Higher Education Loan Authority of the State of Missouri

Financial Statements as of and for the Years Ended June 30, 2006 and 2005, Supplemental Schedule as of June 30, 2006, and Independent Auditors' Reports

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

TABLE OF CONTENTS

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

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

THE AUTHORITY

The Authority is recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education. The Authority is a leading holder and servicer of student loans with more than $5 billion in assets, and annual loan purchases in excess of $1.5 billion.

The Authority was created by the General Assembly of the State of Missouri through passage of HB 326, signed into law on June 15, 1981. The Authority was created in order to insure that all eligible post-secondary education students have access to guaranteed student loans. The act was amended, effective August 28, 1994, and again effective August 28, 2003 to provide the Authority with generally expanded powers to finance, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act. The passage of HB 221, effective August 28, 2003, allows the Authority to originate Parental Loans for Undergraduate Students (PLUS loans) and extends the date for repayment of bonds issued by the Authority from 30 to 40 years. The Bill also repeals sections of law setting restrictions on variable-rate unsecured loans. The repeal of variable rate restrictions allows the Authority to restructure the rates assessed for the Supplemental and Qualified Institution Loan Programs.

The Authority is governed by a seven member Board of Directors, five of whom are appointed by the Governor of the State, subject to the advice and consent of the Senate of the State, and two others who are designated by statute, the State Commissioner of Higher Education, and a member of the State Coordinating Board for Higher Education. Raymond H. Bayer Jr., selected by the Board during fiscal 2006, serves as Executive Director and Chief Executive Officer of the Authority.

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

During fiscal year 2006, the Authority purchased/originated $2,016 million of gross principal student loans from a variety of financial institutions. This compares to $1,698 million gross principal during fiscal year 2005 and $1,574 million during fiscal year 2004 representing a 19% and 8% increase respectively in gross purchases over the previous two fiscal years. For fiscal 2006, approximately $1,265 million of loan purchased were Stafford and PLUS loans. Gross Consolidation loan purchases totaled $694 million with $447 million representing the consolidation of the Authority's existing Stafford and PLUS portfolio. The remaining $57 million primarily consists of supplemental loan purchases/originations within the CASH loan program.

The net loan activity of new purchases less existing loan principal decreases through borrower, consolidation, and claim payments, cancellation activity, and loan sales, resulted in an increase of 20% from $4,370 million to $5,238 million in the student loan portfolio from fiscal 2005 to fiscal 2006 as compared to a 15% increase from $3,808 million to $4,370 million from fiscal 2004 to fiscal 2005. As of the end of this fiscal year the student loan portfolio held by the Authority is made up of approximately 52% Consolidation Loans, 37% Stafford Loans, 7% PLUS Loans, 3% Supplemental Loans, and 1% HEAL Loans.

The Authority is able to finance the purchase of student loans through the issuance of Taxable and Tax-Exempt Student Loan Revenue Bonds, recycled funds, and other credit facilities. During Fiscal 2005 purchases were funded primarily from a $700 million taxable bond financing issued late in Fiscal 2004, recycled funds, and a $125 million revolving credit facility.

Beginning in fiscal 2005 and continuing through 2006, the Authority primarily utilized a revolving line of credit to purchase loans. The strategy gives the Authority the ability to fully collateralize any subsequent bonds issued at the time of issuance or shortly thereafter. It also allows the Authority additional flexibility, efficiency, and the ability to better match collateral to a particular bond structure prior to issuance.

During fiscal 2006, the Authority carried a revolving credit facility originally issued at $500 million and increasing to $800 million by fiscal year end. The revolving credit facility was replaced by a $1,020 million commercial paper conduit in July of Fiscal 2007. In addition, the Authority obtained $508.9 million in bond financings to support loan purchases including, $218.8 million in tax-exempt bonds in November, $164.1 million in tax-exempt bonds in April, and $126.0 million in taxable bonds in June.

The tax-exempt financings are utilized to house loans held by borrowers who are Missouri residents and/or attending Missouri schools and thereby eligible for additional borrower benefits. The taxable financing was structured to provide additional and select funds for the potential growth of the Authority's supplemental loan program.

The Authority continues to focus on the development of creative solutions to continue to support the Authority's mission of eliminating barriers for students so they can access higher education. The Authority advances its benevolent mission through local, regional, and national partnerships with a variety of educational and financial related institutions. The mission is also supported by a variety of borrower benefits.

The Authority offers various rate reduction programs to borrowers who establish payments through automatic deduction and or qualify for rate reduction through the Public Service Reward Program.

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

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

The Authority has also granted over $28 million in loan forgiveness for a variety of student borrowers including teachers, Pell Grant recipients, and those in military service. Borrowers received over $6 million in loan forgiveness during fiscal 2006, as compared to $4.7 million during fiscal 2005 and $5.1 million during fiscal 2004.

FINANCIAL POSITION

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

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

CONDENSED STATEMENT OF NET ASSETS
(In thousands)

	2006	2005	2004
Cash and cash equivalents	$ 318,614	$ 126,278	$ 617,866
Accrued interest receivable	132,452	85,585	61,666
Capital assets	14,470	14,413	14,899
Investments held by Trustee	12,885	10,966	13,445
Other	10,078	11,965	10,267
Student loans receivable	5,238,174	4,370,105	3,807,517
Total assets	$5,726,673	$4,619,312	$4,525,660
Current liabilities	$ 743,021	$ 156,578	$ 23,898
Long-term liabilities	4,749,740	4,254,256	4,315,456
Total liabilities	$5,492,761	$4,410,834	$4,339,354
Invested in capital assets	$ 14,470	$ 14,413	$ 14,899
Restricted	129,839	112,310	113,523
Unrestricted	89,603	81,755	57,884
Total net assets	$ 233,912	$ 208,478	$ 186,306

CONDENSED OPERATING RESULTS
(In thousands)

	2006	2005	2004
Interest on loans	$ 196,990	$ 134,107	$ 113,564
Special allowances	101,101	51,178	21,820
Investment income	8,770	10,145	5,154
Total operating revenue	306,861	195,430	140,538
Bond expense	246,674	140,390	77,490
Administrative and general expense	38,089	33,180	29,712
Reduction of arbitrage rebate liability	(3,336)	(312)	(2,221)
Total operating expense	281,427	173,258	104,981
Change in net assets	$ 25,434	$ 22,172	$ 35,557

FINANCIAL ANALYSIS

Financial Position

Total assets increased $1,107 million compared to an increase in liabilities of $1,082 million resulting in an increase to the Authority's net assets of $25.4 million or 13%. This increase compares to an increase of $22.2 million or 12% in fiscal 2005. The year to year increase is related to the growth of the portfolio and relative increase in special allowance subsidy discussed later.

Cash and cash equivalents increased by 152% to $318.6 million from $126.3 million in fiscal 2005, as compared to an 80% decrease from $617.9 million in fiscal 2004 to fiscal 2005. The current year increase in cash, cash equivalents, and investments was due largely to the issuance of $126 million in Student Loan Revenue Bonds late in June of 2006 resulting in a substantial increase in cash and cash equivalents at 2006 fiscal year end. Similarly, the prior year decrease in cash was attributable to the issuance of $700 million in student loan revenue bonds in May of 2004 resulting in a substantial cash balance at 2004 fiscal year end. These funds were used to purchase supplemental loans out of other existing bond funds to consolidate supplemental loan financings into one fund. Cash generated in the other funds were depleted by loan purchase activity by the first quarter of fiscal 2007.

Accrued interest receivable is up 55% over fiscal 2005 as compared to a 39% increase from fiscal 2004 to fiscal 2005 and is a direct result of the continued growth in the student loan portfolio and the increase in interest rates on student loans from fiscal 2004 to 2006.

Student Loans Receivable on loans outstanding increased 20% from $4,370 million in fiscal 2005 to $5,238 million in fiscal 2006 as compared to a 15% increase from $3,808 million in fiscal 2004 to fiscal 2005 reflecting the net purchase activity less loan principal reductions during fiscal 2005 and fiscal 2006.

For fiscal 2006, current liabilities increased by $586 million due to the increased borrowing of the revolving credit facility. Long term liabilities realized an increase of $495.5 million or 12%. The increase is the net result of the issuance of $508.9 million in Student Loan Revenue Bonds, the timing of the maturity on certain existing Student Loan Revenue Bonds (long-term to current, and retirement), and a decrease in arbitrage rebate liability as a result of loan principal forgiveness.

For fiscal 2005, current liabilities increased by $132.7 million due largely to the timing of the maturity of Student Loan Revenue Bonds and the revolving credit facility. Long term liabilities remained fairly static with a decrease of $61.2 million or 1%. The decrease in long term liabilities is a result of the timing of the maturity of Student Loan Revenue Bonds (long-term to current, and early retirement), and a decrease in arbitrage rebate liability through loan principal forgiveness.

Operating Results

Operating income increased by $4.1 million from fiscal 2005, as compared to a decrease of $13.4 million from fiscal 2004 to fiscal 2005. As indicated in detail below, significant increases in student loan interest and special allowance subsidy relative to portfolio growth and the interest rate environment are the key components for the current year increase. The decrease due to the reset in the student loan interest rates offset by the increase in the commercial lending rates increase was the significant driver to the decrease in fiscal 2005.

Total operating revenue increased 57% from fiscal 2005 to fiscal 2006 as compared to a 39% increase from fiscal 2004 to fiscal 2005. Continued gains in student loan interest and special allowance were realized as a result of the increase in the spread between the student loan interest rate and the 91-day T-Bill rate and the loan portfolio growth from fiscal 2004 to fiscal 2006.

For example, subsidized and unsubsidized Stafford loans made on or after July 1, 1998 that are in status other than in-school, grace and deferment bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.30%, with a maximum rate of 8.25%. Loans made within the same period with in-school, grace, and deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate on the last auction date in May. During fiscal 2004 the rate on these loans set 3.42% and 2.82% respectively. The rate on the same loans during fiscal 2005 was 3.37% and 2.77% respectively. The rate on the same loans during fiscal 2006 was 5.30% and 4.70% respectively.

PLUS Loans bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.10%, with a maximum rate of 9%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate on the last auction date in May. The T-Bill rate used for fiscal 2004 was 1.12% as compared to 1.07% for fiscal 2005 and 3.0% for fiscal 2006.

Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998 and prior to July 1, 2006, bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

The Authority realized significant gains in special allowance subsidy issued by the Department of Education to lenders participating in the Federal Family Education Loan Program. As illustrated earlier, the increase is related to the growing spread between student loan interest rates, which are relatively fixed for a year, and the increase in commercial paper and 91-day T-Bill rates which rose incrementally during fiscal years 2004 through 2006. These gains helped offset increases in bond expenses related to debt service. Interest rates related to bond debt service expenses increased the entire fiscal year ending approximately 2% higher than the beginning of the year. The increase in debt service interest and the additional debt issued resulted in an increase in bond related expense of 76% from fiscal 2005 to fiscal 2006 as compared to a 78% increase from fiscal 2004 to fiscal 2005.

Total operating expense realized a 62% increase, or $108.2 million from fiscal 2005 to fiscal 2006 and a 65% increase, or $68.3 million from fiscal 2004 to fiscal 2006. Administrative and general expenses increased by 13%, as compared to 12% in the prior year relative to the portfolio increase. Arbitrage liability is calculated based upon the earnings of tax-exempt debt. The arbitrage liability is affected by increased bond earnings and the reduction of those earnings through student borrower benefit programs. The increased participation in borrower benefits through rate reduction and loan principal forgiveness contributed to the decrease in the arbitrage liability for both fiscal years.

Continuing Developments

During fiscal 2006, members of the Authority approved a funding plan for the Lewis and Clark Discovery Initiative (the "Initiative") proposed by Missouri Governor Matt Blunt. The Initiative would provide a one-time infusion of capital for building and related projects at state universities, fund scholarships to Missouri students, match other endowments for the retention, recruitment of top professors and fund other projects.

Many of the details and the steps for execution of the funding plan remain to be determined and subject to change. The Authority has engaged consultants, advisors, attorneys and others to assist the Authority in the endeavor. However, it is not possible to predict with certainty whether or not the Initiative or the funding plan will proceed, or if it does proceed, the impact it with have on the Authority.

On September 7, 2006, the Authority received official confirmation as an Exceptional Performer from the U.S. Department of Education. The distinctive recognition is given to student loan lenders and servicers who demonstrate outstanding performance in loan servicing within the FFELP. As one of only 18 lenders and servicers recognized nationwide as an Exceptional Performer, the Authority qualifies by maintaining a compliance performance rating of 97 percent or higher.

The Authority’s loan servicing is recognized in the following areas: converting federal loans to repayment, collecting delinquent loans, and filing timely claims with guarantee agencies. The designation also provides MOHELA with a 99 percent federal reimbursement on default claims, rather than the standard 97 percent.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the Higher Education Loan Authority of the State of Missouri as of June 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Higher Education Loan Authority of the State of Missouri. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Higher Education Loan Authority of the State of Missouri, as of June 30, 2006 and 2005, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1–7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Higher Education Loan Authority of the State of Missouri's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 2006, on our consideration of the Higher Education Loan Authority of the State of Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/ DELOITTE & TOUCHE LLP

St. Louis, Missouri
October 4, 2006

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2006 AND 2005 (In thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 36,134	$ 30,282
Unrestricted	282,480	95,996
Total cash and cash equivalents	318,614	126,278
Investments held by Trustee—unrestricted		2,159
Investments held by Trustee—restricted	4,460	3,138
Total investments held by Trustee	4,460	5,297
Student loans receivable	50,629	43,917
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	8,732	5,400
Special allowance	35,079	19,024
Investments held by Trustee	752	362
Student loans receivable	87,889	60,799
Miscellaneous receivables and prepaid expenses	1,685	4,254
Deferred charges	235	266
Total current assets	508,075	265,597
LONG-TERM ASSETS:		
Investments held by Trustee:		
Restricted	2,585	2,585
Unrestricted	5,840	3,084
Total investments held by Trustee	8,425	5,669
Student loans receivable (less allowance for doubtful loans—$4,642 in 2006 and $3,286 in 2005)	5,187,545	4,326,188
Prepaid pension expense	3,225	3,413
Deferred charges—at cost less accumulated amortization of $2,573 in 2006 and $2,349 in 2005	4,933	4,032
Capital assets—at cost less accumulated depreciation of $3,998 in 2006 and $3,270 in 2005	14,470	14,413
Total long-term assets	5,218,598	4,353,715
TOTAL	$ 5,726,673	$ 4,619,312

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES:		
Line of credit	$ 706,600	$ 85,200
Bonds payable—net	2,747	46,562
Accrued interest payable	21,146	13,782
Other liabilities	12,528	11,034
Total current liabilities	743,021	156,578
LONG-TERM LIABILITIES:		
Bonds payable—net	4,726,768	4,221,813
Arbitrage rebate payable	22,972	32,443
Total long-term liabilities	4,749,740	4,254,256
Total liabilities	5,492,761	4,410,834
NET ASSETS:		
Invested in capital assets	14,470	14,413
Restricted	129,839	112,310
Unrestricted	89,603	81,755
Total net assets	233,912	208,478
TOTAL	$ 5,726,673	$ 4,619,312

See notes to financial statements.

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005 (In thousands)

	2006	2005
OPERATING REVENUES:		
Interest on student loans	$ 164,417	$ 113,661
U.S. Secretary of Education:		
Interest subsidy	32,573	20,446
Special allowance	101,101	51,178
Investment income—interest on cash equivalents and investments	8,322	7,137
Gain on sale of loans	20	2,639
Servicing fee income	428	369
Total operating revenues	306,861	195,430
OPERATING EXPENSES:		
Interest expense	211,704	116,255
Program participation fees	32,034	21,924
Salaries and employee benefits	17,928	16,605
Computer services	6,705	5,456
Postage and forms	3,963	2,833
Professional fees	2,161	1,671
Occupancy expense	1,782	1,627
Bond maintenance fees	1,680	1,219
Letter of credit fees	1,256	992
Depreciation	838	815
Reduction of arbitrage rebate liability	(3,336)	(312)
Other operating expenses	4,712	4,173
Total operating expenses	281,427	173,258
CHANGE IN NET ASSETS	25,434	22,172
NET ASSETS—Beginning of year	208,478	186,306
NET ASSETS—End of year	$ 233,912	$ 208,478

See notes to financial statements.

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(In thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	$ (2,502,716)	$ (1,742,434)
Student loan repayments	1,754,862	1,039,936
Cash received for sale of loans and interest	1,355	179,397
Payment to employees and vendors	(58,546)	(35,570)
Cash received for interest	122,874	109,147
Other	(39)	14
Net cash used in operating activities	(682,210)	(449,510)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds—net	506,596	
Proceeds from line of credit	738,000	85,200
Repayment of bonds	(47,345)	(20,131)
Interest paid on bonds and line of credit	(203,321)	(109,323)
Repayment on line of credit	(116,600)	
Net cash provided by (used in) noncapital financing activities	877,330	(44,254)
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Purchase of capital assets	(935)	(329)
Proceeds from sale of capital assets	48	
Net cash used in capital activities	(887)	(329)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments held by Trustee	5,538	4,800
Purchase of investments held by Trustee	(7,435)	(2,295)
Net cash (used in) provided by investing activities	(1,897)	2,505
CHANGE IN CASH AND CASH EQUIVALENTS	192,336	(491,588)
CASH AND CASH EQUIVALENTS—Beginning of year	126,278	617,866
CASH AND CASH EQUIVALENTS—End of year	$ 318,614	$ 126,278

(Continued)

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(In thousands)

	2006	2005
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in net assets	$ 25,434	$ 22,172
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization:		
Capital assets	838	815
Premium/discount on investments held by Trustee	(22)	(26)
Prepaid pension	188	387
Loan and bond charges	34,210	27,561
Interest expense	211,704	116,255
Write-offs for federally insured loans	2,133	1,767
Reduction of arbitrage rebate liability	(3,336)	(312)
Gain on sale of loans	(20)	(2,639)
Loss on sale of fixed assets	(8)	
Change in assets and liabilities:		
Increase in student loans receivable	(909,222)	(592,911)
Increase in accrued interest receivable	(46,867)	(23,919)
(Increase) decrease in miscellaneous receivables and prepaid expenses	1,314	(3,333)
Arbitrage rebate payments	(50)	(34)
Increase in other liabilities	1,494	4,707
Total adjustments	(707,644)	(471,682)
Net cash used in operating activities	$ (682,210)	$ (449,510)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—Student loan principal and interest forgiveness	$ 6,166	$ 4,710

See notes to financial statements.

(Concluded)

1. DESCRIPTION OF THE ORGANIZATION

Legislation, which was signed into law on June 15, 1981 by the Governor of the State of Missouri and became effective on September 28, 1981, created the Higher Education Loan Authority of the State of Missouri (the "Authority") for the purpose of providing a secondary market for loans made under the Federal Family Education Loan Program provided for by the Higher Education Act. The Authority is assigned to the Missouri Department of Higher Education. However, by statute, the State of Missouri is in no way financially accountable for the Authority. Student loan revenue bonds outstanding are payable as specified in the resolutions authorizing the sale of bonds. The bonds are not payable from funds received from taxation and are not debts of the State of Missouri or any of its political subdivisions.

The Authority is the lender and guarantor for supplemental loans made available to students in the Midwestern region who have reached the maximum available under the Federal Family Education Loan Program provided under the Higher Education Act. The balance of these loans outstanding is approximately 3% of the total loan receivable balance.

Under the bond agreements from the various bond issuances, the Authority purchases loans from a variety of financial institutions with whom they have loan purchase commitments. Of the total remaining commitments at June 30, 2006, 87% are with ten financial institutions and their branches. The most significant financial institutions individually comprise 26%, 15%, and 10% of the total remaining commitments. The Authority relies on these sources of loans to increase the loans owned by the Authority. Should any of these ten primary financial institutions cease business operations, the student loans would be originated by another financial institution or directly by the federal government. Management does not believe that the volume of loans purchased would be significantly impacted by lenders ceasing operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In accordance with the bond and other borrowing resolutions, the Authority utilizes fund accounting principles, whereby each fund is a separate set of self-balancing accounts. The assets of each bond fund are restricted pursuant to the bond resolutions. To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, the Authority records financial activities in the various operating and bond related funds. The various bond funds are combined as one segment for financial statement purposes (see Note 14). Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund. For financial statement presentation purposes, the funds have been aggregated into one proprietary fund type.

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

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

Investments Held by Trustee—Investment securities with original maturities of 90 days or greater are classified as investments held by Trustee. Investments with a remaining maturity of less than one year are considered current; all others are considered long-term. Investments are recorded at fair market value. In accordance with the bond resolutions, such investments consist of cash, securities of the Federal government or its agencies and repurchase agreements. The securities underlying the repurchase agreements are book entry securities. During the years ended June 30, 2006 and 2005, the securities were delivered by appropriate entry into a third-party custodian's account designated by the Authority under a written custodial agreement that explicitly recognizes the Authority's interest in the securities. All investments whose proceeds are restricted for debt service reserve or the payment of rebate liabilities are classified as restricted investments (see Note 7).

Student Loans Receivable**—**Student loans receivable are stated at the principal amount outstanding adjusted for premiums. The related interest income generated from the loans is offset by premium amortization expense. Premiums on student loans are amortized over the estimated life of new loans purchased using a method that approximates the effective interest method. Because the Authority holds a large number of similar loans, the life of the loans can be estimated while considering expected amounts of prepayments from borrowers and loan consolidations. During the years ended June 30, 2006 and 2005, the estimated life of new loans purchased was three years. In addition, for the years ended June 30, 2006 and 2005, the Authority expensed all premiums for pools of loan purchases with less than $40 of initial premiums.

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

The U.S. Secretary of Education provides a special allowance to student loan owners participating in the Federal Family Education Loan Program. The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of 91-day United States Treasury bills, to the average daily unpaid principal balance and capitalized interest of student loans held by the Authority. The special allowance is accrued as earned. For loans first disbursed from January 1, 2000, through June 30, 2005, the legislation changed the index to the three-month financial Commercial Paper ("CP") rate from the 91-day Treasury bill rate.

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

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

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

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

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

Net Assets—The net assets of the Authority are classified into three categories: unrestricted, restricted and invested in capital assets. Unrestricted net assets include net assets available for the operations of the Authority and activities not accounted for in the Bond Fund. Restricted net assets consist of the minimum collateral requirements discussed in Note 7, net of related liabilities, as defined in the bond resolutions. The net assets invested in capital assets are discussed in Note 6.

Operating Revenues and Expenses—Bond and note issuance is the principal source of the funds necessary to carry out the purposes of the Authority, which are to originate and acquire student loans. The Authority's revenue is derived primarily from income on student loans, and secondarily, from investment income. The primary cost of the program is interest expense on bonds and notes outstanding. Therefore loan income, net investment income and interest expense are shown as operating revenues and expenses in the statements of revenue, expenses, and changes in net assets.

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

Program Participation Fees—The Authority must remit each month to the U.S. Department of Education (the "Department") an interest payment rebate fee for all of its Federal consolidation loans made on or after October 1, 1993. This fee is equal to 1.05% per annum of the unpaid principal balance and accrued interest of the loans. For loans made from applications received during the period beginning October 1, 1998 through January 31, 1999, inclusive, this fee is equal to 0.62% per annum of the principal and accrued interest of the loans. In addition to the monthly payment, a 0.5% origination fee is paid to the Department on each consolidation loan made. Neither fee is charged to the borrower.

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

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

3. CASH

At June 30, 2006 and 2005, the Authority's carrying amount of cash on deposit was $19,327 and $17,636, respectively. These deposits are insured and collateralized with securities held by the Authority or by its agent in the Authority's name.

4. INVESTMENTS HELD BY TRUSTEE

As of June 30, 2006 and 2005, the Authority had the following investments:

Investment	Weighted Average Maturities (Years)	Fair Value 2006	Fair Value 2005
U.S. Treasury bonds	1.37	$ 976	$ 1,003
U.S. Treasury strips			1,946
Federal National Mortgage Association	1.51	3,588	949
Federal Home Loan Bank bonds	1.14	5,736	1,197
Repurchase agreements	1.63	2,585	5,723
Other			148
Total		$ 12,885	$ 10,966
Portfolio weighted average maturity	1.36		

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

As of June 30, 2006 and 2005, the Authority's investment in repurchase agreements was fully collateralized by U.S. government-backed securities.

5. STUDENT LOANS RECEIVABLE

Student loans receivable are insured namely by the Missouri Department of Higher Education on behalf of the Missouri Department of Higher Education ("MDHE") , Pennsylvania Higher Education

Assistance Agency ("PHEAA"), the Student Loan Guarantee Foundation of Arkansas ("SLGFA"), United Student Aid Funds, Inc. ("USA Funds"), the Tennessee Student Assistance Corporation ("TSAC"), the Nebraska Student Loan Program ("NSLP"), the California Student Aid Commission ("CSAC"), the American Student Assistance ("ASA"), the Kentucky Higher Education Assistance Authority ("KHEAA"), the Illinois Student Assistance Commission ("ISAC"), the New York State Higher Education Services Corporation ("HESC"), the Texas Guaranteed Student Loan Corporation ("TGSLC"), the Education Assistance Corporation ("EAC") , the Educational Credit Management Corporation ("ECMC"), the Northwest Education Loan Association ("NELA"), the Rhode Island Higher Education Assistance Authority ("RIHEAA"), or by the Secretary of the United States Department of Health & Human Services (the "Secretary of HHS"), or by other non-profit or state organizations, as to principal and accrued interest to the fullest extent allowed under current law. The supplemental loans are not federally insured.

Student loans receivable at June 30, 2006 and 2005, are as follows:

	2006	**2005**
MDHE	$2,017,733	$1,663,287
PHEAA	939,261	541,849
SLGFA	867,115	775,484
USA Funds	401,950	482,470
TSAC	181,099	180,854
NSLP	167,104	123,910
CSAC	154,578	151,070
ASA	64,469	62,978
KHEAA	63,252	67,868
ISAC	43,207	47,539
HESC	41,074	43,998
TGSLC	34,760	30,119
EAC	17,844	11,373
ECMC	10,468	5,874
NELA	9,007	7,459
RIHEAA	6,268	3,839
Secretary of HHS	1,004	3,007
Other	16,193	11,628
Total federal loans	5,036,386	4,214,606
Supplemental loans:		
Third party insured	30,790	35,632
Self-insured	175,640	123,153
Allowance for doubtful loans	(4,642)	(3,286)
Total supplemental loans	201,788	155,499
Total student loans receivable	$5,238,174	$4,370,105
Weighted average yield at end of year	5.12 %	4.36 %

The activity for the allowance for doubtful supplemental loans for the years ended June 30, 2006 and 2005, is as follows:

	2006	2005
Beginning balance	$3,286	$2,173
Increase in guarantee fee payable	1,394	1,169
Write off guarantee fee payable	(38)	(56)
	$4,642	$3,286

6. CAPITAL ASSETS

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

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

Capital asset activity for the year ended June 30, 2005, is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 3,304	$ -	$ -	$ 3,304
Depreciable capital assets:				
Building	11,499			11,499
Furniture and equipment	3,001	329	(450)	2,880
Total depreciable capital assets	14,500	329	(450)	14,379
Less accumulated depreciation:				
Building	843	375		1,218
Furniture and equipment	2,062	440	(450)	2,052
	2,905	815	(450)	3,270
Net depreciable capital assets	11,595	(486)	-	11,109
Total	$14,899	$ (486)	$ -	$14,413

7. BONDS PAYABLE

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

	2006	2005
Beginning bonds payable	$4,285,230	$4,305,361
Additions	508,900	
Repayments	(47,345)	(20,131)
Ending bonds payable	$4,746,785	$4,285,230

Bonds payable at June 30 consist of:

	2006	2005
Student loan revenue bonds, variable interest rates ranging from 3.45% to 5.50% at June 30, 2006 and from 2.30% to 3.52% at June 30, 2005 maturing through 2046	$4,571,700	$4,102,000
Student loan revenue bonds, fixed interest rates ranging from 4.10% to 6.75% at June 30, 2006 and 2005 maturing through 2022	175,085	183,230
Gross student loan revenue bonds	4,746,785	4,285,230
Less unaccreted discount	17,270	16,855
Bonds payable—net	$4,729,515	$4,268,375
Weighted average rate	4.92 %	3.25 %

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

Fiscal Year	Principal	Interest	Total
2007	$ 3,555	$ 235,627	$ 239,182
2008	4,400	235,561	239,961
2009	67,280	235,364	302,644
2010	33,625	233,663	267,288
2011	5,825	230,793	236,618
Total fiscal years 2007-2011	114,685	1,171,008	1,285,693
2012-2016		1,147,768	1,147,768
2017-2021	128,300	1,143,153	1,271,453
2022-2026	430,000	1,112,551	1,542,551
2027-2031	1,634,900	956,134	2,591,034
2032-2036	730,000	524,356	1,254,356
2037-2041	507,900	407,727	915,627
2042-2046	1,201,000	236,552	1,437,552
	$4,746,785	$6,699,249	$11,446,034

Variable student loan revenue bonds consist of variable rate bonds and auction rate certificates. Variable rate bonds bear interest at a rate determined by the remarketing agent. Such rate is determined on a weekly basis. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. The repricing fee is expensed as incurred and included within interest expense on the statements of revenues, expenses, and changes in net assets. Auction rate certificates bear interest at the applicable auction rate as determined by a bidding process every 28 or 35 days as stipulated in the related Bond Agreement. The debt service requirements in the table above were prepared using the applicable variable rates on June 30, 2006, and may significantly differ from the rates paid in future periods. Fixed rate bonds pay interest at a rate specified in the related Bond Agreement.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Authority under certain conditions as set forth in the Bond Agreement. In addition, at June 30, 2006, $298,855 of the bonds are subordinate to the remainder of the outstanding bonds.

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including monies and securities therein. For certain bonds, the Authority has entered into agreements with the Municipal Bond Investors Assurance Corporation, Bank of America N.A., State Street Bank and Trust and AMBAC Indemnity, whereby the parties have issued letters of credit or insurance policies to the Trustees as beneficiaries for the respective bondholders. The purpose of the letters of credit or insurance policies is to guarantee payment of the bonds upon maturity or earlier redemption. The agreements contain certain covenants which, among other requirements, include minimum collateral requirements. The Authority maintains a minimum amount of assets pledged under required bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2006 and 2005 is $4,870,748 and $4,398,902, respectively. At June 30, 2006 and 2005, the Authority was in compliance with all financial covenants.

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

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

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

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

Debt Service Reserve Accounts—Under the terms of certain bond provisions, minimum amounts are required to be maintained in the debt service reserve accounts for related bond series. The total of these minimum requirements at June 30, 2006 and 2005 were $35,011 and $32,588, respectively. These funds are only to be used to make principal and/or interest payments on the bonds and any interest due on the borrowed funds. In accordance with the bond provisions, the Authority has purchased a non-cancelable Surety Bond in lieu of cash deposits in the debt service reserve accounts for certain of the bond obligations in the amount of $6,926 at June 30, 2006 and $6,930 at June 30, 2005. Such Surety Bonds expire on the earlier of the bond maturity date or the date in which the Authority satisfies all required payments related to such bond obligations.

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

As of June 30, 2006 and 2005, cash, cash equivalents, and investments were segregated as follows:

	June 30, 2006	June 30, 2005
Special trust accounts:		
Unrestricted:		
Loan accounts	$ 212,184	$ 47,365
Revenue accounts	40,273	19,574
Restricted:		
Debt service reserve accounts	38,216	35,521
Rebate accounts	503	484
Total special trust accounts	291,176	102,944
Operating Fund:		
Unrestricted	22,498	19,296
Due to special trust accounts	17,825	15,004
Total operating fund	40,323	34,300
Total cash, cash equivalents and investments	$ 331,499	$ 137,244

8. LINE OF CREDIT

On October 4, 2005, the Authority entered into a three-year $400,000 revolving line of credit. The credit agreement charges an interest rate on outstanding borrowings of LIBOR plus .30% based on the chosen borrowing period of one week or one, three or six months, and an unused commitment fee of .10%. Interest payments are due on the expiration date of the corresponding LIBOR rate loan.

On March 31, 2006, the Authority amended its credit agreement to increase the borrowing commitment to $800,000.

For the year ended June 30, 2006, the following table displays the aggregate changes in the line of credit borrowings:

	2006	2005
Beginning balance	$ 85,200	$ -
Additional borrowings	738,000	85,200
Repayments	(116,600)	
Ending balance	$ 706,600	$ 85,200
Yield at end of year	5.67%	3.73%

9. CONTRACTS, COMMITMENTS, AND CONTINGENCIES

The Authority entered into a noncancelable operating lease that expires in fiscal year 2010. The minimum rental commitments remaining under the lease are as follows:

Year Ending June 30	
2007	$ 101
2008	101
2009	101
2010	76
Total future minimum lease obligation	$ 379

Total rent and leased equipment expense charged to operations amounted to $103 and $136 in 2006 and 2005, respectively.

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

Charges incurred under the contracts for the years ended June 30, 2006 and 2005, are as follows:

	2006	2005
Charges based on loan accounts	$ 6,705	$ 5,456
Hardware rentals	18	21
Total	$ 6,723	$ 5,477

One of the state organizations which insures the Authority's student loans is permitted to charge students a guarantee fee of up to 1% on all Federal Family Educational Loan Program ("FFELP") loans guaranteed by the organization. The Authority has resolved, that, provided the Authority in its sole determination is financially able, should the organization uniformly impose upon all FFELP participants that utilize its guarantee, the Authority will pay such guarantee fee on behalf of the borrowers for all loans which are originated or purchased by the Authority. The Authority shall determine the scope of this pledge in its sole discretion.

To the extent permitted under applicable law, the Authority has authorized an expenditure of a maximum of $550 in five equal annual installments beginning July 1, 2006 to support the University of Missouri – St. Louis GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) Partnership (the "Partnership"), which provides need-based scholarships and grants to students seeking higher education. Actual expenditures may be less in the event funding for these grants and scholarships is obtained by members of the Partnership. As of September 28, 2006, no such installment has been made by the Authority.

Unexecuted separation agreements or amendments to executive compensation agreements exist relative to two (2) former executives of the Authority. Management believes the accruals included in these financial statements are adequate based upon management's expectations.

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

10. EMPLOYEE BENEFITS

The Authority maintains a single employer defined contribution plan, the Higher Education Loan Authority of the State of Missouri 401(k) Plan (the "401(k) Plan"), with investment management performed by Goldman Sachs and recordkeeping provided by Edward Jones for all employees who are at least 21 years of age, and who work in excess of 1,000 hours per plan year, and who have been employed at least one year by the Authority. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. Sixteen investment fund options are available for choice by the employee. The Authority contributes an amount equal to 100% of the first 8% contributed by the employee. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five-year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. The Authority may make a non-matching contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Authority when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During 2006 and 2005, the Authority contributed $542 and $400 and employees contributed $594 and $461 to the 401(k) Plan.

The Authority offers a noncontributory defined benefit pension plan, the Higher Education Loan Authority of the State of Missouri Pension Plan (the "Pension Plan"), to supplement the benefits provided under the defined contribution plan. The Pension Plan is administered by A.G. Edwards Trust Company. Employees vest in this Pension Plan after five years of service. A report of the Pension Plan may be obtained by writing to the Authority's Pension Plan Administrator, 633 Spirit Drive, Chesterfield, Missouri 63005-1243 or by calling (636) 532-0600 with your request for a copy of the report of the Pension Plan. The Authority has elected to recognize prior service costs over a 25-year period which represents the estimated remaining service lives of the employees at the Pension Plan origination date.

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

Pension Plan assets are invested primarily in growth and income stocks at the discretion of the trustee. During the current year the Authority contributed the actuarially determined minimum required funding. The annual required contribution for the years ended June 30, 2006, 2005, and 2004, was determined as part of the July 1, 2005, 2004, and 2003, respectively, actuarial valuations. The Authority's policy is to contribute annually not less than the actuarially determined minimum required contribution determined by using the Aggregate Actuarial Cost Method. Because this method is used, the amortization is a level percentage of payroll over the average remaining service life of active members. Separate determination and amortization of the unfunded actuarial liability are not part of such method and are not required when that method is used.

The following tables detail the components of net periodic pension cost. The funded status of the Pension Plan as of June 30, 2006, 2005, and 2004, the amounts recognized in the Authority's financial statements, and major assumptions used to determine these amounts are as follows:

	2006	2005	2004
Change in plan assets:			
Fair value of plan assets at beginning of year	$ 17,044	$ 14,078	$ 10,274
Actual return on plan assets	734	652	1,162
Employer contributions	1,867	2,561	2,800
Benefits disbursed from plan assets (including expense charges)	(429)	(247)	(158)
Fair value of plan assets at the end of the year	19,216	17,044	14,078
Net pension obligation ("NPO"):			
NPO at beginning of year	(3,987)	(4,186)	(4,134)
Annual pension cost	2,054	2,760	2,748
Contributions for year	(1,867)	(2,561)	(2,800)
NPO at end of year	(3,800)	(3,987)	(4,186)
Funding excess	$ 15,416	$ 13,057	$ 9,892
Major assumptions:			
Investment return	7 %	7 %	7 %
Inflation rate	4 %	4 %	4 %
Discount rate used for amortization of NPO	3 %	3 %	3 %
Salary scale	6 %	5 %	5 %
Amortization period (open) (years)	10.0	10.4	10.4
Cost method	Aggregate	Aggregate	Aggregate
Components of annual pension cost:			
Annual required contribution ("ARC")	$ 1,867	$ 2,561	$ 2,553
Interest on NPO	(280)	(294)	(290)
Adjustment to ARC	467	493	485
	$ 2,054	$ 2,760	$ 2,748
Percentage of ARC contributed	100.0 %	100.0 %	109.7 %
Annual covered payroll	$ 10,306	$ 8,932	$ 8,206
ARC as a % of payroll	20.6 %	30.9 %	33.5 %
Funding excess to annual covered payroll	149.6 %	146.2 %	120.5 %
Funded ratio	506.2 %	427.5 %	336.3 %

11. STUDENT LOAN PURCHASE COMMITMENTS

In addition to the student loans already purchased, the Authority was contractually committed to primary lending institutions to purchase student loans under purchase agreements. Under these agreements the lending institution is required to use into best efforts to make and sell student loans to the Authority up to a contractually agreed-upon amount; however, the Authority has the right to refuse the purchase. The average length of the purchase commitments is three years. Management intends to fulfill the commitments using funds held by the Trustee and funds generated through the normal financing operations of the Authority. At June 30, 2006 and 2005, the Authority was servicing $988,225 and $1,034,004, respectively, in student loans for these and other lending institutions.

12. ARBITRAGE REBATE PAYABLE

In accordance with Section 148 and the regulations thereunder of the Internal Revenue Code of 1986, as amended, the Authority is required to pay to the United States Treasury certain amounts related to the Authority's tax-exempt bond issues. The amount required to be paid represents the excess of amounts earned over the interest cost of the tax-exempt borrowings. Non-purpose rebate payments are due every fifth year and when the bonds are retired. Purpose rebate payments are due every tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. The rebate calculation utilizes various assumptions and allows for the selection of alternative calculation options under the Code. Management estimates at June 30, 2006 and 2005, the liability to be $22,972 and $32,443, respectively, which has been provided for in the financial statements, however, the ultimate liability, if any, is dependent on investment yields and bond rates in the future.

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

	2006	2005
Beginning balance	$ 32,443	$ 37,415
Reduction of arbitrage liability	(3,336)	(312)
Student loan forgiveness	(6,085)	(4,626)
Payments	(50)	(34)
Ending balance	$ 22,972	$ 32,443

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

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	June 30, 2006		June 30, 2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
ASSETS:				
Cash and cash equivalents	$ 318,614	$ 318,614	$ 126,278	$ 126,278
Investments held by Trustee	12,885	12,885	10,966	10,966
Student loans receivable	5,238,174	5,386,804	4,370,105	4,430,181
LIABILITIES:				
Bonds payable—net	4,729,515	4,732,797	4,268,375	4,279,089
Line of credit	706,600	706,600	85,200	85,200
OFF-BALANCE SHEET INSTRUMENTS—Standby letters of credit	-	3,286	-	2,346

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

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

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

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

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

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

14. SEGMENT INFORMATION

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

The outstanding bonds payable of the Authority consist of Student Loan Revenue Bonds. The Student Loan Revenue Bonds are issued in accordance with six separate General Student Loan Program Bond Resolutions adopted by the Board of Directors in various years from 1988 through 2004, as well as in accordance with a Trust Indenture adopted by the Board of Directors in 2005. The Resolutions provide that the bonds are payable from the eligible loans pledged under the Resolutions, amounts deposited in the accounts pledged under the Resolutions and all other revenues and recoveries of principal from the loans purchased with the bond proceeds.

Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund.

Summary financial information for the Student Loan Revenue Bonds as of June 30, 2006 and 2005, are as follows:

	2006		2005	
Condensed Statements of Net Assets	**Operating Fund**	**Bond Fund**	**Operating Fund**	**Bond Fund**
Assets:				
Current assets	$35,279	$ 500,038	$31,708	$ 233,889
Long-term assets	23,601	5,167,755	20,979	4,332,736
Total assets	$58,880	$5,667,793	$52,687	$4,566,625
Liabilities:				
Current liabilities	$ 8,389	$ 734,632	$ 3,313	$ 153,265
Long-term liabilities		4,749,740		4,254,256
Interfund payable (receivable)	21,279	(21,279)	22,672	(22,672)
Total liabilities	29,668	5,463,093	25,985	4,384,849
Net assets:				
Invested in capital assets	14,470		14,413	
Restricted		129,839		112,310
Unrestricted	14,742	74,861	12,289	69,466
Total net assets	29,212	204,700	26,702	181,776
Total liabilities and net assets	$58,880	$5,667,793	$52,687	$4,566,625
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 1,421	$ 305,440	$ 742	$ 194,688
Operating expenses	921	280,506	3,033	170,225
Operating (loss) income	500	24,934	(2,291)	24,463
Interfund transfers	2,010	(2,010)	11,185	(11,185)
Increase (decrease) in net assets	2,510	22,924	8,894	13,278
Net assets, beginning of year	26,702	181,776	17,808	168,498
Net assets, end of year	$29,212	$ 204,700	$26,702	$ 181,776

Condensed Statements of Cash Flow	2006 Operating Fund	2006 Bond Fund	2005 Operating Fund	2005 Bond Fund
Net cash flows from operating activities	$ 6,890	$ (689,100)	$ 7,281	$ (456,791)
Net cash flows from non-capital financing activities		877,330		(44,254)
Net cash flows from capital activities	(887)		(329)	
Net cash flow from investing activities	(5,035)	3,138	2,505	
Net increase (decrease) in cash and cash equivalents	968	191,368	9,457	(501,045)
Cash and cash equivalents, beginning of year	29,056	97,222	19,599	598,267
Cash and cash equivalents, end of year	$ 30,024	$ 288,590	$ 29,056	$ 97,222

15. SUBSEQUENT EVENTS

Additional Borrowings—On July 27, 2006 the Higher Education Loan Authority of the State of Missouri entered into a financing agreement for a $1,020,000 multi-seller asset backed commercial paper conduit. The proceeds from the financing security were used to satisfy the obligation with the line of credit outstanding which had a balance of $706,600 as of June 30, 2006. In accordance with the financing security agreement, the Authority pledged from the line of credit the cash and cash equivalents, student loan receivable principal, accrued interest, interest subsidy, special allowance, and unamortized financed premium which has a balance of $738,300 as of July 27, 2006.

The Authority issued $750,000 in Libor-indexed senior taxable bonds under the 21st Supplement to the 11th General Resolution on September 14, 2006, through a direct placement with a single investor, Depfa Bank plc, New York Branch. The bonds are Aaa and AAA rated by Moody's and Fitch, respectively. The bonds will mature on September 1, 2046. Series F1-7 will be in $100,000 traunches, while series F8 will be a $50,000 traunch. The bonds will be indexed to one month Libor with series F1-4 repricing monthly on the 1st of the month and F5-8 repricing monthly on the 15th of the month. The interest rate on the bonds will be one month Libor plus 13 basis points through the initial Libor indexed mode date, which is the day next proceeding September 1, 2016. After September 1, 2016, MOHELA may either negotiate an extended Libor indexed rate and term with DEPFA Bank, convert the bonds to another structure or choose to let the bonds begin paying down from the normal cash flows of the assets.

Governor's Initiative (Lewis & Clark Plan)—On September 27, 2006 the Authority sought and received approval from the Board of Directors to enter into a Cooperation Agreement (the "Agreement") involving the Department of Economic Development of the State of Missouri (DED), Missouri Development Finance Board (MDFB), The Curators of the University of Missouri (University), and the Authority to support the Lewis & Clark plan. The Agreement is subject to legislative approval, and the effective date of the Agreement will be the date legislative approval is obtained. The Agreement obligates the Authority to provide funding equal to $350,311 to the MDFB which in turn will be responsible for dividing the funding among various universities and endowments within the state of Missouri that are eligible. The Agreement also calls for the Authority to receive at minimum $1,000,000 in tax-exempt bond allocation over a 10-year period and consideration for Stafford loan origination authority.

The payment plan for the $350,311 that the Authority is obligated to provide to the MDFB within the Agreement is as follows:

- $30,311 upon the effective date of the Agreement
- $70,000 upon the later of the effective date of the proposed amendments contained in the proposed Twenty-Second Supplemental Resolution of the Eleventh General Student Loan Program Bond Resolution by the Authority's Board or the effective date of the Agreement
- $70,000 upon the later of the effective date of the Agreement or March 31, 2007
- $40,000 upon the later of the effective date of the Agreement or September 30, 2007
- $140,000 payable in twenty-four installments of $5,833 commencing not later than two hundred and seventy days after execution of the Agreement.

With the exception of the $30,311, all of the payments above are subject to the Authority obtaining the proper approvals and consents from the bondholders, trustee, and rating agencies. Furthermore, the payments subsequent to the $30,311 are subject to the opinion of the Authority special tax counsel with regards to the overall impact to the Authority's tax-exempt bonds.

Management believes that the funding for the obligation of $350,000 will be derived from the following sources:

- $130,000 from net assets removed from the various bond resolutions
- $80,000 from the estimated premiums realized on the sale of consolidation loans
- $140,000 from the sale of consolidation loans and the removal of net assets through servicing and administrative draw on each of the various bonds.

Management estimates a total of $3,900,000 of student loans will need to be sold in order to recognize the above premium to fund the overall initiative.

Furthermore, based on current operations, management believes that the overall transaction will reduce FY 2007 change in net assets by $7,000–10,000. Furthermore, it is management's belief and the Board's expectation that the Authority will remain a viable entity subsequent to this transaction.

Exceptional Performer Recognition— On September 7, 2006, the Authority received official confirmation as an Exceptional Performer from the U.S. Department of Education. The distinctive recognition is given to student loan lenders and servicers who demonstrate outstanding performance in loan servicing within the FFELP. As one of only 18 lenders and servicers recognized nationwide as an Exceptional Performer, the Authority qualifies by maintaining a compliance performance rating of 97 percent or higher.

The Authority's loan servicing is recognized in the following areas: converting federal loans to repayment, collecting delinquent loans, and filing timely claims with guarantee agencies. The designation also provides MOHELA with a 99 percent federal reimbursement on default claims, rather than the standard 97 percent.

* * * * * *

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

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

We have audited the financial statements of the Higher Education Loan Authority of the State of Missouri as of and for the year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Higher Education Loan Authority of the State of Missouri's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Higher Education Loan Authority of the State of Missouri'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*.

However, we noted certain matters that we have reported to management of the Higher Education Loan Authority of the State of Missouri in a separate letter dated October 4, 2006.

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

/s/ DELOITTE & TOUCHE LLP

St. Louis, Missouri
October 4, 2006

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

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

Compliance

We have audited the compliance of the Higher Education Loan Authority of the State of Missouri with the types of compliance requirements described in the *U.S. Office of Management and Budget* ("OMB") *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The Higher Education Loan Authority of the State of Missouri's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to the major federal program is the responsibility of the Higher Education Loan Authority of the State of Missouri's management. Our responsibility is to express an opinion on the Higher Education Loan Authority of the State of Missouri's compliance based on our audit.

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

In our opinion, the Higher Education Loan Authority of the State of Missouri complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Higher Education Loan Authority of the State of Missouri is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Higher Education Loan Authority of the State of Missouri's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Higher Education Loan Authority of the State of Missouri's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Higher Education Loan Authority of the State of Missouri as of and for the year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Higher Education Loan Authority of the State of Missouri. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

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

/s/ DELOITTE & TOUCHE LLP

St. Louis, Missouri
October 4, 2006

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor	Federal CFDA Number	Interest Subsidy Received
U.S. DEPARTMENT OF EDUCATION:		
Federal Family Education Loan Program—Interest on Student Loans (Note 1)	84.032	$ 32,573,725
Federal Family Education Loan Program—Special Allowance (Note 1)	84.032	101,100,989
TOTAL FEDERAL FAMILY EDUCATION LOAN PROGRAM	84.032	$ 133,674,714

		Outstanding Balance at June 30, 2006
TOTAL GUARANTEED LOANS OF THE AUTHORITY AT JUNE 30, 2006—Guaranteed student loans (Note 3)	84.032	$ 5,036,386,000

See notes to supplementary schedule of expenditures of federal awards.

NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

1. DESCRIPTION OF PROGRAMS

U.S. Department of Education—The Federal Family Education Loan Programs enable the Higher Education Loan Authority of the State of Missouri (the "Authority") to receive interest on subsidized guaranteed student loans during the period a student is attending school or during certain other allowable deferment periods.

The Special Allowance Program provides funding that is primarily an incentive payment in order that money market conditions or interest rates will not impede the granting of student loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the federal awards program of the Authority conform to accounting principles generally accepted in the United States of America. The following is a summary of the Authority's significant accounting policies for federal programs.

Basis of Accounting—The Authority maintains its schedule of expenditures of federal awards on an accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

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

3. CONTINUING COMPLIANCE REQUIREMENTS

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

* * * * * *

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

PART I—SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. No instance of noncompliance considered material to the financial statements, was disclosed by the audit.
3. No matters related to internal control over compliance with requirements applicable to major federal awards programs were required to be reported.
4. The independent auditors' report on compliance with requirements applicable to the major federal award program, expressed an unqualified opinion.
5. The audit disclosed no findings required to be reported by OMB Circular A-133.
6. The Authority's major program is:

Federal Family Education Loan Program	CFDA #84.032

7. The threshold of $4,010,241 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
8. The Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II—FINANCIAL STATEMENT FINDINGS SECTION

None

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION

None

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATUS OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

Reference Number 2005-01

CFDA # - 84.032 Department of Education, Federal Family Loan Program

Summary of Finding—Contrary to the instructions of the Authority, an agent of the Authority purchased one investment (out of fifteen investments in the applicable period) that was not permitted under applicable law. The monitoring control at the Authority did not recognize the impermissible transaction in a timely manner.

Status of Finding—Management of the Authority has implemented appropriate corrective actions.