loan-related expenses increased \$0.3 million to \$9.6 million in fiscal year 2018 from \$9.3 million in fiscal year 2017. The increase was due to a \$1.3 million increase in provision for loan losses in fiscal year 2018. This increase was partially offset by a decrease in consolidation rebate fees to \$8.5 million. The decrease in consolidation rebate fees was due to a \$100.1 million decline in the Company's outstanding consolidation student loan principal during fiscal year 2018.

Non-operating Revenues and Expenses

In fiscal years 2019, 2018 and 2017, the Company contributed \$0.5 million, \$1.75 million, and \$1.6 million to the Bright Flight Scholarship fund, respectively. In fiscal year 2019, the Company also contributed \$1.3 million to the A+ Scholarship Program, \$1.0 million to Access Missouri Financial Assistance Program, and \$35 thousand to Advanced Placement Incentive Grants.

Continuing Developments

Lewis and Clark Discovery Initiative

On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the Initiative) became law. The legislation, known as SB 389 (the LCDI Legislation) directs the Company to distribute \$350.0 million into a fund in the State Treasury known as the Lewis and Clark Discovery Fund (the Fund) by September 30, 2013, in varying increments, unless otherwise approved by the Company and the Missouri Commissioner of the Office of Administration. Investment earnings on the Fund are credited against subsequent payments by the Company. In addition, the LCDI Legislation provides that the Company may delay payments if the Company determines that any such distribution may materially adversely affect the service and benefits

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued)

(Unaudited)

Continuing Developments (continued)

provided to Missouri students or residents in the ordinary course of the Company's business, the borrower benefit programs of the Company, or the economic viability of the Company. The General Assembly has appropriated amounts to be deposited in the Fund for certain capital projects at public colleges and universities. The law provides that following the initial distribution by the Company, the Missouri Director of Economic Development shall allocate to and reserve for the Company in 2007 and the next 14 years, at least 30% of Missouri's tax-exempt, private activity bond cap allocation. The amount of this allocation may be reduced for 2015 and later years by the percentage of the \$350.0 million not paid by the Company to the Fund by the end of the preceding year.

On September 7, 2007, the Members of the Company's Board approved a resolution to fund the initial payment of \$230.0 million and on September 14, 2007, in accordance with the Board's Resolution, the Company sent a \$230.0 million wire to the Missouri State Treasury. Subsequently, the Members of the Company's Board approved resolutions to fund additional payments, net of interest income earned on the funds on deposit with the State Treasurer, of \$3.9 million. The Fund has also earned interest income of \$10.9 million since inception. For each quarterly payment due subsequent to September 30, 2008 through the year ended June 30, 2013, the Board did not authorize a payment to the Fund. The remaining unfunded amount of the LCDI was \$105.1 million as of June 30, 2019.

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

During fiscal year 2017, the Company received a five-year extension from the Commissioner of the Office of Administration on the payment of LCDI funds to September 30, 2024 with one year extensions for each additional \$5 million in Foundation funding.

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

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued)

(Unaudited)

Continuing Developments (continued)

The Company accounts for the funding of the LCDI in accordance with GASB Statement No. 33 as a voluntary non-exchange transaction, because the Company will provide value to the Fund in excess of the value received in return. The Company does not record a liability for the unfunded amount of the LCDI because the time requirement of the final funding has not been met and payment of the unfunded amount has not been deemed probable as of June 30, 2019.

Higher Education Loan Authority of the State of Missouri

Statements of Net Position (Dollars in Thousands)

	<u>As of June 30, 2019</u>	<u>As of June 30, 2018</u>
Assets and deferred outflows of resources:		
Current assets:		
Cash and cash equivalents:		
Restricted	\$ 61,906	\$ 69,866
Unrestricted	22,013	26,256
Total cash and cash equivalents	83,919	96,122
Investments – restricted	6,203	6,203
Investments – unrestricted	43,379	32,573
Total Investments	49,582	38,776
Student loans receivable	138,898	170,459
Accrued interest receivable:		
Interest subsidy – U.S. Department of Education	890	1,340
Student loans receivable (less allowance for doubtful loans \$1,017 and \$712)	62,498	55,414
Total accrued interest receivable	63,388	56,754
Miscellaneous receivables and prepaid expenses	16,667	8,170
Total current assets	352,454	370,281
Long-term assets:		
Student loans receivable (less allowance for doubtful loans \$12,941 and \$11,266)	1,171,454	1,329,472
Net pension asset	397	1,376
Prepaid expenses	152	165
Capital assets, at cost less accumulated depreciation and amortization of \$22,455 and \$20,528	19,670	21,076
Total long-term assets	1,191,673	1,352,089
Total assets	\$ 1,544,127	\$ 1,722,370
Deferred outflows of resources – pension	5,517	5,081
Deferred outflows of resources – SERP	53	–
Total Deferred outflows	5,570	5,081
Liabilities, deferred inflows of resources and net position:		
Current liabilities:		
Bonds payable	\$ 126,884	\$ 157,068
Line of credit payable	19,057	–
Note payable	1,098	–
Accrued interest payable	2,086	2,487
Special allowance subsidy payable	1,030	2,404
Other liabilities	43,625	32,637
Total current liabilities	193,780	194,596
Long-term liabilities:		
Bonds payable	960,743	1,166,907
Note payable	11,894	–
Net pension liability	1,530	1,452
Total long-term liabilities	974,167	1,168,359
Total liabilities	\$ 1,167,947	\$ 1,362,955
Deferred inflows of resources - pension	2,524	2,347
Deferred inflows of resources - SERP	235	228
Total Deferred inflows	2,759	2,575
Net position:		
Net investment in capital assets	6,402	21,022
Restricted for debt service	239,049	227,924
Unrestricted	133,540	112,975
Total net position	\$ 378,991	\$ 361,921

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Revenues, Expenses, and Changes in Net Position

(Dollars in Thousands)

	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018
Operating revenues, net:		
Interest on student loans, net	\$ 73,864	\$ 82,488
U.S. Department of Education:		
Interest subsidy	3,943	5,582
Special allowance	(5,733)	(16,788)
Investment income	1,983	1,383
Realized and unrealized gain on investments	1,867	981
Servicing fees	68,412	65,263
Less: Subcontractor fees	(2,713)	(3,876)
Other	41	21
Total operating revenues, net	141,664	135,054
Operating expenses:		
Interest expense	40,223	35,509
Bond maintenance fees	623	738
Credit support	48	92
Total bond-related expenses	40,894	36,339
Consolidation rebate fees	7,570	8,547
Provision for loan losses	1,587	1,046
Total student loan-related expenses	9,157	9,593
Salaries and employee benefits	38,333	39,764
Postage and forms	6,239	6,150
Computer services	13,351	10,901
Professional fees	2,960	2,419
Occupancy expense	1,243	1,052
Depreciation and amortization	2,163	2,740
Scholarships	1,036	347
Grants	170	159
Other operating expenses	6,213	4,964
Total general and administrative expenses	71,708	68,496
Total operating expenses	121,759	114,428
Operating income	19,905	20,626
Non-operating revenues (expenses):		
Bright Flight Contribution	(500)	(1,750)
Advanced Placement Incentive Grants	(35)	-
Access Missouri Financial Assistance Program	(1,000)	-
A+ Scholarship Program	(1,300)	-
Total non-operating revenues (expenses)	(2,835)	(1,750)
Change in net position	17,070	18,876
Net position, beginning of year	361,921	343,045
Net position, end of year	\$ 378,991	\$ 361,921

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Cash Flows (Dollars in Thousands)

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Student loan and interest purchases	\$ (35,776)	\$ (20,004)
Student loan repayments	295,403	348,346
Payments to employees	(37,269)	(38,745)
Payments to vendors	(41,148)	(39,707)
Net Settlement of government interest	(2,715)	(14,647)
Cash received for servicing fees	59,401	69,120
Student loan repayments for lenders	10,446	13,940
Disbursement of new student loans	(5,362)	(4,598)
Net cash provided by operating activities	242,980	313,705
Cash flows from noncapital financing activities:		
Proceeds from line of credit	19,057	-
Proceeds from issuance of notes payable	12,992	-
Repayment of bonds	(236,539)	(274,187)
Interest paid on debt	(40,193)	(34,407)
Cash paid for issuance costs	(176)	-
Contributions to Bright Flight	(500)	(1,750)
Contributions to Advanced Placement Incentive Grant	(35)	-
Contributions to Access Missouri	(1,000)	-
Contributions to A+ Scholarship Program	(1,300)	-
Net cash used in noncapital financing activities	(247,694)	(310,344)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(554)	(1,507)
Proceeds from sale of capital assets	17	-
Net cash used in capital and related financing activities	(537)	(1,507)
Cash flows from investing activities:		
Purchase of investments, net of sales	(8,907)	(5,197)
Interest received on cash, cash equivalents and investments	1,955	1,307
Net cash used in investing activities	(6,952)	(3,890)
Change in cash and cash equivalents	(12,203)	(2,036)
Cash and cash equivalents, beginning of year	96,122	98,158
Cash and cash equivalents, end of year	\$ 83,919	\$ 96,122

Higher Education Loan Authority of the State of Missouri

Statements of Cash Flows
(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 19,905	\$ 20,626
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,163	2,740
Net pension asset and inflows and outflows	752	355
Investment income	(1,890)	(1,306)
Provision for loan losses	1,587	1,046
Realized and unrealized gain on investments	(1,867)	(981)
Loss on sale of capital assets	2	-
Interest expense	40,047	35,509
Cost of issuance	176	-
Change in assets and liabilities:		
Decrease in student loans receivable	187,993	246,916
(Increase) in accrued interest receivable	(6,635)	(5,412)
(Increase) Decrease in miscellaneous receivables and prepaid expenses	(8,473)	3,748
Increase in special allowance subsidy payable and other liabilities	9,220	10,464
Total adjustments	<u>223,075</u>	<u>293,079</u>
Net cash provided by operating activities	<u>\$ 242,980</u>	<u>\$ 313,705</u>
Noncash investing, capital, and financing activities:		
Changes in investments and outstanding liabilities related to capital assets	<u>\$ 948</u>	<u>\$ 447</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements *(Dollars in Thousands)*

As of and for the Years Ended June 30, 2019 and 2018

1. Description of the Organization

The Higher Education Loan Authority of the State of Missouri and its blended component unit, the Missouri Scholarship and Loan Foundation (the Foundation), collectively, (the Company) was created by 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. The purpose was to provide a secondary market for loans made under the Federal Family Education Loan Program (FFELP) provided for by the Higher Education Act. The legislation was amended, effective August 28, 1994, effective August 28, 2003, effective August 28, 2007 and again effective May 2, 2008, to provide the Company 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 Company is assigned to the Missouri Department of Higher Education; however, by statute, the State of Missouri is in no way financially accountable for the Company. 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 Company was historically one of the lenders for supplemental loans made available to students in the Midwestern region who had reached the maximum amount available under FFELP. The balance of these loans outstanding is approximately 4% of the total loan receivable balance as of June 30, 2019. During fiscal year 2008, the Company discontinued originating supplemental and FFELP consolidation loans.

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

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

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

1. Description of the Organization (continued)

allocation of federal accounts and provide the subcontractor with a portion of the revenues in exchange. At June 30, 2019, the Company was servicing federal accounts for 18 subcontractors.

Blended Component Unit – Missouri Scholarship and Loan Foundation

On June 11, 2010, the Company's Board approved the creation of the Missouri Scholarship Foundation, appointed the initial Board of Directors, and provided initial funding of \$100. The Missouri Scholarship Foundation was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, raising funds, accepting transfers and contributions, and using the resulting funds for (1) administering grant, scholarship, and related programs on behalf of the Company and other entities and (2) assisting students who are residents of the State of Missouri and students who attend post-secondary institutions located or based in the State of Missouri to gain access to and finance their post-secondary education.

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Company.

The Foundation has been approved by the Internal Revenue Service (IRS) as a tax-exempt 501(c)(3) entity for federal tax purposes. All significant contributions received by the Foundation are expected to be made by the Company.

The Bylaws of the Foundation call for the Foundation to be governed by a Board of three to thirteen Directors. Directors are appointed by the existing Board of Directors of the Foundation after the proposed appointments are submitted to the Company for approval. The Company is responsible for approving or disapproving proposed appointees to the Board of Directors. Any Director elected by the Board of Directors can be removed without cause by the Company. The current Foundation Directors include the Company's Executive Director, the Company's General Counsel, the Company's Director of Business Development and Government Relations, the Assistant Commissioner for Financial Assistance at the Missouri Department of Higher Education, and the President and CEO of Community Foundation of the Ozarks. The Executive Director of the

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

1. Description of the Organization (continued)

Company serves as a voting member of the Board ex officio. The Company must approve any amendments to the Bylaws or Articles of Incorporation of the Foundation. The Foundation may only appoint an executive director, responsible for overseeing the Foundation's day-to-day operations, with the approval of the Company.

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

The Foundation is treated as a component unit because the Company approves the appointment of the Foundation's Board of Directors and has the ability to impose its will on the Foundation. The Foundation is a blended component unit as it is a not-for-profit corporation in which the Company is the sole corporate member. As a blended component unit, the financial results of the Foundation are included with the financial results of the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

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

The financial statements have been prepared on the basis of the governmental enterprise fund concept, which pertains to financial activities that operate similarly to a private business enterprise. The financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. The Company is engaged only in business-type activities; therefore, government-wide financial statements are not presented.

In accordance with its bond and other borrowing resolutions, fund accounting principles are utilized, 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, financial activities are recorded in the various operating and bond-

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

related funds (see Note 9). Administrative transactions and those loan transactions not associated with bond issues are recorded in the Operating Fund. For financial statement presentation purposes, the funds have been aggregated into a single enterprise fund.

Use of Estimates

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

Cash Equivalents

All investment securities with original maturities of less than 90 days at the date of purchase are considered cash equivalents. All cash equivalents that are held by a trustee in accordance with the provisions of bond indentures or other financing agreements are classified as restricted. Cash equivalents are reported at fair value. See Note 3 for more information.

Investments

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

Student Loans Receivable

Student loans receivable consist of FFELP, MOFELP, and supplemental loans, which are stated at the principal amount outstanding adjusted for an allowance for doubtful amounts.

Accrued Interest Receivable

Interest on student loans is accrued based upon the actual principal amount outstanding. The Department makes quarterly interest payments on subsidized FFELP loans until the student is

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

required, under the provisions of the Higher Education Act, to begin repayment. Repayment must begin generally within six months after the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution. The Department also makes quarterly interest payments on subsidized FFELP loans that are in an eligible income-driven repayment plan or an eligible deferment status for up to three years. The amount of accrued interest received is reduced by amounts due to the Department for negative special allowance as described below. There is no interest charged on MOFELP loans.

Allowance for Doubtful Amounts

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

Supplemental Loans

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

Estimates of inherent loss default rates in the supplemental loan portfolio are a percentage of the original disbursed principal balance. The growth rates of the default rate over the prior years are also computed. Then, the segmented portfolio is analyzed to determine if the loans, by repayment year, have seasoned or require a reserve for additional probable losses. Reserve adjustments are modeled to adjust for insured loans, loans with collection agencies, loans with judgments, and loans that have emerged from bankruptcy or have had a loan modification. Loans with judgments or modifications with recently ended forbearances are also evaluated for reserve adjustments. Insured loans are guaranteed at 95%; therefore, all insured loans are analyzed separately from the uninsured supplemental loan portfolio. Supplemental loan principal is charged off against the

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

allowance when the loan exceeds 270 days delinquent. Subsequent recoveries on loans charged off are recorded directly to the allowance based on the total principal outstanding.

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

FFELP Loans

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

MOFELP Loans

The MOFELP loans in the portfolio present a greater risk of default because the loans are self-insured and disbursed to borrowers that have demonstrated financial need and do not require minimum credit requirements. The methodology for estimating the allowance for loan losses in the MOFELP portfolio balance is based on historical data on defaults and aging of the receivable. Additionally, a MOFELP loan is charged off against the allowance when the loan exceeds 270 days delinquent.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Miscellaneous Receivables and Prepaid Expenses

At June 30, 2019 and 2018, miscellaneous receivables and prepaid expenses consist of the following:

	<u>2019</u>	<u>2018</u>
Prepaid bond interest	\$ -	\$ 62
Other prepaid expenses	1,252	1,710
Servicing fees receivable	15,251	6,239
Other receivables	316	324
Total miscellaneous receivables and prepaid expenses	<u>\$ 16,819</u>	<u>\$ 8,335</u>
Current portion	\$ 16,667	\$ 8,170
Long-term portion	152	165
Total	<u>\$ 16,819</u>	<u>\$ 8,335</u>

Pension

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Higher Education Loan Authority of the State of Missouri Pension Plan (the Pension Plan), the Supplemental Pension Plan (SERP), and additions to/deductions from the Pension Plan's and SERP's fiduciary net position have been determined on the same basis as they are reported. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Capital Assets

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

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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

Deferred Outflows of Resources Related to Pension

Deferred outflows of resources is a consumption of net assets that is applicable to a future reporting period. As of June 30, 2019 and 2018, recorded deferred outflows of resources related to pension in the amounts of \$5,517 and \$5,081 respectively, for the Pension Plan and \$53 and \$0 respectively, for the SERP, are a result of a net difference between projected and actual earnings on pension plan investments.

Special Allowance Subsidy Payable

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

The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the one-month LIBOR or 90-day CP, to the average daily unpaid principal balance and capitalized interest of the student loans. For loans first disbursed prior to January 1,

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

2000, the 91-day Treasury bill rate is used rather than the one-month LIBOR or 90-day CP rates. The special allowance is accrued as earned or payable.

Borrower interest rates for Stafford and Parent Loans for Undergraduate Students (PLUS) loans first disbursed between July 1, 1998 and June 30, 2006 were variable rates set annually based on the 91-day Treasury bill plus a spread between 1.70% and 3.10%. Lender yields on many of those same loans (loans first disbursed between January 1, 2000 and April 1, 2006) adjust quarterly based on the one-month LIBOR rate plus a spread between 1.74% and 2.64%; however, the borrower rate serves as the “floor” for the lender yield. Loans first disbursed in these time periods can only earn positive special allowance due to the “floor” income feature. For loans first disbursed after April 1, 2006, federal law changed, removing the “floor” income feature, which allows the lender yield to float down below the borrower rate. In these situations, the loan owner earns less than the borrower pays in interest causing negative special allowance, which must be rebated to the Department. This situation was magnified by additional changes in federal law that implemented fixed borrower interest rates from 6.8% to 8.5% for loans first disbursed after July 1, 2006. Furthermore, for loans first disbursed after October 1, 2007, the lender’s spread over the 90-day CP rate was reduced by 0.40% to 0.70%. The 90-day CP rate was later converted to one-month LIBOR. Total net special allowance was negative in fiscal years 2019 and 2018, due to the loan portfolio mix and the rate of one-month LIBOR.

Deferred Inflows of Resources Related to Pension

Deferred inflows of resources is an acquisition of net assets that is applicable to a future reporting period. As of June 30, 2019 and 2018, deferred inflows of resources related to pension are \$2,524 and \$2,347, respectively, for the Pension Plan and \$235 and \$228, respectively, for the SERP, which are a result of differences between expected and actual experience.

Net Position

Net position is classified into three components: net investment in capital assets, restricted for debt service, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any liabilities attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on the use of net position are externally imposed by outside parties. Restricted net position consists of the minimum collateral requirements discussed in Note 6, net of related liabilities, as defined in the bond resolutions. The unrestricted component

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position includes net position and deferred outflows of resources and deferred inflows of resources that do not meet the definition of either “net investment in capital assets” or “restricted.” Unrestricted net position includes that which is available for the operations or above the minimum collateral level required by the Bond Fund in which it is maintained. Removal of unrestricted net position from the Bond Funds is typically subject to the approval of one or more of the following: credit rating agencies, bond insurers, bondholders, and the trustee. Furthermore, extensive financial analysis is required and performed in conjunction with the approving party prior to the approval and removal of net position.

Operating Revenues and Expenses

Operating revenues and expenses consist of those items earned or incurred in carrying out the primary functions of business, which are to acquire, service, and finance student loans to ensure that all eligible post-secondary education students have access to student loans. Therefore, operating revenues generally include net interest earned on student loans and fees earned from servicing loans owned by other entities. Operating expenses include expenses related to bonds and other financings outstanding, student loans, and other general and administrative expenses necessary to carry out the operations.

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

Servicing Fee Revenue

Servicing is provided for federal accounts owned by the Department under the Direct Loan Program and student loans owned by third-party lending institutions. In addition, various contracted work is completed at the request of another servicer whose loans are serviced at that servicer’s location. Fees charged for these services are classified as servicing fees in the statement of revenues, expenses, and changes in net position and are recognized as the services are performed.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Subcontractor Fees

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

Interest Expense

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

Bond Maintenance Fees

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

Credit Support

Credit support includes bond insurance fees.

Consolidation Rebate Fees

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

Risk Management

Coverage for exposure to various risks of loss, including property loss, torts, cyber liability, errors and omissions, and employee injuries is obtained through commercial insurance, which is purchased in amounts that are sufficient to cover the risk of loss. There has been no significant

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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. An estimated loss related to a loss contingency would be recorded as an expense and a liability if the following requirements are met: (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

We are a tax-exempt organization under the provisions of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements.

Application of New Accounting Pronouncement

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings* was adopted as of July 1, 2018. The criterion of GASB 88 requires that information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with financed-related consequences and significant subjective acceleration clauses. See Note 6 - Financing.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

3. Cash, Cash Equivalents, and Investments

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

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

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

At June 30, 2019 and 2018, cash, cash equivalent, and investment balances consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash on deposit	\$ 58,518	\$ 56,129
Investments	43,379	32,573
Money market mutual funds	25,401	39,993
Commercial paper	6,203	6,203
Total cash, cash equivalents, and investments	<u>\$ 133,501</u>	<u>\$ 134,898</u>

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

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

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

Reserve Funds – Under the terms of certain bond provisions, minimum amounts are required to be maintained in the Reserve Funds for each related bond issue. The total of these minimum requirements at June 30, 2019 and 2018 were \$6,203 and \$6,203, respectively.

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

The following accounts have been established for the Line of Credit

Collection Account – The Collection Account is used to (a) account for receipt of borrower payments, (b) receive investment income, (c) pay servicing fees, consolidation rebate fees, trustee fees, negative special allowance, (d) pay the lender accrued and unpaid commitment fees, principal and interest, and (e) pay any other obligations which are accrued and due.

Advance Account – The Advance Account is used to (a) finance eligible loans or (b) repay advances.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

As of June 30, 2019 and 2018, cash, cash equivalents, and investments were segregated as follows:

	<u>2019</u>	<u>2018</u>
Special trust accounts:		
Restricted:		
Revenue accounts	\$ -	\$ 469
Collection funds	23,946	38,489
Reserve funds	6,203	6,203
Department rebate funds	1,319	1,036
Total special trust accounts	<u>31,468</u>	<u>46,197</u>
Line of Credit:		
Restricted	<u>136</u>	<u>-</u>
Operating fund:		
Unrestricted	65,392	58,829
Restricted – due to special trust accounts and client	36,505	29,872
Total operating fund	<u>101,897</u>	<u>88,701</u>
Total cash, cash equivalents, and investments	<u>\$ 133,501</u>	<u>\$ 134,898</u>

Money market mutual funds and commercial paper are reported at fair value. Categories of fair value measurements within the fair value hierarchy are established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

As of June 30, 2019, the trading portfolio has the following recurring fair value measurements.

Investments by Fair Value Level	6/30/2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Money market funds	\$ 1,159	\$ 1,159	\$ -
Equity mutual fund investments			
Domestic equity mutual funds	24,181	24,181	-
International equity mutual funds	5,032	5,032	-
Equity ETFs	522	522	-
Total equity mutual fund investments	<u>\$ 29,735</u>	<u>\$ 29,735</u>	<u>\$ -</u>
Fixed income			
Mortgage-backed securities	\$ 2,093	\$ -	\$ 2,093
Corporate bonds	7,759	-	7,759
U.S. Treasury securities	1,211	1,211	-
Taxable municipal bonds	667	-	667
Fixed income ETFs	36	36	-
Fixed income mutual funds	669	669	-
Tax-exempt revenue bonds	50	-	50
Total fixed income	<u>\$ 12,485</u>	<u>\$ 1,916</u>	<u>\$ 10,569</u>
Total investments measured at fair value	<u>\$ 43,379</u>		

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

As of June 30, 2018, the trading portfolio has the following recurring fair value measurements.

Investments by Fair Value Level	6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Money market funds	\$ 1,856	\$ 1,856	\$ -
Equity mutual fund investments			
Domestic equity mutual funds	11,366	11,366	-
International equity mutual funds	3,150	3,150	-
Equity ETFs	565	565	-
Total equity mutual fund investments	\$ 15,081	\$ 15,081	\$ -
Fixed income			
Mortgage-backed securities	\$ 1,720	\$ -	\$ 1,720
Corporate bonds	5,936	-	5,936
U.S. Treasury securities	1,245	1,245	-
Taxable municipal bonds	570	-	570
Fixed income ETFs	35	35	-
Fixed income mutual funds	3,074	3,074	-
Diversified taxable mutual funds	3,011	3,011	-
Tax-exempt revenue bonds	45	-	45
Total fixed income	\$ 15,636	\$ 7,365	\$ 8,271
Total investments measured at fair value	\$ 32,573		

Debt and equity mutual fund securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

Custodial Credit Risk – Deposits – For a deposit, custodial credit risk is the risk that in the event of a bank failure, deposits may be lost. As it relates to cash deposits, the policy is that deposits should either be insured or collateralized with investments that are permissible under state statutes. At June 30, 2019 and 2018, these cash deposits were fully insured by Federal Deposit Insurance Corporation (FDIC) insurance or secured by a Letter of Credit issued by The Bank of New York Mellon. The Foundation does not have a policy addressing custodial credit risk for deposits. As of June 30, 2019 and 2018, \$6,225 and \$6,150 of the total \$58,518 and \$56,129 in cash is uninsured and uncollateralized, respectively.

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, recovery may not be made of the value of its investments or collateral securities that are in the possession of an outside party. There is no policy addressing custodial credit risk for investments. At June 30, 2019 and 2018, \$43,379 and \$32,573 in investments is uninsured and uncollateralized, respectively. In addition, investments in commercial paper were held by the counterparty's trust department, but not in the Company's name.

Interest Rate Risk and Credit Risk – Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Debt securities with longer maturities are likely to be subject to more variability in their fair value as a result of future changes in interest rates. Debt securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain debt securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. Although there are no formal policies addressing interest rate risk and credit risk, limitations on investment maturities and credit ratings are specified in each of the bond documents. These investment provisions vary by trust estate. At June 30, 2019 and 2018, investments in money market mutual funds held by the trustee had credit ratings of AAAM and maturities of less than one year. At June 30, 2019 and 2018, trustee investments in commercial paper were rated A-1+ and also had maturities of less than one year.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

Investment Type	As of June 30, 2019	Maturity Date
Mortgage-backed securities	\$ 2,093	August 15, 2054
Corporate bonds	7,759	March 15, 2077
U.S. Treasury securities	1,211	August 15, 2042
Taxable municipal bonds	667	June 1, 2044
Tax-exempt revenue bonds	50	December 1, 2033
Total	<u>\$ 11,780</u>	

Investment Type	As of June 30, 2018	Maturity Date
Mortgage-backed securities	\$ 1,720	August 15, 2054
Corporate bonds	5,936	March 15, 2077
U.S. Treasury securities	1,245	August 15, 2042
Taxable municipal bonds	570	June 1, 2044
Tax-exempt revenue bonds	45	December 1, 2033
Total	<u>\$ 9,516</u>	

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

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

Based on the investment ratings, credit risk exposure as of June 30, 2019 and 2018 is as follows:

Rating as of June 30, 2019

Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	Not Rated	Agency
Money market funds	\$ 1,159	\$ -	\$ 1,159	\$ -	\$ -	\$ -	\$ -	\$ -
Equity mutual fund investments								
Domestic equity mutual funds	24,181	24,181	-	-	-	-	-	-
International equity mutual funds	5,032	5,032	-	-	-	-	-	-
Equity ETFs	522	522	-	-	-	-	-	-
Total equity mutual fund investments	\$ 29,735	\$ 29,735	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income								
Mortgage-backed securities	\$ 2,093	\$ -	\$ 54	\$ 381	\$ -	\$ -	\$ -	\$ 1,658
Corporate bonds	7,759	-	53	937	4,822	1,897	50	-
U.S. Treasury securities	1,211	-	-	-	-	-	-	1,211
Taxable municipal bonds	667	-	-	467	200	-	-	-
Fixed income ETFs	36	36	-	-	-	-	-	-
Fixed income mutual funds	669	669	-	-	-	-	-	-
Tax-exempt revenue bonds	50	-	-	50	-	-	-	-
Total fixed income	\$ 12,485	\$ 705	\$ 107	\$ 1,835	\$ 5,022	\$ 1,897	\$ 50	\$ 2,869
Total investments	\$ 43,379	\$ 30,440	\$ 1,266	\$ 1,835	\$ 5,022	\$ 1,897	\$ 50	\$ 2,869

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

Rating as of June 30, 2018

Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	Not Rated	Agency
Money market funds	\$ 1,856	\$ -	\$ 1,856	\$ -	\$ -	\$ -	\$ -	\$ -
Equity mutual fund investments								
Domestic equity mutual funds	11,366	11,366	-	-	-	-	-	-
International equity mutual funds	3,150	3,150	-	-	-	-	-	-
Equity ETFs	565	565	-	-	-	-	-	-
Total equity mutual fund investments	\$ 15,081	\$ 15,081	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income								
Mortgage-backed securities	\$ 1,720	\$ -	\$ 92	\$ 547	\$ -	\$ -	\$ 34	\$ 1,047
Corporate bonds	5,936	-	122	771	3,729	1,265	49	-
U.S. Treasury securities	1,245	-	-	-	-	-	-	1,245
Taxable municipal bonds	570	-	-	326	194	-	50	-
Fixed income ETFs	35	35	-	-	-	-	-	-
Fixed income mutual funds	3,074	3,074	-	-	-	-	-	-
Diversified taxable mutual funds	3,011	3,011	-	-	-	-	-	-
Tax-exempt revenue bonds	45	-	-	45	-	-	-	-
Total fixed income	\$ 15,636	\$ 6,120	\$ 214	\$ 1,689	\$ 3,923	\$ 1,265	\$ 133	\$ 2,292
Total investments	\$ 32,573	\$ 21,201	\$ 2,070	\$ 1,689	\$ 3,923	\$ 1,265	\$ 133	\$ 2,292

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

Concentration of Credit Risk – There is no limit placed on the amount that may be invested in any one issuer. Concentration of credit risk is required to be disclosed for any investment in any one issue that represents 5.00% or more of total investments. At June 30, 2019 and 2018, investments in commercial paper issued by U.S. Bank N.A. represents 19.63% of the total \$31,604 and 13.43% of the total \$46,197 in restricted investments held by the trustee respectively. This concentration of risk is minimal given the diversified nature of the underlying investments of the funds.

At June 30, 2019 and 2018, investments in the following exceeded 5.00% of the total \$43,379 and \$32,573 unrestricted investments respectively:

	% of Total Investment 2019
Laudus U.S. Large Cap Growth Fund	5.32%
Schwab Fundamental US Large Co Index Fund Institutional Class	8.89%
TIAA-CREF Large Cap Growth Index Fund	6.49%
TIAA-CREF Large Cap Value Index Fund	9.21%
Vanguard Mid Cap Value Index Fund	5.92%
Vanguard Mid Cap Growth Index Fund	5.90%
TIAA-CREF Institutional International Equity Fund - I	9.59%

	% of Total Investment 2018
Financial Square Government Fund	5.70%
Vanguard Intermediate Term Investment Grade Fund	7.57%
Baird Aggregate Bond Fund	9.84%
TIAA-CREF Institutional International Equity Fund	5.43%

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

4. Student Loans Receivable

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

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

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

Our supplemental loans receivable are not federally insured. We have purchased insurance from a third party on a portion of our supplemental loan portfolio, which insures 95% of the unpaid principal and accrued interest upon default.

MOFELP is an interest free, private student loan program. It is designed to provide borrowing options for Missouri students who may not meet the traditional credit requirements for private loans.

Student loans receivable at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Total guaranteed FFELP loans	\$ 1,251,641	\$ 1,431,570
Supplemental loans:		
Third-party insured	955	1,294
Self-insured	<u>54,287</u>	<u>66,278</u>
Total supplemental loans	<u>55,242</u>	<u>67,572</u>
MOFELP	16,410	12,055
Allowance for doubtful loans	<u>(12,941)</u>	<u>(11,266)</u>
Total student loans receivable	<u>\$ 1,310,352</u>	<u>\$ 1,499,931</u>
Weighted-average interest rate – end of year	<u>5.61%</u>	<u>5.40%</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

4. Student Loans Receivable (continued)

The yield on federal student loans receivable is set by federal law and is generally variable based on the one-month LIBOR, or 91-day Treasury bill rates, plus a factor.

These yields are based on the type of loan, the date of loan origination, and, in some cases, the method of financing. Consolidation loans, Stafford loans, and PLUS loans originated after July 1, 2006 have a fixed rate for the borrower. The yield on supplemental loans is a variable rate, based on either the Treasury bill or the prime rate, plus a factor, depending on when the loan originated and the creditworthiness of the borrower and co-signor.

The activity for the allowance for doubtful loans for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 11,266	\$ 12,803
Provision for loan loss	1,587	1,046
Net Recoveries/(Write-offs)	88	(2,583)
Ending balance	<u>\$ 12,941</u>	<u>\$ 11,266</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

5. Capital Assets

Capital asset activity for the year ended June 30, 2019, is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 3,877	\$ –	\$ –	\$ –	\$ 3,877
Construction in progress	–	393	–	(162)	231
Depreciable capital assets:					
Buildings and improvements	22,361	–	(54)	–	22,307
Furniture and equipment	14,850	384	(202)	162	15,194
Software assets	516	–	–	–	516
Total depreciable capital assets	37,727	384	(256)	162	38,017
Less accumulated depreciation and amortization:					
Buildings and improvements	(8,262)	(837)	36	–	(9,063)
Furniture and equipment	(11,750)	(1,326)	200	–	(12,876)
Software assets	(516)	–	–	–	(516)
Total accumulated depreciation and amortization	(20,528)	(2,163)	236	–	(22,455)
Net depreciable capital assets	17,199	(1,779)	(20)	162	15,562
Total capital assets, net	\$ 21,076	\$ (1,386)	\$ (20)	\$ –	\$ 19,670

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

5. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2018, is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 3,877	\$ –	\$ –	\$ –	\$ 3,877
Construction in progress	126	591	–	(717)	–
Depreciable capital assets:					
Buildings and improvements	21,316	470	(110)	685	22,361
Furniture and equipment	15,702	78	(962)	32	14,850
Software assets	516	–	–	–	516
Total depreciable capital assets	37,534	548	(1,072)	717	37,727
Less accumulated depreciation and amortization:					
Buildings and improvements	(7,569)	(803)	110	–	(8,262)
Furniture and equipment	(10,775)	(1,937)	962	–	(11,750)
Software assets	(516)	–	–	–	(516)
Total accumulated depreciation and amortization	(18,860)	(2,740)	1,072	–	(20,528)
Net depreciable capital assets	18,674	(2,192)	–	717	17,199
Total capital assets, net	\$ 22,677	\$ (1,601)	\$ –	\$ –	\$ 21,076

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

6. Financings

The following table displays the aggregate changes in bonds payable, line of credit payable, and note payable from direct borrowing for the year ended June 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
Auction Rate Securities, taxable	\$ 28,425	\$ –	\$ (28,425)	\$ –	\$ –
LIBOR Floating Rate Notes, taxable, due January 2026 – June 2036, with variable interest rates ranging from 2.954% – 3.571% at June 30, 2019	1,299,016	–	(208,115)	1,090,901	127,076
Less: Unamortized bond discount	\$ 1,327,441	\$ –	\$ (236,540)	\$ 1,090,901	\$ 127,076
Total Bonds Payable, net	(3,466)	–	192	(3,274)	(192)
Line of Credit Payable, taxable, due December 2019 with variable interest rate of 3.102% at June 30, 2019	\$ 1,323,975	\$ –	\$ (236,348)	\$ 1,087,627	\$ 126,884
Note Payable from Direct Borrowing, taxable, due March 2024, with fixed interest rate of 4.240% at June 30, 2019	–	\$ 19,057	\$ –	\$ 19,057	\$ 19,057
Total	\$ –	\$ 13,280	\$ (288)	\$ 12,992	\$ 1,098
Total	\$ 1,323,975	\$ 32,337	\$ (236,636)	\$ 1,119,676	\$ 147,039

During the year ended June 30, 2019, all MOHELA owned auction rate securities were fully redeemed. Reductions in the LIBOR floating rate notes consisted of regular repayments.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

6. Financing (continued)

The following table displays the aggregate changes in bonds payable for the year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
Auction Rate Securities, taxable, due August 2025 – June 2046, with variable interest rates ranging from 1.896% – 3.585% at June 30, 2018	\$ 56,325	\$ –	\$ (27,900)	\$ 28,425	\$ –
LIBOR Floating Rate Notes, taxable, due January 2026 – June 2036, with variable interest rates ranging from 2.641% – 3.380% at June 30, 2018	1,545,303	–	(246,287)	1,299,016	157,260
Less: Unamortized bond discount	(3,658)	–	192	(3,466)	(192)
Total Bonds Payable, net	\$ 1,597,970	\$ –	\$ (273,995)	\$ 1,323,975	\$ 157,068

During the year ended June 30, 2018, reductions in the auction rate securities resulted from bond redemptions. Reductions in the LIBOR floating rate notes consisted of regular repayments.

Auction Rate Securities

At June 30, 2019 and 2018 total auction rate securities represented 0% and 2%, respectively of total outstanding bonds payable. Auction rate securities bear interest at the applicable auction rate as determined by a bidding process every 28 or 35 days, as stipulated in the related bond agreement. Starting in November 2007 and continuing through the final redemptions in fiscal year 2019, the auction rate notes experienced failures in the bidding process. The auction rate notes are not putable. During fiscal years 2019 and 2018, due to the failures in the auction market, the interest rates were calculated based upon the rate provisions as stipulated in the bond agreements and amended by supplemental resolutions agreed to by the Company. The interest rates continued to reprice every 28 or 35 days under a failed auction, but were determined based upon a 91-day Treasury bill indexed rate for taxable debt taken into consideration with the annual average auction rate as of the current repricing date.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

6. Financing (continued)

LIBOR Floating Rate Notes

At June 30, 2019 and 2018, LIBOR floating rate notes represented 100% and 98%, respectively of total outstanding bonds payable. Five of the LIBOR floating rate note trusts reprice every three months at rates equal to three-month LIBOR plus a spread ranging from 0.85% to 1.05%. The remaining two LIBOR floating rate note trusts reprice every month at rates equal to one-month LIBOR plus a spread of either 0.55% or 0.83%. Principal payments are required to be made either monthly or quarterly based on available funds collected less required fees and transfers as stipulated in the bond documents.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Company under certain conditions as set forth in the bond agreements.

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including moneys and securities therein. The bond agreements contain certain covenants that, among other requirements, include maintaining minimum collateral levels. We maintain a minimum amount of assets pledged to meet the collateral requirements specified in the various bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2019 and 2018, was \$1,323,033 and \$1,565,597, respectively.

The events of default for the Company Trust Indentures include (i) default in punctual interest payment continuing for 5 days; (ii) default in punctual principal payment on the final maturity date; (iii) default in the performance or observance of any other covenants, agreements or conditions of the indenture and continuation of such default for a period of 90 days after written notice by the Trustee to the Company; and (iv) the occurrence of an event of bankruptcy. In the event of default except for (iii) above, the Trustee may at the written direction of the registered owners of at least the majority of the aggregate principal amount of the notes outstanding, take Possession of the Trust Estate and all property of the Trust Estate, conduct the Issuer's business, and collect and receive all charges, income and revenues and after deducting reasonable compensation for its own services will apply the residue as follows: First, to the Department, any department rebate interest amount and monthly rebate fee due; second, to the Trustee, any fees and costs due; third, to each Servicer and the Administrator, any servicing fee and senior administration fee due; fourth, to the Noteholders, any unpaid interest due; fifth, to the Noteholders, any unpaid principal amounts due; sixth, to the Administrator, any subordinate fees due; seventh, to each Servicer any unpaid fees due; and eighth, to the Company any remaining balance. If in the event

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

6. Financing (continued)

of default, and if the principal of all the outstanding notes have been declared immediately due and payable as under accelerated maturity, then the Trustee may, and, at the written direction of the registered owners of at least the majority of the aggregate principal amount of the notes outstanding, shall, sell the Trust Estate created under the indenture to the highest bidder. The sale proceeds after deducting expenses will be applied similarly as in Possession of Trust Estate. In the event of default of (i) or (ii) above, the Company upon demand of the Trustee will pay from the Trust Estate, the amount due and payable on such notes for principal and interest along with interest on overdue principal amount, the costs and expenses of collection, and advances of Trustee agents and counsel. If the Company fails to pay, the Trustee may institute a judicial proceeding for the collection of the sums due and unpaid. In the event of default, the Trustee may enforce its rights and the rights of the registered owners of notes by such appropriate judicial proceedings as the Trustee shall deem most effectual.

Line of Credit

On December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit (LOC) in the amount of \$50,000. The Company uses the LOC to purchase FFELP student loans from approved guarantors. As of June 30, 2019, the Company has outstanding notes totaling \$19,057 related to the LOC. The unused portion of the LOC as of June 30, 2019 is \$30,943. The LOC terminates on December 19, 2019. The Company has pledged all financed student loans; all revenues and recoveries of principal and interest including borrower payments and reimbursements on default claims received from the guarantor; all investment funds and accrued earnings including all cash accounts; all other security interests or liens and property to secure payment of financed student loans to the extent securing payment of such financed student loans; all records relating to financed student loans; and all proceeds of any foregoing. Events of default include failure to pay the principal or interest on the advances when due, or other obligations and such failure continues for 3 business days; entry or filing of any judgment, writ or warrant of attachment or any similar process in excess of \$1,000 against the Company and failure of the Company to vacate, bond, stay or contest in good faith such judgment or other process for 30 days; or failure to pay or satisfy such judgment within 60 days or as otherwise required by judgment; events of insolvency; the Company's failure to maintain the minimum asset ratio; the pledged collateral shall not be subject to a first priority security interest in favor of, the collateral Trustee solely for the benefit of the secured creditors; the obligations shall not be secured by a valid and enforceable lien on, or payable from, any of the pledged collateral; occurrence of any suspension event continuing for 90 days; and the Company's dissolution or termination of existence. If in the event of default, the lender may discontinue to

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

6. Financing (continued)

make advances. The lender upon written notice to the Company, may declare the outstanding amount of the obligations to be immediately due and payable. At the expense of the Company, the lender may cure any default, event of default or any event of nonperformance. The lender may exercise any and all remedies under the related documents.

Note Payable from Direct Borrowing

On March 15, 2019, the Company obtained a Direct Borrowing Note Payable from Commerce Bank in the amount of \$13,280. The Note Payable maturity date is March 15, 2024. The Company pledged the property and buildings from its Chesterfield and Columbia office locations as collateral for the loan. Events of default include payment default; noncompliance with terms, obligations, covenants or conditions contained in the note or any other agreement between lender and the Company; default in favor of third parties; false statements; insolvency; creditor or forfeiture proceedings; and events affecting guarantor. Lender shall not exercise any remedy for default unless the payment default remains unpaid for 10 days or if any other curable default is not cured within 30 days after written notice of default to the Company. If such default is incapable of cure within 30 days, but the Company has commenced curing within the 30 day period and does not complete within 90 days; except the lender shall not be obligated to make any further advances under any line of credit during the time any payment is past due, or during any cure period, unless and until such default has been cured. As remedy in the event of default the lender may declare the entire unpaid principal balance and accrued unpaid interest immediately due, and then the Company will pay that amount. If the Company does not pay, the lender may hire someone else to collect the note. The Company, will pay lender reasonable collection fees including lender's legal expenses and court costs. To the extent permitted by law, the lender has a right of setoff in all the Company's accounts with lender. Upon default the interest rate shall be increased by 3.0 percentage points; however, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

6. Financing (continued)

The following is a summary of debt service requirements at June 30, 2019:

Fiscal Years	Libor Notes and Line of Credit		Note Payable from Direct Borrowing		Total
	Principal	Interest	Principal	Interest	
2020	\$ 146,133	\$ 33,467	\$ 1,098	\$ 539	\$ 181,237
2021	162,759	28,483	1,148	489	192,879
2022	162,338	23,228	1,197	440	187,203
2023	160,347	18,009	1,251	386	179,993
2024	145,108	13,068	8,298	253	166,727
Total fiscal years 2020-2024	776,685	116,255	12,992	2,107	908,039
2025 - 2029	270,044	26,362	-	-	296,406
2030 - 2033	63,229	3,200	-	-	66,429
	<u>\$ 1,109,958</u>	<u>\$ 145,817</u>	<u>\$ 12,992</u>	<u>\$ 2,107</u>	<u>\$ 1,270,874</u>

The principal requirements in the table above include the LIBOR floating rate notes that are based on scheduled borrower repayments of the student loans in those trusts, line of credit, and note payable from direct borrowing. The interest requirements in the table above were prepared using the applicable variable rates in effect at June 30, 2019. The debt service requirements presented in the table above may differ significantly from the actual amounts of principal and interest paid in future periods.

At June 30, 2019 and 2018, we were in compliance with all financial covenants and requirements of our debt agreements.

7. Contracts, Commitments, and Contingencies

There are two major contracts and various minor contracts to utilize electronic data processing systems and other computer services. The contracts provide for monthly charges based on the number of student loan accounts serviced or system usage. Charges incurred under these contracts totaled \$13,351 and \$10,901 for the years ended June 30, 2019 and 2018, respectively.

In April 2016, the first amendment to the operating lease for office space in Washington, DC was executed. The amendment extends the terms to January 31, 2026. Under the terms of the lease agreement, the monthly base will increase by 2% each year. In addition, expense will be adjusted annually for the pro rata share of the landlord's increase in real estate taxes, operating expenses,

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

7. Contracts, Commitments, and Contingencies (continued)

and utilities. Lease expense for the office space in Washington, DC was \$132 and \$129 for the years ended June 30, 2019 and 2018, respectively.

In the ordinary course of business, governmental agency and regulatory examinations, as well as various claims and lawsuits may occur. While the ultimate outcome of litigation and regulatory examinations cannot be predicted with certainty, management, based on its understanding of the facts, does not believe the ultimate resolution of these matters will have a material adverse effect on the financial position or results of operations.

Participation in FFELP and servicing of federal assets necessitates the compliance with federal program requirements and regulations. Management believes to be in substantial compliance with the requirements of these programs and that the effects of any noncompliance would not be material to the financial statements.

8. Employee Benefits

401(k) Plan

The 401(k) Plan is a single-employer defined contribution plan, the Higher Education Loan Authority of the State of Missouri 401(k) Plan (the 401(k) Plan), for all employees who are at least 21 years of age, work in excess of 1,000 hours per plan year, and have been employed at least one year. Investment management is performed by Edward Jones, and recordkeeping is provided by ADP. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. The Company 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 Company may make a non-matching discretionary contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Company when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During the fiscal years ended June 30, 2019 and 2018, the Company contributed employer matching funds of \$1,006 and \$968 and employees contributed \$1,174 and \$1,092 to the 401(k) Plan, respectively.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

Pension Plan

Plan Description

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

Pension Plan provisions were established and may be amended by the Company's Board Members. Substantially all employees of the Company are covered by the Pension Plan. Pension benefits are based upon the employee's length of service, employment status, and average compensation. Employees vest in the Pension Plan after five years of service. The Pension Plan was administered by Commerce Trust Company (Administrator).

The Pension Plan is managed by the Company's Board Members which consists of seven members, five of whom are appointed by the Governor of the State, subject to the advice and consent of the State Senate, and two others who are designated by statute – the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. The five members appointed directly by the Governor serve five year terms. The Board Members have designated the Assistant Director of Administration and the General Counsel as co-plan administrators. No stand alone plan report is publicly available.

Plan Membership and Benefits Provided

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

Plan members with 5 years of service are eligible to retire at age 65 and members with 15 years of service are eligible to retire at 60. Members hired prior to July 1, 2017 are eligible for an unreduced retirement benefit after age 50 if the combination of their age and years of service equal at least 80. Members hired after June 30, 2017 are eligible for an unreduced retirement benefit after age 55 if the combination of their age and years of service equal at least 85. Plan members may retire early with a reduced benefit at age 50 with 20 years of service. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable at the member's early

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

retirement date reduced for early commencement and to reflect payment as a 50% joint and survivor annuity.

An annual cost-of-living adjustment is provided to each member receiving a monthly retirement benefit who terminated employment eligible for a retirement benefit or with at least 20 years of service. The annual adjustment is equal to 80% of the increase in the Consumer Price Index, limited to a maximum increase of 5%. The Board Members reserve the right to amend the provisions of the plan. During the year ended June 30, 2017, the plan was amended. The amendment changed future benefit accruals for a lump sum distribution for employees at June 30, 2017 to be based on a 5.0% interest rate and no assumed COLA in place of a 30 Year Treasury interest rate with an assumed COLA.

Employees covered by benefit terms

As of June 30, 2019 and 2018, Pension Plan membership consisted of the following:

<u>Pension Plan Membership</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Inactive plan members (or beneficiaries) currently receiving benefits	17	13
Inactive plan members entitled to but not yet receiving benefits	26	30
Active plan members	506	523
Total	<u>549</u>	<u>566</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

Contributions

Annual contributions approved by the Board are made based on a recommendation of an independent actuary. For the years ended June 30, 2019 and 2018, the Company made pension contributions of approximately \$2,894 and \$3,166, respectively. The 5-year average contribution rate for the plan year beginning 2014 - 2018 is 13.80% of annual payroll. There are no annual maximum contribution rates. Employees do not make contributions to the Pension Plan.

Net Pension Liability (Asset)

The net pension liability (asset) was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2018, rolled forward to the Measurement Date using update procedures and the inherent valuation assumptions.

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at 6/30/2018	\$ 46,510	\$ 47,886	\$ (1,376)
Changes for the year:			
Service Cost	2,707	-	2,707
Interest on the total pension liability	3,191	-	3,191
Differences between expected and actual experience	(688)	-	(688)
Changes of Assumptions	1,880	-	1,880
Contributions – employer	-	2,894	(2,894)
Investment income	-	3,368	(3,368)
Investment expenses	-	(151)	151
Benefit payments	(2,493)	(2,493)	-
Net changes	4,597	3,618	979
Balances at 6/30/2019	\$ 51,107	\$ 51,504	\$ (397)

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

The net pension liability (asset) was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2017, rolled forward to the Measurement Date using update procedures and the inherent valuation assumptions.

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at 6/30/2017	\$ 41,577	\$ 43,130	\$ (1,553)
Changes for the year:			
Service Cost	2,616	-	2,616
Interest on the total pension liability	3,027	-	3,027
Differences between expected and actual experience	1,480	-	1,480
Changes of Assumptions	(515)	-	(515)
Contributions – employer	-	3,166	(3,166)
Investment income	-	3,440	(3,440)
Investment expenses	-	(175)	175
Benefit payments	(1,675)	(1,675)	-
Net changes	4,933	4,756	177
Balances at 6/30/2018	\$ 46,510	\$ 47,886	\$ (1,376)

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

Actuarial Assumptions

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

	<u>2019</u>	<u>2018</u>
Investment rate of return	6.75 percent	6.75 percent
Discount rate	6.75 percent	6.75 percent
Inflation rate	2.25 percent	2.25 percent
Salary scale	4.50 percent	4.50 percent
Lump sum rate	67 percent	75 percent
Actuarial cost method	Entry Age Normal	Entry Age Normal
Valuation date, rolled forward to measurement date	7/1/2018	7/1/2017
Measurement date	6/30/2019	6/30/2018
Mortality table – annuity purposes	PubG-2010 / MP 2018	RP 2014 Blue Collar adjusted to 2006 / MP 2017
Mortality table – lump sums	IRS 2019 Lump Sum	IRS 2018 Lump Sum

Investments and Rate of Return

Pension Plan assets are invested primarily in equity securities, fixed income and cash at the discretion of the Administrator. Those securities are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The investment objective of the Pension Plan is to ensure that assets will be available to meet the Pension Plan’s benefit obligations. The long term expected real rate of return on the Pension Plan’s assets is based on the anticipated returns for each asset category. At June 30, 2019 the funds were invested 64:34:1:1 equities to fixed income to alternative to cash and at June 30, 2018 the funds were invested 61:34:4:1 equities to fixed income to alternative to cash.

The long term expected rate of return on Pension Plan investments was determined based on 10-year capital market assumptions developed by the Company’s investment advisor. The projections for capital markets are provided by the Investment Policy Team, which is comprised of senior investment professionals. The process for setting long-term capital market assumptions involves both quantitative and qualitative analysis. Quantitative analysis considers capital market history back to 1926 (or as far back as history is available, in the case of newer asset classes). Patterns

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

are studied through various economic cycles, evaluating peak-to-peak and trough-to-trough market behavior. By analyzing long-term data, it is better to understand the range of potential future market patterns and avoid some of the traps that can occur with the use of data from shorter time periods. The qualitative analysis involves the evaluation of secular market changes and a forward-looking assessment of possible future market returns. The investment policy team combines this quantitative and qualitative analysis along with a building-blocks approach to forecasting future growth and ultimately arrives at a projection for long-term market returns, risk, and correlations. These capital market assumptions provide the foundation for the strategic asset allocation recommendations.

The Target allocations for each major class are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap	25.75%	5.6%
Mid Cap	13.75%	6.8%
Small Cap	6.00%	6.9%
Developed International	15.00%	6.3%
Core Domestic Fixed Income	32.00%	1.5%
High Yield Fixed Income	7.50%	2.2%
	<u>100.00%</u>	

For the years ended June 30, 2019 and 2018, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 6.95% and 7.77%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The cash flows used as inputs in the calculation are determined on a monthly basis.

The Pension Plan categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

8. Employee Benefits (continued)

The Pension Plan has a trading portfolio with the following recurring fair value measurements as of June 30, 2019:

Investments by Fair Value Level	6/30/2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Money market funds	\$ 194	\$ 194	\$ -
Equity mutual fund investments			
Domestic equity mutual funds	24,494	24,494	-
International equity mutual funds	7,381	7,381	-
Equity ETFs	1,004	1,004	-
Total equity mutual fund investments	<u>\$ 32,879</u>	<u>\$ 32,879</u>	<u>\$ -</u>
Fixed income			
Mortgage-backed securities	\$ 4,191	\$ -	\$ 4,191
Corporate bonds	9,769	-	9,769
U.S Treasury securities	1,468	1,468	-
Federal agencies	827	-	827
Taxable municipal bonds	1,544	-	1,544
Total fixed income	<u>\$ 17,799</u>	<u>\$ 1,468</u>	<u>\$ 16,331</u>
Other exchange traded investments			
REITs	\$ 495	\$ 495	\$ -
Total other exchange traded investments	<u>\$ 495</u>	<u>\$ 495</u>	<u>\$ -</u>
Total investments measured at fair value	<u><u>\$ 51,367</u></u>		

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

8. Employee Benefits (continued)

The Pension Plan has a trading portfolio with the following recurring fair value measurements as of June 30, 2018:

Investments by Fair Value Level	6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Money market funds	\$ 619	\$ 619	\$ -
Equity mutual fund investments			
Domestic equity mutual funds	22,180	22,180	-
International equity mutual funds	5,989	5,989	-
Equity ETFs	1,150	1,150	-
Total equity mutual fund investments	<u>\$ 29,319</u>	<u>\$ 29,319</u>	<u>\$ -</u>
Fixed income			
Mortgage-backed securities	\$ 3,450	\$ -	\$ 3,450
Corporate bonds	7,901	-	7,901
U.S Treasury securities	2,305	2,305	-
Federal agencies	978	-	978
Taxable municipal bonds	1,477	-	1,477
Total fixed income	<u>\$ 16,111</u>	<u>\$ 2,305</u>	<u>\$ 13,806</u>
Other exchange traded investments			
Debt - ETNs	\$ 840	\$ 840	\$ -
REITs	889	889	-
Total other exchange traded investments	<u>\$ 1,729</u>	<u>\$ 1,729</u>	<u>\$ -</u>
Total investments measured at fair value	<u><u>\$ 47,778</u></u>		

Debt mutual funds and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) *(Dollars in Thousands)*

8. Employee Benefits (continued)

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Pension Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension Plan does not have a policy addressing custodial credit risk for investments. At June 30, 2019 and 2018, the Pension Plan’s investments were held by the counterparty’s trust department, but not in the Company’s or Pension Plan’s name.

Interest Rate Risk and Credit Risk – There is not a formal policy addressing interest rate risk or credit risk for the Pension Plan. However, the investment advisor diligently addresses and monitors the pension’s interest rate risk and credit risk by maintaining a diversified approach to the pension’s asset allocation. The interest rate risk and credit risk of the individual mutual funds that make up the pension are monitored and controlled in a discretionary manner by each individual investment vehicle manager. Each fund/manager utilized in the pension has well-defined risk control limits that are established by the manager of the individual fund. For example, each fixed income mutual fund in the pension has established limits on duration (interest rate risk) and credit quality (credit risk), among limits on other risk metrics. Each fund/manager that it utilized in the pension has passed the investment advisor’s due diligence process and is continuously monitored. The understanding by the investment advisor of the risk levels associated with each individual mutual fund allow the investment advisor to control and monitor risk at the portfolio level. This ensures that the portfolio is not taking on excessive or unnecessary interest rate risk or credit risk. The investment advisor provides monthly reporting to the Company and conducts at least semi-annual in person pension reviews with the Company’s staff. In addition, the investment advisor timely communicates any significant market events and investment manager changes as appropriate.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

Based on the investment ratings, credit risk exposure as of June 30, 2019 and 2018 is as follows:

Rating as of June 30, 2019

Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	Not Rated	Agency
Money market funds	\$ 194	\$ -	\$ 194	\$ -	\$ -	\$ -	\$ -	\$ -
Equity mutual fund investments								
Domestic equity mutual funds	24,494	24,494	-	-	-	-	-	-
International equity mutual funds	7,381	7,381	-	-	-	-	-	-
Equity ETFs	1,004	1,004	-	-	-	-	-	-
Total equity mutual fund investments	\$ 32,879	\$ 32,879	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income								
Mortgage-backed securities	\$ 4,191	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,191
Corporate bonds	9,769	-	172	862	5,357	3,378	-	-
U.S. Treasury securities	1,468	-	-	-	-	-	-	1,468
Federal agencies	827	-	-	-	-	-	-	827
Taxable municipal bonds	1,544	-	152	1,002	390	-	-	-
Total fixed income	\$ 17,799	\$ -	\$ 324	\$ 1,864	\$ 5,747	\$ 3,378	\$ -	\$ 6,486
Other exchange traded funds								
REITs	\$ 495	\$ 495	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other exchange traded funds	\$ 495	\$ 495	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total investments	\$ 51,367	\$ 33,374	\$ 518	\$ 1,864	\$ 5,747	\$ 3,378	\$ -	\$ 6,486

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

8. Employee Benefits (continued)

Rating as of June 30, 2018

Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	Not Rated	Agency
Money market funds	\$ 619	\$ -	\$ 619	\$ -	\$ -	\$ -	\$ -	\$ -
Equity mutual fund investments								
Domestic equity mutual funds	22,180	22,180	-	-	-	-	-	-
International equity mutual funds	5,989	5,989	-	-	-	-	-	-
Equity ETFs	1,150	1,150	-	-	-	-	-	-
Total equity mutual fund investments	\$ 29,319	\$ 29,319	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income								
Mortgage-backed securities	\$ 3,450	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,450
Corporate bonds	7,901	-	-	751	4,623	2,378	149	-
U.S. Treasury securities	2,305	-	-	-	-	-	-	2,305
Federal agencies	978	-	-	-	-	-	-	978
Taxable municipal bonds	1,477	-	149	958	370	-	-	-
Total fixed income	\$ 16,111	\$ -	\$ 149	\$ 1,709	\$ 4,993	\$ 2,378	\$ 149	\$ 6,733
Other exchange traded funds								
Debt - ETNs	\$ 840	\$ 840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REITs	889	889	-	-	-	-	-	-
Total other exchange traded funds	\$ 1,729	\$ 1,729	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total investments	\$ 47,778	\$ 31,048	\$ 768	\$ 1,709	\$ 4,993	\$ 2,378	\$ 149	\$ 6,733

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

8. Employee Benefits (continued)

Concentration of Credit Risk – No limits are placed in the Pension Plan on the amount that may be invested in any one issuer. Concentration of credit risk is required to be disclosed for any investment in any one issue that represents 5.00% or more of total investments. This concentration of risk is minimal given the diversified nature of the underlying investments of the funds.

At June 30, 2019 and 2018, the Pension Plan investments in the following exceeded 5.00% of the total investments.

	% of Total Investment
	2019
Laudus US Large Cap Growth Fund	5.31%
Schwab Fundamental US Large Company Index Fund	7.87%
T Rowe Price Growth Stock Fund	5.19%
TIAA-CREF Large-Cap Growth Index Fund	6.10%
TIAA-CREF Large-Cap Value Index Fund	8.27%
TIAA-CREF Institutional International Index Fund	10.76%
	% of Total Investment
	2018
Schwab Fundamental US Large Company Index Fund	7.32%
T Rowe Price Growth Stock Fund	5.87%
TIAA-CREF Large-Cap Growth Index Fund	5.63%
TIAA-CREF Large-Cap Value Index Fund	7.16%
Vanguard Morgan Growth Fund	5.75%
TIAA-CREF Institutional International Index Fund	9.73%

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

As of June 30, 2019, fixed income investments included: (Duration is in years.)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration</u>
Commerce Fixed Income Strategy	\$ 17,799	8.38
Total Fair Value	<u>\$ 17,799</u>	
Duration		<u>8.38</u>

As of June 30, 2018, fixed income investments included: (Duration is in years.)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration</u>
Commerce Fixed Income Strategy	\$ 16,111	5.66
Total Fair Value	<u>\$ 16,111</u>	
Duration		<u>5.66</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

8. Employee Benefits (continued)

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2019 and 2018 was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at 13.80% and 14.89% for June 30, 2019 and 2018, respectively, of covered payroll of current plan members for each year in the future. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The components of the net pension liability (asset) at June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Total Pension Liability	\$ 51,107	\$ 46,510
Plan Fiduciary Net Position	(51,504)	(47,886)
Net Pension Liability (Asset)	<u>\$ (397)</u>	<u>\$ (1,376)</u>
 Plan Fiduciary Net Position as a percentage of the Total Pension Liability	 100.78%	 102.96%

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

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net Pension Liability (Asset)			
2019	\$ 5,394	\$ (397)	\$ (5,232)
2018	\$ 3,943	\$ (1,376)	\$ (5,809)

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

8. Employee Benefits (continued)

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

For the years ended June 30, 2019 and 2018, pension expense of \$3,615 and \$3,492, respectively, was recognized. At June 30, 2019, deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	2019 Deferred Inflows of Resources	2019 Deferred Outflows of Resources
Differences between expected and actual experience	\$ (1,620)	\$ 1,951
Changes of Assumptions	(393)	3,096
Net difference between projected and actual earnings on Pension Plan investments	(511)	470
	<u>\$ (2,524)</u>	<u>\$ 5,517</u>

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

Year ending June 30:	
2020	\$ 712
2021	265
2022	429
2023	490
2024	484
Thereafter	613

Supplemental Pension Plan (SERP)

Plan Description

The Company offers the Supplemental Pension Plan of the Higher Education Loan Authority of the State of Missouri (SERP), a single-employer defined benefit pension plan that provides pension benefits to employees whose benefit is limited by Section 415 of the Internal Revenue Code under the MOHELA Pension Plan.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

The SERP was established to provide benefits for participants whose benefit is limited by Section 415 of the Internal Revenue Code under the Pension Plan. Certain, but not all, benefits reduced under the Pension Plan due to this limitation will be payable from the SERP.

The SERP is managed by the Company's Board Members which consists of seven members, five of whom are appointed by the Governor of the State, subject to the advice and consent of the State Senate, and two others who are designated by statute – the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. The five members appointed directly by the Governor serve five year terms. The Board Members have designated the Assistant Director of Administration and the General Counsel as co-plan administrators. No stand alone plan report is publicly available.

Plan Membership and Benefits Provided

Retirement benefits for salaried plan members are calculated as 2.5% of the member's highest 3-year average salary times the member's years of service. Benefits for hourly plan members are calculated as 1.5% of the member's highest 3-year average salary times the member's years of service. Monthly benefits payable under the SERP shall be made at the same time and in the same form elected by the member under the Pension Plan, however, benefits from the SERP are not subject to any COLA increases. The benefits payable under the SERP can only be paid as an annuity and not as a single lump sum. The Board Members reserve the right to amend the provisions of the plan.

The SERP is deemed "unfunded" in accordance with GASB Statement No. 73, even if the employer establishes a grantor trust and makes contributions to such trust. The SERP is not within the scope of GASB Statement No. 68.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

Employees covered by benefit terms

As of June 30, 2019 and 2018, SERP membership consisted of the following:

<u>SERP Membership</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Inactive plan members (or beneficiaries) currently receiving benefits	0	0
Inactive plan members entitled to but not yet receiving benefits	0	0
Active plan members	3	3
Total	<u>3</u>	<u>3</u>

Total SERP Liability

The total SERP liability was measured as of June 30, 2019. The total SERP liability was determined by an actuarial valuation as of July 1, 2018 rolled forward to the Measurement Date using update procedures and the inherent valuation assumptions.

Changes in Total SERP Liability	<u>Increase (Decrease)</u>
	<u>Total SERP Liability</u>
Balances at 6/30/2018	\$ 1,452
Changes for the year:	
Service Cost	8
Interest on the total SERP liability	55
Difference between Expected and Actual Experience	(49)
Changes of Assumptions	64
Net changes	<u>78</u>
Balances at 6/30/2019	<u>\$ 1,530</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

The total SERP liability was measured as of June 30, 2018. The total SERP liability was determined by an actuarial valuation as of July 1, 2017 rolled forward to the Measurement Date using update procedures and the inherent valuation assumptions.

Changes in Total SERP Liability	Increase (Decrease)
	Total SERP Liability
Balances at 6/30/2017	\$ 1,569
Changes for the year:	
Service Cost	8
Interest on the total SERP liability	55
Difference between Expected and Actual Experience	(54)
Changes of Assumptions	(126)
Net changes	(117)
Balances at 6/30/2018	\$ 1,452

Actuarial Assumptions

The total SERP liability was determined using the following actuarial assumptions:

	<u>2019</u>	<u>2018</u>
Discount rate	3.87 percent as of July 1, 2018 3.50 percent as of June 30, 2019	3.58 percent as of July 1, 2017 3.87 percent as of June 30, 2018
Inflation rate	2.25 percent	2.25 percent
Salary scale	4.50 percent	4.50 percent
Actuarial cost method	Entry age	Entry age
Valuation date, rolled forward to measurement date	7/1/2018	7/1/2017
Measurement date	6/30/2019	6/30/2018
Mortality table – annuity purposes	PubG-2010(A)/MP 2018	RP 2014 White Collar adjusted to 2006/MP 2017

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

8. Employee Benefits (continued)

Sensitivity of the Total SERP Liability to Changes in the Discount Rate

The following presents the total SERP liability as of June 30, 2019, calculated using the discount rate of 3.50%, as well as the total SERP liability calculated using a discount rate that is 1-percentage point lower (2.50%) or 1-percentage point higher (4.50%) than the current rate:

Total SERP Liability	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
2019	\$ 1,745	\$ 1,530	\$ 1,357

The following presents the total SERP liability as of June 30, 2018, calculated using the discount rate of 3.87%, as well as the total SERP liability calculated using a discount rate that is 1-percentage point lower (2.87%) or 1-percentage point higher (4.87%) than the current rate:

Total SERP Liability	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
2018	\$ 1,651	\$ 1,452	\$ 1,292

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

8. Employee Benefits (continued)

SERP Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to SERP

For the years ended June 30, 2019 and 2018, SERP expense of \$32 and \$28, respectively, was recognized. At June 30, 2019, deferred outflows of resources and deferred inflows of resources related to the SERP were from the following sources:

	2019 Deferred Inflows of Resources	2019 Deferred Outflows of Resources
Differences between expected and actual experience	\$ (81)	\$ –
Changes of Assumptions	(154)	53
	<u>\$ (235)</u>	<u>\$ 53</u>

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

Year ending June 30:	
2020	\$ (32)
2021	(32)
2022	(31)
2023	(31)
2024	(32)
Thereafter	(24)

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

9. Segment Information

A segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or other stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required by an external party to be accounted for separately. During the fiscal year ended June 30, 2019, the Company had ten segments that met the reporting requirements of GASB Statement No. 34, as amended by GASB Statement No. 37. In addition to its segments, the Company presents summary financial information for the Operating Fund, which is used to record administrative transactions and revenue streams related to student loans not associated with bond issues.

During fiscal year 2019, the Company fully redeemed the remaining outstanding student loan revenue bonds issued in accordance with the 12th General Bond Resolution. The outstanding debt of the Company at June 30, 2019 consisted of student loan revenue bonds issued in accordance with seven Trust Indentures (collectively, the trust estates) adopted by the Board of Directors from fiscal year 2010 through fiscal year 2013. The bond documents provide that the bonds are payable exclusively from the eligible loans pledged under the respective resolutions and indentures, amounts deposited in the accounts pledged under the resolutions and indentures, and all other revenues and recoveries of principal from the loans purchased with the bond proceeds. All of the Company's bonds are limited obligations of the Company, which are payable solely from the respective trust estates. As a result, there is no cross-collateralization with other trust estates or the operating funds of the Company. Furthermore, the Company's bonds are not insured or guaranteed by any government agency or instrumentality, including the Company, the State of Missouri, or any political subdivision thereof. As a result of the preceding, it is possible that a trust estate segment can show a negative restricted net position balance as no operating funds of the Company will pay the deficit. In addition to the student loan revenue bonds, on December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit (LOC). The LOC terminates on December 19, 2019.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

9. Segment Information (continued)

Summary financial information of the Company's segments and Operating Fund as of June 30, 2019 and 2018 is as follows:

	2019											
	Bond Funds							Line of Credit	Operating Fund	Foundation	Total	
12 th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture					
Condensed Statement of Net Position												
Assets:												
Current assets	\$ -	\$ 10,407	\$ 38,083	\$ 40,029	\$ 25,161	\$ 26,568	\$ 12,095	\$ 66,129	\$ 2,638	\$ 82,266	\$ 49,078	\$ 352,454
Long-term assets	-	53,978	181,404	195,437	121,222	140,329	54,255	349,101	18,374	62,966	14,607	1,191,673
Total assets	-	64,385	219,487	235,466	146,383	166,897	66,350	415,230	21,012	145,232	63,685	1,544,127
Deferred outflows of resources - pension	-	-	-	-	-	-	-	-	-	5,570	-	5,570
Liabilities:												
Current liabilities	-	6,289	21,994	23,584	14,154	16,276	7,466	40,761	19,168	43,917	171	193,780
Long-term liabilities	-	43,765	170,023	149,117	103,347	123,565	48,041	322,885	-	13,424	-	974,167
Interfund payable (receivable)	-	32	(230)	(185)	(184)	(74)	(87)	(532)	(21)	1,618	(337)	-
Total liabilities	-	50,086	191,787	172,516	117,317	139,767	55,420	363,114	19,147	58,959	(166)	1,167,947
Deferred inflows of resources - pension	-	-	-	-	-	-	-	-	-	2,759	-	2,759
Net position:												
Net investment in capital assets	-	-	-	-	-	-	-	-	-	6,402	-	6,402
Restricted for debt service	-	14,299	27,700	62,950	29,066	27,130	10,930	52,116	1,865	12,993	-	239,049
Unrestricted	-	-	-	-	-	-	-	-	-	69,689	63,851	133,540
Total net position	\$ -	\$ 14,299	\$ 27,700	\$ 62,950	\$ 29,066	\$ 27,130	\$ 10,930	\$ 52,116	\$ 1,865	\$ 89,084	\$ 63,851	\$ 378,991

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

9. Segment Information (continued)

	2018										
	Bond Funds							Operating Fund	Foundation	Total	
	12 th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture				2013-1 Trust Indenture
Condensed Statement of Net Position											
Assets:											
Current assets	\$ 11,293	\$ 11,665	\$ 43,261	\$ 47,342	\$ 30,080	\$ 32,125	\$ 15,169	\$ 78,049	\$ 63,327	\$ 37,970	\$ 370,281
Long-term assets	44,360	62,813	209,784	224,238	139,805	163,525	64,874	400,767	30,853	11,070	1,352,089
Total assets	<u>55,653</u>	<u>74,478</u>	<u>253,045</u>	<u>271,580</u>	<u>169,885</u>	<u>195,650</u>	<u>80,043</u>	<u>478,816</u>	<u>94,180</u>	<u>49,040</u>	<u>1,722,370</u>
Deferred outflows of resources - pension	-	-	-	-	-	-	-	-	5,081	-	5,081
Liabilities:											
Current liabilities	70	7,514	26,098	29,385	17,725	20,810	9,818	51,263	31,911	2	194,596
Long-term liabilities	28,425	53,181	197,572	182,124	124,000	148,745	60,391	372,468	1,453	-	1,168,359
Interfund payable (receivable)	(125)	(193)	(370)	(532)	(358)	(790)	(578)	(1,844)	5,416	(626)	-
Total liabilities	<u>28,370</u>	<u>60,502</u>	<u>223,300</u>	<u>210,977</u>	<u>141,367</u>	<u>168,765</u>	<u>69,631</u>	<u>421,887</u>	<u>38,780</u>	<u>(624)</u>	<u>1,362,955</u>
Deferred inflows of resources – pension	-	-	-	-	-	-	-	-	2,575	-	2,575
Net position:											
Net investment in capital assets	-	-	-	-	-	-	-	-	21,022	-	21,022
Restricted for debt service	856	13,976	29,745	60,603	28,518	26,885	10,412	56,929	-	-	227,924
Unrestricted	26,427	-	-	-	-	-	-	-	36,884	49,664	112,975
Total net position	<u>\$ 27,283</u>	<u>\$ 13,976</u>	<u>\$ 29,745</u>	<u>\$ 60,603</u>	<u>\$ 28,518</u>	<u>\$ 26,885</u>	<u>\$ 10,412</u>	<u>\$ 56,929</u>	<u>\$ 57,906</u>	<u>\$ 49,664</u>	<u>\$ 361,921</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

9. Segment Information (continued)

	2019											
	Bond Funds								Line of Credit	Operating Fund	Foundation	Total
	12 th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture				
Condensed Statement of Revenues, Expenses, and Changes in Net Position												
Operating revenues	\$ 3,171	\$ 3,390	\$ 11,813	\$ 12,504	\$ 7,088	\$ 8,365	\$ 3,325	\$ 22,056	\$ 207	\$ 52,142	\$ 17,603	\$ 141,664
Operating expenses	2,644	3,067	10,794	10,157	6,540	8,120	2,807	18,751	496	54,967	3,416	121,759
Operating income (loss)	527	323	1,019	2,347	548	245	518	3,305	(289)	(2,825)	14,187	19,905
Non-operating revenues (expenses)	–	–	–	–	–	–	–	–	–	(2,835)	–	(2,835)
Income (loss) before transfers	527	323	1,019	2,347	548	245	518	3,305	(289)	(5,660)	14,187	17,070
Interfund transfers	(27,810)	–	(3,064)	–	–	–	–	(8,118)	2,154	36,838	–	–
Change in net position	(27,283)	323	(2,045)	2,347	548	245	518	(4,813)	1,865	31,178	14,187	17,070
Net position, beginning of year	27,283	13,976	29,745	60,603	28,518	26,885	10,412	56,929	–	57,906	49,664	361,921
Net position, end of year	\$ –	\$ 14,299	\$ 27,700	\$ 62,950	\$ 29,066	\$ 27,130	\$ 10,930	\$ 52,116	\$ 1,865	\$ 89,084	\$ 63,851	\$ 378,991

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

9. Segment Information (continued)

	2018										
	Bond Funds							Operating Fund	Foundation	Total	
	12 th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture				2013-1 Trust Indenture
Condensed Statement of Revenues, Expenses, and Changes in Net Position											
Operating revenues	\$ 4,870	\$ 3,313	\$ 11,494	\$ 12,222	\$ 6,923	\$ 8,261	\$ 3,280	\$ 21,620	\$ 48,929	\$ 14,142	\$ 135,054
Operating expenses	285	3,029	10,189	9,881	6,240	7,896	2,770	17,918	54,815	1,405	114,428
Operating income (loss)	4,585	284	1,305	2,341	683	365	510	3,702	(5,886)	12,737	20,626
Non-operating revenues (expenses)	–	–	–	–	–	–	–	–	(1,750)	–	(1,750)
Income (loss) before transfers	4,585	284	1,305	2,341	683	365	510	3,702	(7,636)	12,737	18,876
Interfund transfers	–	–	(3,658)	–	–	–	–	–	3,658	–	–
Change in net position	4,585	284	(2,353)	2,341	683	365	510	3,702	(3,978)	12,737	18,876
Net position, beginning of year	22,698	13,692	32,098	58,262	27,835	26,520	9,902	53,227	61,884	36,927	343,045
Net position, end of year	\$ 27,283	\$ 13,976	\$ 29,745	\$ 60,603	\$ 28,518	\$ 26,885	\$ 10,412	\$ 56,929	\$ 57,906	\$ 49,664	\$ 361,921

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

9. Segment Information (continued)

	2019											
	12 th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture	Line of Credit	Operating Fund	Foundation	Total
Condensed Statement of Cash Flows												
Net cash flows from operating activities	\$ 28,494	\$ 12,115	\$ 36,113	\$ 42,005	\$ 25,989	\$ 33,112	\$ 15,567	\$ 67,323	\$ (18,863)	\$ 8,295	\$ (7,170)	\$ 242,980
Net cash flows from non-capital financing activities	(28,996)	(12,531)	(38,681)	(45,080)	(28,429)	(35,217)	(16,595)	(71,023)	18,995	(5,382)	15,245	(247,694)
Net cash flows from capital and related financing activities	-	-	-	-	-	-	-	-	-	(537)	-	(537)
Net cash flows from investing activities	33	58	204	218	141	167	53	231	4	(61)	(8,000)	(6,952)
Net increase (decrease) in cash and cash equivalents	(469)	(358)	(2,364)	(2,857)	(2,299)	(1,938)	(975)	(3,469)	136	2,315	75	(12,203)
Cash and cash equivalents, beginning of year	469	2,306	7,720	8,596	6,114	4,073	2,011	8,704	-	49,729	6,400	96,122
Cash and cash equivalents, end of year	\$ -	\$ 1,948	\$ 5,356	\$ 5,739	\$ 3,815	\$ 2,135	\$ 1,036	\$ 5,235	\$ 136	\$ 52,044	\$ 6,475	\$ 83,919

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued) (Dollars in Thousands)

9. Segment Information (continued)

	2018										
	Bond Funds								Operating Fund	Foundation	Total
	12 th General Resolution Trust Estate	2009-1 Trust Indenture	2010-1 Trust Indenture	2010-2 Trust Indenture	2010-3 Trust Indenture	2011-1 Trust Indenture	2012-1 Trust Indenture	2013-1 Trust Indenture			
Condensed Statement of Cash Flows											
Net cash flows from operating activities	\$ 29,011	\$ 11,948	\$ 39,554	\$ 47,194	\$ 28,297	\$ 36,560	\$ 16,959	\$ 83,446	\$ 25,938	\$ (5,202)	\$ 313,705
Net cash flows from non-capital financing activities	(29,208)	(12,621)	(42,519)	(49,559)	(30,378)	(38,396)	(18,016)	(87,896)	(14,204)	12,453	(310,344)
Net cash flows from capital and related financing activities	-	-	-	-	-	-	-	-	(1,507)	-	(1,507)
Net cash flows from investing activities	20	35	123	131	85	107	32	147	(570)	(4,000)	(3,890)
Net increase (decrease) in cash and cash equivalents	(177)	(638)	(2,842)	(2,234)	(1,996)	(1,729)	(1,025)	(4,303)	9,657	3,251	(2,036)
Cash and cash equivalents, beginning of year	646	2,944	10,562	10,830	8,110	5,802	3,036	13,007	40,072	3,149	98,158
Cash and cash equivalents, end of year	\$ 469	\$ 2,306	\$ 7,720	\$ 8,596	\$ 6,114	\$ 4,073	\$ 2,011	\$ 8,704	\$ 49,729	\$ 6,400	\$ 96,122

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

10. Blended Component Unit

The Foundation is accounted for as a blended component unit of the Company as it approves the appointment of the Foundation's Board of Directors, has the ability to impose its will on the Foundation, and it is a not-for profit corporation in which the Company is the sole corporate member.

Statements of Net Position

<u>Foundation</u>	<u>As of June 30, 2019</u>	<u>As of June 30, 2018</u>
Assets		
Current assets		
Cash and cash equivalents:		
Unrestricted	\$ 6,475	\$ 6,400
Total cash and cash equivalents	<u>6,475</u>	<u>6,400</u>
Investments - unrestricted	41,501	30,802
Student loans receivable	1,008	684
Miscellaneous receivables	94	84
Due from the Higher Education Loan Authority of the State of Missouri	337	626
Total current assets	<u>49,415</u>	<u>38,596</u>
Long-term assets		
Student loans receivable (less allowance for doubtful loans \$795 and \$301)	14,607	11,070
Total long-term assets	<u>14,607</u>	<u>11,070</u>
Total assets	<u>\$ 64,022</u>	<u>\$ 49,666</u>
Liabilities and net position		
Current liabilities		
Other liabilities	\$ 171	\$ 2
Total current liabilities	<u>171</u>	<u>2</u>
Total liabilities	<u>\$ 171</u>	<u>\$ 2</u>
Net position:		
Unrestricted	<u>63,851</u>	<u>49,664</u>
Total net position	<u>\$ 63,851</u>	<u>\$ 49,664</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

10. Blended Component Unit (Continued)

Statements of Revenues, Expenses and Changes in Net Position

<u>Foundation</u>	<u>For the Year Ended June 30, 2019</u>	<u>For the Year Ended June 30, 2018</u>
Operating revenues, net:		
Investment Income	\$ 837	\$ 624
Realized and unrealized gain on investments	1,796	901
Contributions from the Higher Education Loan Authority of the State of Missouri	14,970	12,617
Total operating revenues, net	<u>17,603</u>	<u>14,142</u>
Operating expenses:		
Provision for loan losses	<u>772</u>	<u>292</u>
Total student loan-related expenses	<u>772</u>	<u>292</u>
Professional fees	69	31
Scholarships	1,036	347
Grants	170	159
Other operating expenses	1,369	576
Total general and administrative expenses	<u>2,644</u>	<u>1,113</u>
Total operating expenses	<u>3,416</u>	<u>1,405</u>
Operating income	<u>14,187</u>	<u>12,737</u>
Change in net position	14,187	12,737
Net position, beginning of year	49,664	36,927
Net position, end of year	<u>\$ 63,851</u>	<u>\$ 49,664</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

10. Blended Component Unit (Continued)

Statements of Cash Flows

<u>Foundation</u>	<u>For the Year Ended June 30, 2019</u>	<u>For the Year Ended June 30, 2018</u>
Cash flows from operating activities:		
Disbursement of new student loans	\$ (5,362)	\$ (4,598)
Student loan repayments	728	445
Payments to vendors	(2,153)	(820)
Cash paid for servicing fees	(383)	(229)
Net cash used in operating activities	<u>(7,170)</u>	<u>(5,202)</u>
Cash flows from noncapital financing activities:		
Contributions from the Higher Education Loan Authority of the State of Missouri	<u>15,245</u>	<u>12,453</u>
Net cash provided by noncapital financing activities	<u>15,245</u>	<u>12,453</u>
Cash flows from investing activities:		
Purchase of investments, net of sales	(8,849)	(4,625)
Interest received on cash, cash equivalents and investments	849	625
Net cash used in investing activities	<u>(8,000)</u>	<u>(4,000)</u>
Change in cash and cash equivalents	75	3,251
Cash and cash equivalents, beginning of year	6,400	3,149
Cash and cash equivalents, end of year	<u>\$ 6,475</u>	<u>\$ 6,400</u>

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

10. Blended Component Unit (Continued)

Statements of Cash Flows

<u>Foundation</u>	<u>For the Year Ended June 30, 2019</u>	<u>For the Year Ended June 30, 2018</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 14,187	\$ 12,737
Adjustments to reconcile operating income to net cash provided by operating activities:		
Contributions from the Higher Education Loan Authority of the State of Missouri	(14,970)	(12,617)
Realized and unrealized gain on investments	(1,796)	(901)
Investment income	(744)	(548)
Provision for loan losses	772	292
Change in assets and liabilities:		
Increase in student loans receivable	(4,632)	(4,153)
Decrease in due from the Higher Education Loan Authority of the State of Missouri	14	4
(Decrease) in other liabilities	(1)	(16)
Total adjustments	(21,357)	(17,939)
Net cash used in operating activities	<u>\$ (7,170)</u>	<u>\$ (5,202)</u>
Noncash investing, capital, and financing activities:		
Changes in investments and outstanding liabilities related to capital assets	<u>\$ 1,175</u>	<u>\$ 378</u>

11. Future Accounting Pronouncements

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

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

11. Future Accounting Pronouncements (continued)

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for the Company beginning in fiscal year 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for the Company beginning in fiscal year 2021.

Higher Education Loan Authority of the State of Missouri

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

As of and for the Years Ended June 30, 2019, 2018, 2017, 2016, 2015 and 2014

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 2,707	\$ 2,616	\$ 3,900	\$ 3,334	\$ 3,306	\$ 3,175
Interest on the Total Pension Liability	3,191	3,027	3,015	2,526	2,234	2,134
Changes of Benefit Terms	-	-	(4,346)	-	-	-
Differences between expected and actual experience	(688)	1,480	1,273	(666)	(989)	473
Changes of Assumptions	1,880	(515)	215	2,061	-	-
Benefit payments	(2,493)	(1,675)	(3,960)	(1,064)	(2,957)	(3,705)
Net change in total pension liability	4,597	4,933	97	6,191	1,594	2,077
Total pension liability - beginning	46,510	41,577	41,480	35,289	33,695	31,618
Total pension liability - ending (a)	51,107	46,510	41,577	41,480	35,289	33,695
Plan fiduciary net position						
Contributions - employer	2,894	3,166	4,496	3,221	2,980	3,262
Investment income	3,368	3,440	3,647	456	1,296	4,573
Investment expenses	(151)	(175)	(166)	(144)	-	-
Benefit payments	(2,493)	(1,675)	(3,960)	(1,064)	(2,957)	(3,705)
Administrative expense	-	-	-	(1)	(153)	(138)
Net change in plan fiduciary net position	3,618	4,756	4,017	2,468	1,166	3,992
Plan fiduciary net position-beginning	47,886	43,130	39,113	36,645	35,479	31,487
Plan fiduciary net position-ending (b)	\$ 51,504	\$ 47,886	\$ 43,130	\$ 39,113	\$ 36,645	\$ 35,479
Net pension liability (asset) - ending (a) - (b)	(397)	(1,376)	(1,553)	2,367	(1,356)	(1,784)
Plan fiduciary net position as a percentage of the total pension liability	100.78%	102.96%	103.74%	94.29%	103.84%	105.29%
Covered payroll beginning of year	\$ 27,278	\$ 27,282	\$ 26,641	\$ 21,490	\$ 19,996	\$ 20,304
Net pension liability (asset) as a percentage of covered-employee payroll	-1.45%	-5.04%	-5.83%	11.02%	-6.78%	-8.79%

Information provided for years available

Higher Education Loan Authority of the State of Missouri

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

Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 2,894	\$ 3,166	\$ 4,496	\$ 3,221	\$ 2,980	\$ 3,262	\$ 2,876	\$ 1,394	\$ 1,559	\$ 2,016
Actual contribution recognized during the year	2,894	3,166	4,496	3,221	2,980	3,262	2,741	1,394	1,559	2,016
Contribution deficiency (excess)	0	0	0	0	0	0	135	0	0	0
Covered payroll beginning of year	\$ 27,278	\$ 27,282	\$ 26,641	\$ 21,490	\$ 19,996	\$ 20,304	\$ 18,607	\$ 10,694	\$ 10,118	\$ 10,708
Contributions as a % of covered – employee payroll	10.61%	11.60%	16.88%	14.99%	14.90%	16.07%	14.73%	13.04%	15.41%	18.83%
Methods and Assumptions for Actuarially Determined Contribution										
Salary Scale	4.50%	4.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Investment Rate of Return	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	7.00%	7.00%	7.00%	7.00%
Amortization Period	6.9	6.8	8.8	10.0	9.9	10.1	9.8	9.1	9.1	9.4
Inflation Rate	2.25%	2.25%	2.25%	2.50%	2.50%	2.50%	4.00%	4.00%	4.00%	4.00%
Mortality Table	RP 2014 Blue Collar MP 2017	RP 2014 Blue Collar MP 2016	RP 2014 Blue Collar MP 2015	IRS 2015	IRS 2014	IRS 2013	1994 GAM	1994 GAM	1994 GAM	1994 GAM
Actuarial Cost Method	Aggregate									
Asset Valuation Method	Actuarial value as used for funding valuation purposes									
Amortization Method	Level Percent of Payroll									
Amortization Period	Average future service period of current employees									

Actuarial valuation date is as of the beginning of each fiscal year presented herein.



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

Members of

The Higher Education Loan Authority of the State of Missouri

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Higher Education Loan Authority of the State of Missouri (“the Company”), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2019.

Internal Control Over Financial Reporting

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

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

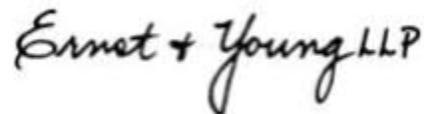
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



September 12, 2019



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Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the Higher Education Loan Authority of the State of Missouri's (the Company's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Company's major federal program for the year ended June 30, 2019. The Company's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

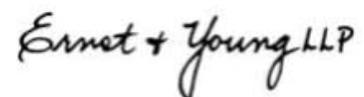
Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Company's internal control over compliance.

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

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

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



September 12, 2019

Higher Education Loan Authority of the State of Missouri

Schedule of Expenditures of Federal Awards
(Dollars in Thousands)

For the Year Ended June 30, 2019

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education – Federal Family Education Loans (Lenders) —	84.032L	
Outstanding loan balance at the beginning of the year		\$ 1,431,570
New loans		—
Interest on student loans		3,943
Total expenditures of federal awards		<u>\$ 1,435,513</u>

See accompanying notes to schedule of expenditures of federal awards.

Higher Education Loan Authority of the State of Missouri

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

1. Significant Accounting Policies

The Higher Education Loan Authority of the State of Missouri (the Company) 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. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Accordingly, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

2. Indirect Costs

The Company did not use the 10% de minimis cost rate allowed by the Uniform Guidance.

3. Loan/Loan Guarantee Outstanding Balances

FEDERAL FAMILY EDUCATION LOANS (84.032) – Balances outstanding at the end of the audit period were \$1,251,641,000.

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Higher Education Loan Authority of the State of Missouri

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major federal program:

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

Type of auditor’s report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	yes	_____	X	no
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Identification of major federal program:

CFDA Number

Name of Federal Program or Cluster

84.032L

Federal Family Education Loans (Lenders)

Dollar threshold used to distinguish between Type A and Type B programs – \$4,306,539

Auditee qualified as low-risk auditee?	_____	X	yes	_____	no
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Higher Education Loan Authority of the State of Missouri

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2019

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.