



FINANCIAL STATEMENTS

Higher Education Loan Authority of the State of Missouri
As of and for the Years Ended June 30, 2022 and 2021
With Reports of Independent Auditors

Higher Education Loan Authority of the State of Missouri

Financial Statements

As of and for the Years Ended June 30, 2022 and 2021

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Higher Education Loan Authority of the State of Missouri (“the Company”), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Company’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Company at June 30, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to



continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.



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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 21 and Schedule of Changes in Net Pension Liability (Asset) and Related Ratios; Schedule of Contributions; and Schedule of Investment Returns on pages 92 – 94 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 of America, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2022 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.

A handwritten signature in black ink that reads "Ernst & Young LLP".

September 19, 2022

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (Unaudited)

As of and for the Years Ended June 30, 2022 and 2021

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 units, the Missouri Scholarship and Loan Foundation (the Foundation), and Knowledge Finance, 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.

Financial Highlights

During fiscal year 2022, the Company experienced significant growth in its federal loan servicing and non-servicing contracts.

- As of June 30, 2022, the Company is servicing 5.2 million federal accounts compared to 2.7 million at June 30, 2021.
- Federal asset principal serviced increased \$89.1 billion in fiscal year 2022 to \$148.2 billion compared to \$59.1 billion at June 30, 2021.
- Servicing fees increased \$37.6 million (54%) in fiscal year 2022 to \$107.5 million from \$69.9 million in fiscal year 2021. The majority of the increase was net direct loan servicing fee increase of \$32.8 million from \$56.1 million in fiscal year 2021 to \$88.9 million in fiscal year 2022. The non-servicing Business Process Operations (BPO) contract fees increased \$4.6 million in fiscal year 2022 from \$0.5 million to \$5.1 million.
- As a result of the increase in volume, the Company's salaries and benefits increased \$31.0 million (96%). The Company's employees and contracted employees increased over 1,000 from 337 at June 30, 2021 to 1,365 at June 30, 2022.
- Computer services increased \$10.1 million related to the new loans being added to the servicing system.

The Company

The Company 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 Department). The Company is a leading holder and servicer of student loans with \$168.1 billion in student loan assets serviced as of June 30, 2022.

Higher Education Loan Authority of the State of Missouri

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

The Company (continued)

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. Scott D. Giles, appointed by the Board during fiscal year 2022, serves as Executive Director and Chief Executive Officer of the Company.

The passage of HB 221, effective August 28, 2003, allowed the Company to originate Parent Loans for Undergraduate Students (PLUS loans) and extended the date for repayment of bonds issued 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 the Company 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 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." The Company disbursed just under \$1.9 million of Stafford loans during fiscal year 2011. The Company made no disbursements since fiscal year 2011 due to the elimination of FFELP as discussed below. The Company has 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

Higher Education Loan Authority of the State of Missouri

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

The Company (continued)

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 had a contract with the Department to service Direct Loans in accordance with the HCERA, which required 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 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
- (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 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. 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 starting with the quarter ended June 30, 2013, all Company-owned FFELP loans disbursed after January 1, 2000 are indexed to one-month LIBOR.

Higher Education Loan Authority of the State of Missouri

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

The Company (continued)

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 are 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.

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 grants, scholarships, 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.

On September 27, 2019, the Company's Board approved the creation of Knowledge Finance, appointed the initial board of directors, and provided initial funding of \$3.0 million. On October 2, 2019, Knowledge Finance was incorporated as a Missouri not-for-profit corporation for the primary purpose of supporting higher education and charitable endeavors. These purposes include the servicing of student loans, as well as, receiving gifts and grants, raising funds,

Higher Education Loan Authority of the State of Missouri

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

The Company (continued)

accepting transfers and contributions, and using the related funds in the administration of grants, scholarships, and related programs on behalf of the Company.

The Company responded to the Sources Sought Notice and was among the first 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 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 majority of these arrangements expired during fiscal year 2020. The Company is servicing approximately 5.2 million federal asset accounts, representing approximately \$148.2 billion in student loans, as of June 30, 2022.

In January 2020, the Company submitted a Next Generation Financial Services request for proposal for Business Process Operations (BPO) for Non-Servicing work. In June 2020, the Company was awarded a contract and subsequently secured an Initial Implementation Task Order in November 2020, Authorized To Operate (ATO) in July 2021 and Train the Trainer in September 2021. In November 2021, a Ramp-Up Task Order was issued and the Company went live on November 5, 2021, one of only four BPOs to go live. From November 5, 2021 through March 31, 2022, the legacy contact center and back-office processing for non-servicing work was migrated to the BPOs, mirroring the various legacy center hours of operation, holiday schedule and peak seasons. During fiscal year 2022, the Company earned \$5.2 million in BPO contracted revenue compared to \$530 thousand in fiscal year 2021.

Higher Education Loan Authority of the State of Missouri

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

The Company (continued)

In addition to the federal loan servicing contracts, at June 30, 2022, the Company serviced \$1.1 billion of its own legacy FFELP student loans. This portfolio helped the Company transition to a federal asset and private loan servicing business model. Subsequent to year-end, the Biden-Harris Administration announced a Student Debt Relief Plan that includes one-time student loan debt relief targeted to low- and middle-income families. The U.S. Department of Education (ED) will provide up to \$20,000 in debt relief to Federal Pell Grant recipients and up to \$10,000 in debt relief to non-Pell Grant recipients. Borrowers with loans held by ED are eligible for this relief if their individual income is less than \$125,000 (or \$250,000 for households). The Company is still evaluating the impact of the plan on the federal asset and FFELP student loan portfolios.

The Company purchased \$18.3 million in FFELP student loans from guarantors during fiscal year 2022. This compares to \$30.3 million purchased during fiscal year 2021, representing a 39% decrease for fiscal year 2022. During fiscal year 2020, the Company purchased \$86.6 million in student loans from guarantors representing a 65% decrease for fiscal year 2021. 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, as well as rehabilitated loans. The Company also purchased credit deteriorated loans in fiscal year 2021.

During fiscal year 2022, the Company recognized \$88.9 million in servicing fees from its federal servicing contract compared to \$56.1 million and \$52.7 million in fiscal years 2021 and 2020, respectively, after fees paid to subcontractor team members. In addition, the Company serviced loans on behalf of several third-party lending institutions. Servicing fee revenue for these services during fiscal years 2022, 2021, and 2020 were \$11.5 million, \$11.4 million and \$11.7 million, respectively. At June 30, 2022, the Company serviced over \$18.8 billion in private third-party lender loans compared to \$18.6 billion and \$21.6 billion in fiscal years 2021 and 2020, respectively.

There were \$4.7 million MOFELP loans originated during fiscal year 2022 compared to \$4.1 million during fiscal year 2021 representing a \$0.6 million (14%) increase for fiscal year 2022. During fiscal year 2020, \$5.0 million loans were originated representing a \$0.9 million (18%) decrease for fiscal year 2021.

The student loan portfolio decreased 9% from \$1.16 billion to \$1.05 billion from fiscal year 2021 to fiscal year 2022. 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 6% from \$1.24 billion to \$1.16 billion from fiscal year 2020 to fiscal year 2021.

Higher Education Loan Authority of the State of Missouri

Management’s Discussion and Analysis (continued)

(Unaudited)

The Company (continued)

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. Borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction. The Company contributed funds to multiple organizations throughout the previous fiscal years. Contributions made to Access Missouri Financial Assistance Program, Advanced Placement Incentive Grants, A+ Scholarship Program, Bright Flight Scholarship fund, and the Missouri Scholarship and Loan Foundation, are detailed in the table below. 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.

| | A+ Scholarship Program | Access Missouri Financial Assistance Program | Advanced Placement Incentive Grants | Bright Flight Scholarship Fund | Missouri Scholarship and Loan Foundation |
|----------------|------------------------------|--|--|--------------------------------------|--|
| FY 2022 | \$ 2.0 | \$ 2.0 | \$ - | \$ 2.0 | \$ 19.0 |
| FY 2021 | 2.0 | - | - | 2.0 | 117.9 |
| FY 2020 | 2.0 | 1.3 | - | 1.5 | 11.5 |
| FY 2019 | - | 1.0 | - | 0.5 | 15.0 |
| FY 2018 | - | - | - | 1.8 | 12.6 |
| FY 2017 | - | - | - | 1.6 | 10.3 |
| FY 2016 | - | - | - | - | 4.8 |
| FY 2015 | - | - | - | 1.0 | 11.1 |
| FY 2014 | - | - | - | - | 5.7 |
| FY 2013 | - | 5.0 | - | - | - |
| FY 2012 | - | 30.0 | 1.0 | - | - |
| FY 2011 | - | 30.0 | - | - | - |

Financial Analysis

As a result of adopting GASB Statement No. 80 on July 1, 2016, which requires blending of the Company’s component units, the Foundation and Knowledge Finance, this report includes financial statements blending the financial activity of the Foundation and Knowledge Finance.

Included in this report are three business-type 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,

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued)

(Unaudited)

Financial Analysis (continued)

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.

As a result of recent GASB guidance, the Company is required to present fiduciary activity financial statements for its legacy pension plan. The pension trust fund is used to report resources held in trust for retirees. Fiduciary funds are not available to support the Company's own programs.

Higher Education Loan Authority of the State of Missouri

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

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

Condensed Statements of Net Position

(In thousands)

| | 2022 | 2021 | 2020 |
|----------------------------------|-------------------|-------------------|-------------------|
| Capital assets | \$ 18,526 | \$ 19,235 | \$ 19,557 |
| Other than capital assets | <u>1,447,751</u> | <u>1,586,459</u> | <u>1,502,017</u> |
| Total assets | <u>1,466,277</u> | <u>1,605,694</u> | <u>1,521,574</u> |
| Deferred outflows of resources | <u>24,837</u> | <u>7,056</u> | <u>8,140</u> |
| Current liabilities | 134,733 | 298,815 | 270,805 |
| Long-term liabilities | <u>963,408</u> | <u>886,569</u> | <u>866,075</u> |
| Total liabilities | <u>1,098,141</u> | <u>1,185,384</u> | <u>1,136,880</u> |
| Deferred inflows of resources | <u>9,555</u> | <u>12,177</u> | <u>2,244</u> |
| Net investment in capital assets | 8,522 | 7,927 | 6,958 |
| Restricted for debt service | 64,813 | 89,174 | 241,617 |
| Unrestricted | <u>310,083</u> | <u>318,088</u> | <u>142,015</u> |
| Total net position | <u>\$ 383,418</u> | <u>\$ 415,189</u> | <u>\$ 390,590</u> |

Condensed Statements of Revenues, Expenses, and Changes in Net Position

(In thousands)

| | 2022 | 2021 | 2020 |
|--|--------------------|------------------|------------------|
| Interest on student loans and interest subsidy | \$ 56,869 | \$ 66,006 | \$ 71,775 |
| Special allowance | (19,339) | (21,517) | (14,023) |
| Servicing income and other | <u>77,125</u> | <u>87,161</u> | <u>71,561</u> |
| Total operating revenues | <u>114,655</u> | <u>131,650</u> | <u>129,313</u> |
| Bond expenses | 15,799 | 21,581 | 28,697 |
| Student loan expenses | 5,548 | 5,615 | 7,471 |
| General and administrative expenses | <u>119,079</u> | <u>72,057</u> | <u>76,796</u> |
| Total operating expenses | <u>140,426</u> | <u>99,253</u> | <u>112,964</u> |
| Operating (loss) income | <u>(25,771)</u> | <u>32,397</u> | <u>16,349</u> |
| Non-operating expenses | <u>(6,000)</u> | <u>(7,798)</u> | <u>(4,750)</u> |
| Change in net position | <u>\$ (31,771)</u> | <u>\$ 24,599</u> | <u>\$ 11,599</u> |

Higher Education Loan Authority of the State of Missouri

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

Financial Position

Total assets decreased \$139.4 million (9%) and total deferred outflows of resources increased \$17.8 million (252%), while liabilities decreased \$87.2 million (7%) and deferred inflows of resources decreased \$2.6 million (22%), resulting in a decrease to the Company's net position of \$31.8 million (8%) in fiscal year 2022. This decrease compares to an increase in net position of \$24.6 million in fiscal year 2021. The change in net position in fiscal year 2022 is primarily due to a \$17.0 million (13%) decrease in total operating revenues, a decrease of \$5.8 million (27%) in total bond-related expenses, and a \$47.0 million (65%) increase in total general and administrative expenses, primarily related to salaries and computer services due to the Company's growth.

Net investment in capital assets increased \$0.6 million (8%) in fiscal year 2022 to \$8.5 million from \$7.9 million in fiscal year 2021. Restricted net position decreased by \$24.4 million (27%) to \$64.8 million in fiscal year 2022 from \$89.2 million in fiscal year 2021. Unrestricted net position decreased by \$8.0 million (3%) to \$310.1 million in fiscal year 2022 from \$318.1 million in fiscal year 2021.

For the years ended June 30, 2022 and 2021, the Company recorded deferred outflows of resources related to pension of \$24.8 million and \$7.1 million, respectively, and deferred inflows of resources related to pension and leases in the amount of \$9.6 million and \$12.2 million, respectively. These are 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 2022, the Company placed CAMP software at a cost of \$0.8 million into service. New servers were added at a cost of \$0.6 million.

During fiscal year 2021, the Company purchased Cepi land and building at a cost of \$0.7 million. New servers and switches were added at a cost of \$0.3 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):

| | 2022 | 2021 | 2020 |
|--|--------------|--------------|--------------|
| Cash and cash equivalents | \$ 151,939 | \$ 143,889 | \$ 123,152 |
| Investments | 150,702 | 180,209 | 53,223 |
| Student loans receivable, net | 1,053,476 | 1,164,467 | 1,241,998 |
| Accrued interest receivable | 74,644 | 71,486 | 71,679 |
| Miscellaneous receivables and prepaid expenses | 16,990 | 13,700 | 11,965 |
| Net pension asset | - | 12,708 | - |
| Total other than capital assets | \$ 1,447,751 | \$ 1,586,459 | \$ 1,502,017 |

Cash and cash equivalents increased \$8.1 million (6%) to \$151.9 million at June 30, 2022 from \$143.9 million at June 30, 2021. This compares to an increase of \$20.7 million (17%) from \$123.2 million at June 30, 2020. 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 \$111.0 million (10%) to \$1.1 billion at June 30, 2022 from \$1.2 billion at June 30, 2021 due to loan principal reductions of \$129.2 million partially offset by purchase activity of \$18.3 million. This compares to a decrease in net student loans receivable of \$77.5 million (6%) from \$1.2 billion at June 30, 2020. This decline relates to loan principal reductions of \$107.8 million partially offset by purchase activity of \$30.3 million.

Accrued interest receivable increased \$3.2 million (4%) to \$74.6 million at June 30, 2022 from \$71.5 million at June 30, 2021 due to increases in interest rates. This compares to a decrease of \$0.2 million (.3%) from \$71.7 million at June 30, 2020, due to continuing disaster forbearances.

Miscellaneous receivables and prepaid expenses increased \$3.3 million (24%) to \$17.0 million at June 30, 2022 from \$13.7 million at June 30, 2021 primarily due to an increase in servicing fee receivables related to more accounts being serviced and prepaid expenses. This compares to an increase in miscellaneous receivables and prepaid expenses of \$1.7 million (15%) at June 30, 2021 from \$12.0 million at June 30, 2020 primarily due to an increase in servicing fee receivables related to more accounts being serviced and prepaid expenses.

At June 30, 2022, there was no pension asset compared to a net pension asset of \$12.7 million at June 30, 2021, and no pension asset at June 30, 2020. Please refer to Note 8 for more information on the Company's net pension asset.

Higher Education Loan Authority of the State of Missouri

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

Financial Position (continued)

Liabilities

Current liabilities decreased \$164.1 million (55%) to \$134.7 million at June 30, 2022 from \$298.8 million at June 30, 2021, due to a \$145.8 million decrease in line of credit payable. The decrease was offset by an increase of current bonds payable of \$15.3 million and a decrease of lender payables of \$40.4 million. Long-term liabilities increased by \$76.8 million (9%) to \$963.4 million at June 30, 2022 as the Company issued one new bond during fiscal year 2022. The Company has an \$11.1 million net pension liability as of June 30, 2022 compared to no net pension liability at June 30, 2021. Please refer to Note 8 for more information on the Company's net pension liability. A fourth amendment of the agreement was made on May 18, 2022 to set the available commitment of Line of Credit to \$100 million. See Note 6 for more detail on the Line of Credit.

For fiscal year 2021, current liabilities increased \$28.1 million (10%) to \$298.8 million at June 30, 2021 from \$270.7 million at June 30, 2020, due to a \$65.6 million increase in line of credit payable. The increase was offset by a decrease of current bonds payable of \$25.7 million and a decrease of lender payables of \$20.4 million. Long-term liabilities increased by \$21.1 million (2%) to \$886.6 million at June 30, 2021 as the Company issued new bonds during fiscal year 2021. The Company repaid bonds with available cash as required by the respective bond trusts and voluntary early redemptions in addition to scheduled payments of principal on the Note Payable. The Company amended the Revolving Credit and Security Agreement with Bank of America adding an additional \$50.0 million to the Line of Credit on November 6, 2019. The Company made a second amendment to the Revolving Credit and Security Agreement with Bank of America to increase the Line of Credit to \$270 million on December 2, 2020. A third amendment of the agreement was made on May 19, 2021 to set the available commitment of Line of Credit to \$175 million. See Note 6 for more detail on the Line of Credit.

Operating Results

The change in net position for the period ending June 30, 2022 was \$(31.8) million compared to the change in net position for the period ending June 30, 2021 of \$24.6 million, a decrease of \$56.4 million (-229%). The decrease is primarily due to a \$48.5 million decrease in realized and unrealized gain on investments, a \$5.8 million decrease in bond related expenses, a \$47.0 million increase in general and administrative expenses, primarily related to salaries and computer services due to the Company's growth. These decreases to the change in net position were partially offset by a \$36.3 million increase in net servicing fee revenue due to the Company's growth in the number of borrowers serviced.

For fiscal year 2021, the change in net position for the period ending June 30, 2021 was \$24.6 million compared to the change in net position for the period ending June 30, 2020 of \$11.6

Higher Education Loan Authority of the State of Missouri

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

Operating Results (continued)

million, an increase of \$13.0 million (112%). The increase is primarily due to a \$15.7 million increase in realized and unrealized gain on investments, a \$7.1 million decrease in bond related expenses, a \$4.7 million decrease in general and administrative expenses, primarily related to salaries, and a \$1.9 million decrease in student related expenses. These increases to the change in net position were partially offset by a \$13.3 million decrease in interest revenue on student loans net of special allowance and interest subsidy.

Operating Revenues

Total operating revenues decreased \$17.0 million (13%) to \$114.7 million in fiscal year 2022 from \$131.7 million in fiscal year 2021. The primary reason for the decrease was a decrease in realized and unrealized gain on investments of \$48.5 million, and a decrease in interest revenue on student loans of \$9.1 million. This decrease was partially offset by an increase in net servicing fee revenue of \$36.3 million and a decrease in the amount of special allowance paid, which increases revenue, of \$2.2 million. Interest on student loans declined primarily due to a \$111.0 million reduction in student loans outstanding. The decrease in special allowance in fiscal year 2022 was due to an overall 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 0.22% to 0.35% in fiscal year 2022 from 0.13% in fiscal year 2021. The increase in the rates results in a decreased amount of special allowance that is paid.

For fiscal year 2021, total operating revenues increased \$2.3 million (2%) to \$131.7 million in fiscal year 2021 from \$129.3 million in fiscal year 2020. The primary reason for the increase was an increase in realized and unrealized gain on investments of \$15.7 million, and an increase in net servicing fee revenue of \$0.6 million. This increase was partially offset by a decrease in interest revenue on student loans of \$5.8 million and an increase in the amount of special allowance paid, which reduces revenue, of \$7.5 million. Interest on student loans declined primarily due to a \$77.5 million reduction in student loans outstanding. The increase in special allowance in fiscal year 2021 was due to an overall decrease in interest rates. The average one-month LIBOR rate decreased 1.32% to 0.13% in fiscal year 2021 from 1.45% in fiscal year 2020. The decrease in the rates results in an increased amount of special allowance that is paid.

Higher Education Loan Authority of the State of Missouri

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

Operating Results (continued)

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 of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2022 was 0.02%, which set the rates on these loans at 2.32% and 1.72%, respectively. The rates on the same loans during fiscal year 2021 were 2.43% and 1.83%, respectively, and during fiscal year 2020 were 4.66% and 4.06%, 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 2022 was 0.02%, which set the rate on these loans at 3.12%, as compared to 3.23% for fiscal year 2021 and 5.46% for fiscal year 2020. 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, 2022 was 1.00%, which means the Company's annual yield for that quarter was 2.94%. The Company is required to rebate the additional interest paid by the borrower of 5.56% (8.5% – 2.94%) to the Department through the rebate of excess special allowance, which is often referred to as negative special allowance.

Higher Education Loan Authority of the State of Missouri

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

Operating Results (continued)

Operating Expenses

Total operating expenses increased \$41.2 million (41%) in fiscal year 2022 from fiscal year 2021. The increase was a result of an increase in general and administrative expenses of \$47.0 million, but was offset by a decrease in bond related expenses of \$5.8 million. This compares to an \$13.7 million (12%) decrease in operating expenses in fiscal year 2021 from fiscal year 2020. The decrease in fiscal year 2021 was a result of a decrease in general and administrative expenses of \$4.7 million, a decrease in bond related and student loan related expenses of \$7.1 million and \$1.9 million, respectively.

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 \$47.0 million (65%) in fiscal year 2022. The increase in general and administrative expenses can be attributed primarily to a \$31.0 million increase in salaries and a \$2.3 million increase in postage and forms. General and administrative expenses increased due to the rise in salaries and employee benefits as the average number of employees and contracted employees increased in fiscal year 2022. This rise was led by an increase in the volume of student loans the Company is servicing and the Company's continual extensive efforts to consult and assist borrowers. The Company began fiscal year 2022 servicing approximately 3.1 million borrowers and ended the fiscal year servicing approximately 5.5 million borrowers. Comparatively, in fiscal year 2021, general and administrative expenses decreased \$4.7 million. The decrease in general and administrative expenses can be attributed primarily to a \$7.4 million decrease in salaries and a \$2.6 million decrease in postage and forms. General and administrative expenses decreased due to the decline in salaries and employee benefits as the average number of employees decreased in fiscal year 2021.

Interest expense increased \$1.8 million (15%) to \$13.4 million in fiscal year 2022 from \$11.6 million in fiscal year 2021, primarily due to interest rate increases. In addition, there was an \$82.3 million (8.64%) increase in bonds outstanding debt of the Company. 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%. On December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit in the amount of \$50 million and it was increased to \$100 million on November 6, 2019, increased to \$270 million on December 2, 2020, decreased to \$175 million on May 19, 2021, and decreased to \$100 million on May 19, 2022. At June 30, 2022, there was no outstanding balance on the Line of Credit. In fiscal year 2022, the average interest rate for the Line of Credit was 1.15%.

Higher Education Loan Authority of the State of Missouri

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

Operating Results (continued)

The Company continued to experience various interest rate increases on its debt in fiscal year 2022 due to market interest rate changes. The interest on LIBOR floating rate notes increased throughout the year. The Company's floating rate notes are priced at one month LIBOR plus a spread from 0.57% to 1.52%. There is a fixed rate component which is 1.53%, 1.97%, and 1.58% for bond 2021-1, 2021-2, and 2021-3, respectively. The average one-month LIBOR rate increased from 0.13% to 0.35% in fiscal year 2022. Total bond related expenses decreased \$5.8 million to \$15.8 million in fiscal year 2022. Comparatively, interest expense decreased \$16.6 million in fiscal year 2021 from \$28.2 million in fiscal year 2020. The fiscal year 2021 decrease in bond interest expense is primarily due to market interest rate changes. In addition, there was a \$0.3 million (0.03%) decrease in bonds outstanding debt of the Company. The decrease in interest rates was mainly due to the impact of the COVID-19 global pandemic. Total bond related expenses decreased \$7.1 million to \$21.6 million in fiscal year 2021.

Total student loan-related expenses were flat in fiscal year 2022 at \$5.5 million and \$5.6 million in fiscal year 2021. There was a \$0.6 million decrease in consolidation rebate fees to \$5.9 million in fiscal year 2022. The decrease in consolidation rebate fees was due to a \$69.9 million decline in the Company's outstanding consolidation student loan principal during fiscal year 2022. The benefit for loan losses decreased by \$0.6 million in fiscal year 2022 primarily due to the MOFELP loan loss reserve increases. In comparison, total student loan-related expenses decreased \$1.9 million to \$5.6 million in fiscal year 2021 from \$7.5 million in fiscal year 2020. The decrease was due to a \$0.5 million decrease in consolidation rebate fees to \$6.5 million in fiscal year 2021. The decrease in consolidation rebate fees was due to a \$58.9 million decline in the Company's outstanding consolidation student loan principal during fiscal year 2021. There was a decrease in provision expense for loan losses to \$1.4 million benefit in fiscal year 2021 primarily due to the FFELP and supplemental loan loss reserve decreases.

Non-operating Revenues and Expenses

In fiscal years 2022, 2021, and 2020, the Company contributed \$2.0 million, \$2.0 million, and \$1.5 million, to the Bright Flight Scholarship fund, respectively. In fiscal years 2022, 2021, and 2020, the Company contributed \$2.0 million, \$2.0 million, and \$2.0 million to the A+ Scholarship Program, respectively. In fiscal years 2022 and 2020, the Company contributed \$2.0 million and \$1.25 million to Access Missouri Financial Assistance Program, respectively. In fiscal year 2021, the Company redeemed seven LIBOR floating rate notes. Five of the bonds were redeemed at par. Two bonds were redeemed at a premium using resources from the Line of Credit which resulted in a \$3.8 million loss on extinguishment.

Higher Education Loan Authority of the State of Missouri

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

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 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, 2022.

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.

Higher Education Loan Authority of the State of Missouri

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

Continuing Developments (continued)

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.

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, 2022.

Higher Education Loan Authority of the State of Missouri

Statements of Net Position (Dollars in Thousands)

| | <u>As of June 30, 2022</u> | <u>As of June 30, 2021</u> |
|---|----------------------------|----------------------------|
| Assets and deferred outflows of resources: | | |
| Current assets: | | |
| Cash and cash equivalents: | | |
| Restricted | \$ 60,587 | \$ 89,738 |
| Unrestricted | 91,352 | 54,151 |
| Total cash and cash equivalents | <u>151,939</u> | <u>143,889</u> |
| Investments – unrestricted | 150,702 | 180,209 |
| Student loans receivable | 110,519 | 110,702 |
| Accrued interest receivable: | | |
| Interest subsidy – U.S. Department of Education | 343 | 481 |
| Student loans receivable (less allowance for doubtful loans \$819 and \$783) | 74,301 | 71,005 |
| Total accrued interest receivable | <u>74,644</u> | <u>71,486</u> |
| Miscellaneous receivables and prepaid expenses | <u>16,565</u> | <u>13,088</u> |
| Total current assets | <u>504,369</u> | <u>519,374</u> |
| Long-term assets: | | |
| Student loans receivable (less allowance for doubtful loans \$12,270 and \$12,869) | 942,957 | 1,053,765 |
| Net pension asset | - | 12,708 |
| Miscellaneous receivables and prepaid expenses | 425 | 612 |
| Capital assets, at cost less accumulated depreciation and amortization of \$26,811 and \$25,536 | <u>18,526</u> | <u>19,235</u> |
| Total long-term assets | <u>961,908</u> | <u>1,086,320</u> |
| Total assets | <u>\$ 1,466,277</u> | <u>\$ 1,605,694</u> |
| Deferred outflows of resources – pension | 24,689 | 6,875 |
| Deferred outflows of resources – SERP | 148 | 181 |
| Total deferred outflows of resources | <u>24,837</u> | <u>7,056</u> |
| Liabilities, deferred inflows of resources and net position: | | |
| Current liabilities: | | |
| Bonds payable | \$ 93,031 | \$ 77,741 |
| Line of credit payable | - | 145,819 |
| Note payable | 1,251 | 1,197 |
| Accrued interest payable | 294 | 299 |
| Special allowance subsidy payable | 7,896 | 5,647 |
| Other | <u>32,261</u> | <u>68,112</u> |
| Total current liabilities | <u>134,733</u> | <u>298,815</u> |
| Long-term liabilities: | | |
| Bonds payable | 941,890 | 874,850 |
| Note payable | 8,297 | 9,549 |
| Other | 677 | 442 |
| Net pension liability – pension | 11,135 | - |
| Net pension liability - SERP | <u>1,409</u> | <u>1,728</u> |
| Total long-term liabilities | <u>963,408</u> | <u>886,569</u> |
| Total liabilities | <u>\$ 1,098,141</u> | <u>\$ 1,185,384</u> |
| Deferred inflows of resources - pension | 8,769 | 11,546 |
| Deferred inflows of resources - SERP | 503 | 267 |
| Deferred inflows of resources - leases | <u>283</u> | <u>364</u> |
| Total deferred inflows of resources | <u>9,555</u> | <u>12,177</u> |
| Net position: | | |
| Net investment in capital assets | 8,522 | 7,927 |
| Restricted for debt service | 64,813 | 89,174 |
| Unrestricted | <u>310,083</u> | <u>318,088</u> |
| Total net position | <u>\$ 383,418</u> | <u>\$ 415,189</u> |

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, 2022 | For the Year Ended June 30, 2021 |
|--|---|---|
| Operating revenues, net: | | |
| Interest on student loans, net | \$ 55,329 | \$ 63,905 |
| U.S. Department of Education: | | |
| Interest subsidy | 1,540 | 2,101 |
| Special allowance | (19,339) | (21,517) |
| Investment income | 3,114 | 1,037 |
| Realized and unrealized gain on investments | (32,322) | 16,156 |
| Servicing fees | 107,531 | 69,897 |
| Less: Subcontractor fees | (1,297) | - |
| Other | 99 | 71 |
| Total operating revenues, net | 114,655 | 131,650 |
| Operating expenses: | | |
| Interest expense | 13,405 | 11,614 |
| Bond maintenance fees | 724 | 2,507 |
| Cost of issuance | 1,670 | 7,460 |
| Total bond-related expenses | 15,799 | 21,581 |
| Consolidation rebate fees | 5,924 | 6,544 |
| Benefit for loan losses | (376) | (929) |
| Total student loan-related expenses | 5,548 | 5,615 |
| Salaries and employee benefits | 63,284 | 32,247 |
| Postage and forms | 5,335 | 3,001 |
| Computer services | 28,253 | 18,125 |
| Professional fees | 5,475 | 5,981 |
| Occupancy expense | 1,023 | 975 |
| Depreciation and amortization | 1,547 | 1,866 |
| Scholarships | 4,561 | 2,346 |
| Grants | 1,101 | 827 |
| Other operating expenses | 8,500 | 6,689 |
| Total general and administrative expenses | 119,079 | 72,057 |
| Total operating expenses | 140,426 | 99,253 |
| Operating (deficit) income | (25,771) | 32,397 |
| Non-operating expenses: | | |
| Loss on extinguishment of debt | - | (3,798) |
| Bright Flight Contribution | (2,000) | (2,000) |
| Access Missouri Financial Assistance Program | (2,000) | - |
| A+ Scholarship Program | (2,000) | (2,000) |
| Total non-operating expenses | (6,000) | (7,798) |
| Change in net position | (31,771) | 24,599 |
| Net position, beginning of year | 415,189 | 390,590 |
| Net position, end of year | \$ 383,418 | \$ 415,189 |

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, 2022 and 2021

| | 2022 | 2021 |
|--|-------------|-------------|
| Cash flows from operating activities: | | |
| Student loan and interest purchases | \$ (18,299) | \$ (30,258) |
| Student loan repayments | 184,333 | 176,596 |
| Payments to employees | (32,183) | (35,919) |
| Payments to vendors | (80,769) | (46,077) |
| Net settlement of government interest | (15,413) | (19,240) |
| Cash received for servicing fees | 104,652 | 69,181 |
| Student loan repayments for lenders | (36,820) | (20,256) |
| Disbursement of new student loans | (4,719) | (4,116) |
| Net cash provided by operating activities | 100,782 | 89,911 |
| Cash flows from noncapital financing activities: | | |
| Proceeds from line of credit | 1,000 | 300,223 |
| Repayment of line of credit | (146,819) | (234,575) |
| Proceeds from issuance of notes payable | 197,455 | 969,576 |
| Repayment of bonds | (115,169) | (973,270) |
| Loss on extinguishment of debt | - | (895) |
| Repayment of notes payable | (1,199) | (1,148) |
| Interest paid on debt | (13,365) | (11,550) |
| Cash paid for issuance costs | (1,662) | (7,618) |
| Contributions to Bright Flight | (2,000) | (2,000) |
| Contributions to Access Missouri | (2,000) | - |
| Contributions to A+ Scholarship Program | (2,000) | (2,000) |
| Net cash (used in) provided by noncapital financing activities | (85,759) | 36,743 |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | (824) | (1,626) |
| Net cash used in capital and related financing activities | (824) | (1,626) |
| Cash flows from investing activities: | | |
| Purchase of investments, net of sales | (9,158) | (111,506) |
| Proceeds from maturity of investments | - | 6,203 |
| Interest received on cash, cash equivalents and investments | 3,009 | 1,012 |
| Net cash used in investing activities | (6,149) | (104,291) |
| Change in cash and cash equivalents | 8,050 | 20,737 |
| Cash and cash equivalents, beginning of year | 143,889 | 123,152 |
| Cash and cash equivalents, end of year | \$ 151,939 | \$ 143,889 |

Higher Education Loan Authority of the State of Missouri

Statements of Cash Flows
(Dollars in Thousands)

| | 2022 | 2021 |
|---|-------------|-----------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating (deficit) income | \$ (25,771) | \$ 32,397 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,547 | 1,866 |
| Net pension asset and inflows and outflows | (7,614) | (2,055) |
| Investment income | (2,845) | (879) |
| Provision for loan losses | (376) | (929) |
| Realized and unrealized loss (gain) on investments | 32,322 | (16,156) |
| Interest expense | 13,405 | 11,613 |
| Cost of issuance | 1,662 | 7,618 |
| Change in assets and liabilities: | | |
| Decrease in student loans receivable | 111,368 | 78,460 |
| (Increase) Decrease in accrued interest receivable | (3,158) | 193 |
| (Increase) in miscellaneous receivables and prepaid expenses | (3,120) | (1,100) |
| Increase (Decrease) in net pension liability | 10,816 | (3,554) |
| (Decrease) in other liabilities | (122) | (122) |
| (Decrease) in special allowance subsidy payable and other liabilities | (27,332) | (17,441) |
| Total adjustments | 126,553 | 57,514 |
| Net cash provided by operating activities | \$ 100,782 | \$ 89,911 |
| Noncash investing, capital, and financing activities: | | |
| Changes in investments and outstanding liabilities related to capital assets | \$ 42,079 | \$ 20,380 |

Higher Education Loan Authority of the State of Missouri

Statements of Fiduciary Net Position
(Dollars in Thousands)

| | <u>June 30, 2022</u> | <u>June 30, 2021</u> |
|---|----------------------|----------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 467 | \$ 464 |
| Investments: | | |
| Fixed income securities | 11,662 | 14,394 |
| Equities | 37,442 | 49,007 |
| Real estate | 1,057 | 780 |
| Total cash, cash equivalents, and investments | <u>50,628</u> | <u>64,645</u> |
| Receivables | 91 | 100 |
| Total assets | <u>50,719</u> | <u>64,745</u> |
| Liabilities: | | |
| Due to unsettled trades | <u>-</u> | <u>131</u> |
| Net position restricted for pension benefits | <u>\$ 50,719</u> | <u>\$ 64,614</u> |

Higher Education Loan Authority of the State of Missouri

Statements of Changes in Fiduciary Net Position
(Dollars in Thousands)

| | For the Year Ended June 30, 2022 | For the Year Ended June 30, 2021 |
|---|-------------------------------------|-------------------------------------|
| Additions: | | |
| Contributions: | | |
| Employer | \$ 2,009 | \$ 6,676 |
| Investment earnings: | | |
| Interest | 438 | 485 |
| Dividends | 734 | 513 |
| Net (decrease) increase in fair value of investments | (11,984) | 13,732 |
| Less: investment expense | (174) | (168) |
| Total additions | <u>(8,977)</u> | <u>21,238</u> |
| Deductions: | | |
| Benefit payments | <u>4,918</u> | <u>9,886</u> |
| Total deductions | <u>4,918</u> | <u>9,886</u> |
| Net (decrease) increase in fiduciary net position | (13,895) | 11,352 |
| Net position restricted for pension benefits: | | |
| Beginning of year | 64,614 | 53,262 |
| End of year | <u>\$ 50,719</u> | <u>\$ 64,614</u> |

Higher Education Loan Authority of the State of Missouri

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

1. Description of the Organization

The Higher Education Loan Authority of the State of Missouri and its blended component units, the Missouri Scholarship and Loan Foundation (the Foundation), and Knowledge Finance 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 3% of the total loan receivable balance as of June 30, 2022. 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 services each entity's initial allocation of federal accounts and initially provided the subcontractor with a portion of the revenues.

Higher Education Loan Authority of the State of Missouri

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

1. Description of the Organization (continued)

Blended Component Units

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 Chief Financial Officer, the Company's Director of Business Development and Government Relations, the Deputy Commissioner for Operations of Higher Education and Workforce Development, the President and CEO of Community Foundation of the Ozarks and the President and CEO of Kansas City Scholars Inc. The Executive Director of the 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.

Higher Education Loan Authority of the State of Missouri

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

1. Description of the Organization (continued)

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.

Knowledge Finance

On September 27, 2019, the Company's Board approved the establishment of Knowledge Finance with the Company as the sole corporate member, the Board of Directors to be composed only of the Company's executives and to provide initial funding of \$3.0 million. On October 2, 2019, Knowledge Finance was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, to raise funds, accept transfers and contributions, and to use the resulting funds for its proper purposes, including, without limitation, the administration of grant, scholarship and related programs on behalf of the other entities, or to make distributions thereof for purposes and activities that qualify as exempt under section 501c(3) of the Internal Revenue Code.

The Foundation and Knowledge Finance are treated as component units as the Company approves the appointment of the Board of Directors and has the ability to impose its will on the units. The units are blended component units as they are 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 and Knowledge Finance 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.

Higher Education Loan Authority of the State of Missouri

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

2. Summary of Significant Accounting Policies (continued)

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 and fiduciary 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-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.

Fiduciary Fund Statements

The statement of fiduciary net position and the statement of changes in the fiduciary net position provide information on the Company's fiduciary activities in its pension trust fund accounts which reports resources held in trust for pension benefit payments to qualified beneficiaries.

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, credit deteriorated loans, 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.

Higher Education Loan Authority of the State of Missouri

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

2. Summary of Significant Accounting Policies (continued)

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. In addition, the Company has purchased credit deteriorated loans at a discount. The credit deteriorated loans are stated at cost and are accreted to the present value of expected future cash flows, as discussed in Note 4.

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 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.

Higher Education Loan Authority of the State of Missouri

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

2. Summary of Significant Accounting Policies (continued)

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, 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 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 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.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

Miscellaneous Receivables and Prepaid Expenses

At June 30, 2022 and 2021, miscellaneous receivables and prepaid expenses consist of the following:

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| Other prepaid expenses | \$ 2,380 | \$ 1,789 |
| Servicing fees receivable | 13,803 | 11,134 |
| Other receivables | 807 | 777 |
| Total miscellaneous receivables and prepaid expenses | <u>\$ 16,990</u> | <u>\$ 13,700</u> |
| Current portion | \$ 16,565 | \$ 13,088 |
| Long-term portion | 425 | 612 |
| Total | <u>\$ 16,990</u> | <u>\$ 13,700</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.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets consist of land, buildings and improvements, office furniture and equipment, software assets, and right to use leased 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:

| <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 |
| Right to use leased assets | 6 years |

Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period. As of June 30, 2022 and 2021, recorded deferred outflows of resources related to pension in the amounts of \$24,689 and \$6,875 respectively, for the Pension Plan and \$148 and \$181 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

Higher Education Loan Authority of the State of Missouri

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

2. Summary of Significant Accounting Policies (continued)

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, 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 2022 and 2021, due to the loan portfolio mix and the rate of one-month LIBOR.

Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period. As of June 30, 2022 and 2021, deferred inflows of resources related to pension are \$8,769 and \$11,546, respectively, for the Pension Plan and \$503 and \$267, respectively, for the SERP, which are a result of differences between expected and actual experience. The Company

Higher Education Loan Authority of the State of Missouri

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

2. Summary of Significant Accounting Policies (continued)

also reports deferred amounts related to leases of \$283 and \$364 as of June 30, 2022 and 2021, respectively.

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 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.

Higher Education Loan Authority of the State of Missouri

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

2. Summary of Significant Accounting Policies (continued)

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. 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.

Subcontractor Fees

As described in Note 1, agreements have been entered into with subcontractors whereby the Company services each subcontractor's allotment of federal accounts provided by the Department. The Company provides 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. The majority of these agreements expired during fiscal year 2020 and were not renewed.

Interest Expense

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

Bond Maintenance Fees

Bond maintenance fees consist primarily of Line of Credit issuance costs, rating agency fees, trustee fees, commitment fees, and collection agency 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

Higher Education Loan Authority of the State of Missouri

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

2. Summary of Significant Accounting Policies (continued)

purchased in amounts that are sufficient to cover the risk of loss. 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. 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

The Company is 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.

New Accounting Pronouncements

In April 2020, the GASB issued Implementation Guide 2020-1, which clarifies through questions 4.1 and 4.2, a primary government that is the only employer contributing to the plan has the authority to change the required contribution amount technically holds the power to set the plan's rate and therefore, the defined benefit plan would be fiscally dependent on the primary government. This clarified guidance is effective for reporting periods beginning after June 15, 2021 and has an impact on the fiduciary activity conclusions under GASB 84 related to the Company's legacy pension plan. As a result, the Company implemented the Implementation Guide 2020-1 as it relates to GASB 84 effective July 1, 2021 with retrospective implementation for all periods presented. Starting in fiscal year 2021, the Company's pension plan is recorded as a fiduciary trust fund in the statements of fiduciary net position and statements of changes in fiduciary net position. The impact of implementation resulted in the disclosure of the fiduciary net position of \$53,262 within the Statements of Fiduciary Net Position as of July 1, 2020. There was no impact to the Company's business-type net position.

Effective July 1, 2021 with retrospective implementation for all periods presented, the Company implemented GASB Statement No. 87, *Leases*, which requires recognition of certain lease assets and liabilities that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The adoption of this statement increased fiscal year 2021 assets by \$926, increased liabilities by \$562, increased deferred outflows of resources by \$364, and increased revenues and expenses by \$2. There was no effect on beginning net position as of July 1, 2020 and July 1, 2021.

Higher Education Loan Authority of the State of Missouri

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

3. Cash, Cash Equivalents, and Investments

Cash and investments held by the Company's pension plan are discussed in Note 8 and are excluded from the discussion in this section.

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, 2022 and 2021, cash, cash equivalent, and investment balances consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Cash on deposit | \$ 102,444 | \$ 105,091 |
| Investments | 150,702 | 180,209 |
| Money market mutual funds | 49,495 | 38,798 |
| Total cash, cash equivalents, and investments | <u>\$ 302,641</u> | <u>\$ 324,098</u> |

The following special trust accounts have been established for the LIBOR floating and fixed rate notes issued under the 2009-1, 2010-1, 2010-2, 2010-3, 2011-1, 2012-1, 2013-1, 2021-1, 2021-2, and 2021-3 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,

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

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.

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, 2022 and 2021 were \$4,998 and \$4,579, 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, 2022 and 2021, cash, cash equivalents, and investments were segregated as follows:

| | 2022 | 2021 |
|--|------------|------------|
| Special trust accounts: | | |
| Restricted: | | |
| Collection funds | \$ 16,918 | \$ 10,156 |
| Reserve funds | 4,998 | 4,579 |
| Department rebate funds | 2,058 | 2,463 |
| Capitalized interest funds | 25,500 | 20,500 |
| Cost of issuance funds | - | 47 |
| Total special trust accounts | 49,474 | 37,745 |
| Line of Credit: | | |
| Restricted | 21 | 1,053 |
| Operating fund: | | |
| Unrestricted – undesignated | 172,194 | 196,407 |
| Unrestricted – board and management designated | 69,860 | 38,062 |
| Restricted – due to special trust accounts and clients | 11,092 | 50,831 |
| Total operating fund | 253,146 | 285,300 |
| Total cash, cash equivalents, and investments | \$ 302,641 | \$ 324,098 |

The Company's board has designated \$48,503 for operating reserve and management, \$11,169 to fund the pension, and \$10,188 for the Commerce Loan Reserve.

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, 2022, the trading portfolio has the following recurring fair value measurements.

| Investments by Fair Value Level | 6/30/2022 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|--|------------------|---|--|--|
| Money market funds | \$ 1,968 | \$ 1,968 | \$ - | \$ - |
| Equity mutual fund investments | | | | |
| Domestic equity mutual funds | 72,329 | 72,329 | - | - |
| International equity mutual funds | 27,221 | 27,221 | - | - |
| Total equity mutual fund investments | \$ 99,550 | \$ 99,550 | \$ - | \$ - |
| Fixed income | | | | |
| Mortgage-backed securities | \$ 9,687 | \$ - | \$ 9,687 | \$ - |
| Corporate bonds | 24,441 | - | 24,441 | - |
| U.S. Treasury securities | 5,740 | 5,740 | - | - |
| Federal agencies | 996 | - | 996 | - |
| Asset-backed securities | 1,048 | - | 1,048 | - |
| Taxable municipal bonds | 3,317 | - | 3,317 | - |
| Fixed income ETFs | 110 | - | 110 | - |
| Diversified taxable mutual funds | 3,291 | 3,291 | - | - |
| Taxable high yield funds | 140 | - | 140 | - |
| Domestic preferred stock | 144 | - | 144 | - |
| Tax-exempt revenue bonds | 46 | 46 | - | - |
| Total fixed income | \$ 48,960 | \$ 9,077 | \$ 39,883 | \$ - |
| Other | \$ 224 | \$ - | \$ - | \$ 224 |
| Total investments measured at fair value | \$ 150,702 | | | |

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, 2021, the trading portfolio has the following recurring fair value measurements.

| Investments by Fair Value Level | 6/30/2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|--|------------|--|---|-------------------------------------|
| Money market funds | \$ 7,963 | \$ 7,963 | \$ - | \$ - |
| Equity mutual fund investments | | | | |
| Domestic equity mutual funds | 91,678 | 91,678 | - | - |
| International equity mutual funds | 35,238 | 35,238 | - | - |
| Total equity mutual fund investments | \$ 126,916 | \$ 126,916 | \$ - | \$ - |
| Fixed income | | | | |
| Mortgage-backed securities | \$ 5,868 | \$ - | \$ 5,868 | \$ - |
| Corporate bonds | 27,841 | - | 27,841 | - |
| U.S. Treasury securities | 5,885 | 5,885 | - | - |
| Federal agencies | 1,057 | - | 1,057 | - |
| Asset-backed securities | 980 | - | 980 | - |
| Taxable municipal bonds | 2,595 | - | 2,595 | - |
| Fixed income ETFs | 124 | 124 | - | - |
| Diversified taxable mutual funds | 727 | 727 | - | - |
| Tax-exempt revenue bonds | 53 | - | 53 | - |
| Total fixed income | \$ 45,130 | \$ 6,736 | \$ 38,394 | \$ - |
| Other | \$ 200 | \$ - | \$ - | \$ 200 |
| Total investments measured at fair value | \$ 180,209 | | | |

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. Level 3 inputs are classified as unobservable as there are no relevant observable inputs available.

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, 2022 and 2021, these cash deposits were fully insured by Federal Deposit Insurance

Higher Education Loan Authority of the State of Missouri

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

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

Corporation (FDIC) insurance, secured by a Letter of Credit issued by The Bank of New York Mellon or pledged collateral held at the Federal Reserve in the name of the Company. The Foundation does not have a policy addressing custodial credit risk for deposits. As of June 30, 2022 and 2021, \$9,678 and \$6,217 of the total \$102,444 and \$105,091 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, 2022 and 2021, \$150,702 and \$180,209 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, 2022 and 2021, investments in money market mutual funds held by the trustee had credit ratings of AAA and 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, 2022 | Maturity Date |
|----------------------------|----------------------------|----------------------|
| Mortgage-backed securities | \$ 9,687 | September 16, 2061 |
| Corporate bonds | 24,441 | March 15, 2077 |
| U.S. Treasury securities | 5,740 | August 15, 2049 |
| Federal agencies | 996 | September 4, 2025 |
| Asset-backed securities | 1,048 | January 25, 2035 |
| Taxable municipal bonds | 3,317 | June 1, 2044 |
| Tax-exempt revenue bonds | 46 | December 1, 2033 |
| Total | <u>\$ 45,275</u> | |

| Investment Type | As of June 30, 2021 | Maturity Date |
|----------------------------|----------------------------|----------------------|
| Mortgage-backed securities | \$ 5,868 | September 16, 2061 |
| Corporate bonds | 27,841 | March 15, 2077 |
| U.S. Treasury securities | 5,885 | August 15, 2049 |
| Federal agencies | 1,057 | September 4, 2025 |
| Asset-backed securities | 980 | June 1, 2051 |
| Taxable municipal bonds | 2,595 | June 1, 2044 |
| Tax-exempt revenue bonds | 53 | December 1, 2033 |
| Total | <u>\$ 44,279</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, 2022 and 2021 is as follows:

| Investment Type | <u>Rating as of June 30, 2022</u> | | | | | | | |
|--------------------------------------|-----------------------------------|-----------------|----------|----------|-----------|----------|-----------|-----------|
| | | Exchange Traded | AAA | Aa | A | Baa/BBB | Not Rated | Agency |
| Money market funds | \$ 1,968 | \$ - | \$ 1,968 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Equity mutual fund investments | | | | | | | | |
| Domestic equity mutual funds | 72,329 | 72,329 | - | - | - | - | - | - |
| International equity mutual funds | 27,221 | 27,221 | - | - | - | - | - | - |
| Total equity mutual fund investments | \$ 99,550 | \$ 99,550 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fixed income | | | | | | | | |
| Mortgage-backed securities | \$ 9,687 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 9,687 |
| Corporate bonds | 24,441 | - | - | 1,786 | 15,435 | 7,220 | - | - |
| U.S. Treasury securities | 5,740 | - | - | - | - | - | - | 5,740 |
| Taxable municipal bonds | 3,317 | - | 43 | 2,343 | 931 | - | - | - |
| Fixed income ETFs | 110 | 110 | - | - | - | - | - | - |
| Taxable high yield funds | 140 | 140 | - | - | - | - | - | - |
| Domestic preferred stock | 144 | 144 | - | - | - | - | - | - |
| Federal agencies | 996 | - | - | 996 | - | - | - | - |
| Asset-backed securities | 1,048 | - | 40 | - | 558 | - | - | 450 |
| Diversified taxable mutual funds | 3,291 | 3,291 | - | - | - | - | - | - |
| Tax-exempt revenue bonds | 46 | - | - | 46 | - | - | - | - |
| Total fixed income | \$ 48,960 | \$ 3,685 | \$ 83 | \$ 5,171 | \$ 16,924 | \$ 7,220 | \$ - | \$ 15,877 |
| Other | \$ 224 | \$ 24 | \$ - | \$ - | \$ - | \$ - | \$ 200 | \$ - |
| Total investments | \$ 150,702 | \$ 103,259 | \$ 2,051 | \$ 5,171 | \$ 16,924 | \$ 7,220 | \$ 200 | \$ 15,877 |

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, 2021

| Investment Type | | Exchange Traded | AAA | Aa | A | Baa/BBB | Not Rated | Agency |
|---|-----------|----------------------------|------------|-----------|-----------|----------------|----------------------|---------------|
| Money market funds | \$ 7,963 | \$ - | \$ 7,963 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Equity mutual fund investments | | | | | | | | |
| Domestic equity mutual funds | 91,678 | 91,678 | - | - | - | - | - | - |
| International equity mutual funds | 35,238 | 35,238 | - | - | - | - | - | - |
| Total equity mutual fund investments | \$126,916 | \$ 126,916 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fixed income | | | | | | | | |
| Mortgage-backed securities | \$ 5,868 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,868 |
| Corporate bonds | 27,841 | - | 56 | 2,365 | 17,744 | 7,676 | - | - |
| U.S. Treasury securities | 5,885 | - | - | - | - | - | - | 5,885 |
| Taxable municipal bonds | 2,595 | - | - | 2,037 | 558 | - | - | - |
| Fixed income ETFs | 124 | 124 | - | - | - | - | - | - |
| Federal agencies | 1,057 | - | - | 1,057 | - | - | - | - |
| Asset-backed securities | 980 | - | 41 | - | - | - | - | 939 |
| Diversified taxable mutual funds | 727 | 727 | - | - | - | - | - | - |
| Tax-exempt revenue bonds | 53 | - | - | 53 | - | - | - | - |
| Total fixed income | \$ 45,130 | \$ 851 | \$ 97 | \$ 5,512 | \$ 18,302 | \$ 7,676 | \$ - | \$ 12,692 |
| Other | \$ 200 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 200 | \$ - |
| Total investments | \$180,209 | \$ 127,767 | \$8,060 | \$ 5,512 | \$ 18,302 | \$ 7,676 | \$ 200 | \$ 12,692 |

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.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

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

At June 30, 2022 and 2021, investments in the following exceeded 5.00% of the total \$150,702 and \$180,209 unrestricted investments respectively:

| | % of Total Investment 2022 |
|--|---|
| Fidelity Mid Cap Value Index Fund | 5.02% |
| Schwab Fundamental US Large Co Index Fund Institutional Class | 9.05% |
| TIAA-CREF Large Cap Growth Index Fund | 5.66% |
| TIAA-CREF Large Cap Value Index Fund | 9.44% |
| TIAA-CREF Institutional International Equity Fund - I | 13.49% |

| | % of Total Investment 2021 |
|--|---|
| Fidelity Mid Cap Growth Index Fund | 5.35% |
| Laudus U.S. Large Cap Growth Fund | 6.18% |
| Schwab Fundamental US Large Co Index Fund Institutional Class | 8.58% |
| T Rowe Price Growth Stock Fund - I | 6.20% |
| TIAA-CREF Large Cap Growth Index Fund | 6.18% |
| TIAA-CREF Large Cap Value Index Fund | 8.53% |
| TIAA-CREF Institutional International Equity Fund - I | 14.66% |

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.

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

Credit deteriorated loans have been purchased from third party originators and are not insured. Credit deteriorated loans present a greater risk of loan loss because the loans have already demonstrated major distress as they have already defaulted with other lenders. Purchased credit deteriorated loans do not provide for an allowance for doubtful accounts; rather, the loans are stated at cost and are accreted to the present value of expected future cash flows. Expected future cash flows are estimated as a percentage of the outstanding par balance. For the year ended June 30, 2022 and 2021, accretion income was \$1,314 and \$903, respectively, which is included in “Interest on student loans, net” in the financial statements.

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.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

4. Student Loans Receivable (continued)

Student loans receivable at June 30, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|--|--------------|--------------|
| Guaranteed FFELP loans | \$ 991,712 | \$ 1,098,078 |
| Supplemental loans: | | |
| Third-party insured | 479 | 581 |
| Self-insured | 27,777 | 34,265 |
| Total supplemental loans | 28,256 | 34,846 |
| Credit deteriorated loans | 20,947 | 21,744 |
| MOFELP | 24,831 | 22,668 |
| Allowance for doubtful loans | (12,270) | (12,869) |
| Total student loans receivable | \$ 1,053,476 | \$ 1,164,467 |
| Weighted-average interest rate – end of year | 5.12% | 6.01% |

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, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|--------------------------------|-------------|-------------|
| Beginning balance | \$ 12,869 | \$ 12,162 |
| Provision for loan loss | (376) | (929) |
| Net reinstatement/(write-offs) | (223) | 1,636 |
| Ending balance | \$ 12,270 | \$ 12,869 |

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, 2022, is as follows:

| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|--|------------------------------|------------------|--------------------|------------------|---------------------------|
| Land | \$ 4,069 | \$ – | \$ – | \$ – | \$ 4,069 |
| Construction in progress | 954 | 639 | – | (1,220) | 373 |
| Depreciable capital assets: | | | | | |
| Buildings and improvements | 23,256 | – | – | – | 23,256 |
| Furniture and equipment | 15,294 | 157 | (272) | 469 | 15,648 |
| Software assets | 516 | 42 | – | 751 | 1,309 |
| Right to use leased asset | 682 | – | – | – | 682 |
| Total depreciable capital assets | 39,748 | 199 | (272) | 1,220 | 40,895 |
| Less accumulated depreciation and amortization: | | | | | |
| Buildings and improvements | (10,775) | (860) | – | – | (11,635) |
| Furniture and equipment | (14,123) | (543) | 272 | – | (14,394) |
| Software assets | (516) | (22) | – | – | (538) |
| Right to use leased asset | (122) | (122) | – | – | (244) |
| Total accumulated depreciation and amortization | (25,536) | (1,547) | 272 | – | (26,811) |
| Net depreciable capital assets | 14,212 | (1,348) | – | 1,220 | 14,084 |
| Total capital assets, net | \$ 19,235 | \$ (709) | \$ – | \$ – | \$ 18,526 |

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, 2021, is as follows:

| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|--|------------------------------|------------------|--------------------|------------------|---------------------------|
| Land | \$ 3,877 | \$ 192 | \$ – | \$ – | \$ 4,069 |
| Construction in progress | 518 | 801 | (58) | (307) | 954 |
| Depreciable capital assets: | | | | | |
| Buildings and improvements | 22,716 | 525 | – | 15 | 23,256 |
| Furniture and equipment | 15,553 | 84 | (635) | 292 | 15,294 |
| Software assets | 516 | – | – | – | 516 |
| Right to use leased asset | 682 | – | – | – | 682 |
| Total depreciable capital assets | 39,467 | 609 | (635) | 307 | 39,748 |
| Less accumulated depreciation and amortization: | | | | | |
| Buildings and improvements | (9,911) | (864) | – | – | (10,775) |
| Furniture and equipment | (13,878) | (880) | 635 | – | (14,123) |
| Software assets | (516) | – | – | – | (516) |
| Right to use leased asset | – | (122) | – | – | (122) |
| Total accumulated depreciation and amortization | (24,305) | (1,866) | 635 | – | (25,536) |
| Net depreciable capital assets | 15,162 | (1,257) | – | 307 | 14,212 |
| Total capital assets, net | \$ 19,557 | \$ (264) | \$ (58) | \$ – | \$ 19,235 |

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, 2022:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|--|------------------------------|-------------------|---------------------|---------------------------|----------------------------|
| Student Loan Revenue Bonds: | | | | | |
| LIBOR Floating and Fixed Rate Notes, taxable, due January 2061 – August 2061, with interest rates ranging from 1.530% – 3.144% at June 30, 2022 | \$ 952,591 | \$ 197,500 | \$ (115,170) | \$ 1,034,921 | \$ 93,031 |
| Total Bonds Payable, net | <u>\$ 952,591</u> | <u>\$ 197,500</u> | <u>\$ (115,170)</u> | <u>\$ 1,034,921</u> | <u>\$ 93,031</u> |
| Line of Credit Payable, taxable, due May 2023 with variable interest rate of 2.404% at June 30, 2022 | \$ 145,819 | \$ – | \$ (145,819) | \$ – | \$ – |
| Note Payable from Direct Borrowing, taxable, due March 2024, with fixed interest rate of 4.240% at June 30, 2022 | \$ 10,746 | \$ – | \$ (1,198) | \$ 9,548 | \$ 1,251 |
| Total | <u>\$ 1,109,156</u> | <u>\$ 197,500</u> | <u>\$ (262,187)</u> | <u>\$ 1,044,469</u> | <u>\$ 94,282</u> |

Increase in the LIBOR floating and fixed rate note was due to the issuance of one additional Trust Indenture in fiscal year 2022. This increase was offset by regular repayments. During fiscal year 2022, the Line of Credit was used to facilitate the third bond deal, 2021-3. Subsequently, the Line of Credit has been inactive and the outstanding balance is \$0.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

6. Financings (continued)

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, 2021:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|------------------------------|---------------------|-----------------------|---------------------------|----------------------------|
| Student Loan Revenue Bonds: | | | | | |
| LIBOR Floating and Fixed Rate Notes, taxable, due January 2061 – March 2061, with interest rates ranging from 0.792% – 1.970% at June 30, 2021 | \$ 955,966 | \$ 969,900 | \$ (973,275) | \$ 952,591 | \$ 77,741 |
| Less: Unamortized bond discount | (3,082) | (324) | 3,406 | – | – |
| Total Bonds Payable, net | <u>\$ 952,884</u> | <u>\$ 969,576</u> | <u>\$ (969,869)</u> | <u>\$ 952,591</u> | <u>\$ 77,741</u> |
| Line of Credit Payable, taxable, due May 2022 with variable interest rate of 0.924% at June 30, 2021 | <u>\$ 80,171</u> | <u>\$ 300,223</u> | <u>\$ (234,575)</u> | <u>\$ 145,819</u> | <u>\$ 145,819</u> |
| Note Payable from Direct Borrowing, taxable, due March 2024, with fixed interest rate of 4.240% at June 30, 2021 | <u>\$ 11,894</u> | <u>\$ –</u> | <u>\$ (1,148)</u> | <u>\$ 10,746</u> | <u>\$ 1,197</u> |
| Total | <u>\$ 1,044,949</u> | <u>\$ 1,269,799</u> | <u>\$ (1,205,592)</u> | <u>\$ 1,109,156</u> | <u>\$ 224,757</u> |

Reductions in LIBOR floating rate notes consisted of regular payments.

LIBOR Floating and Fixed Rate Notes

At June 30, 2022 and 2021, LIBOR floating and fixed rate notes represented 100% and 100%, respectively of total outstanding bonds payable. The LIBOR floating rate note trusts reprice every month at rates equal to one-month LIBOR plus a spread ranging from 0.57% to 1.52%. There is a fixed rate component which is 1.53%, 1.97%, and 1.58% for bond 2021-1, 2021-2, and 2021-3, respectively. Principal payments are required to be made monthly based on available funds collected less required fees and transfers as stipulated in the bond documents.

Higher Education Loan Authority of the State of Missouri

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

6. Financing (continued)

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. The Company maintains 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, 2022 and 2021 was \$1,100,974 and \$1,001,205, 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 Class A Noteholders, any unpaid interest due; fifth, to Class A Noteholder, any unpaid principal amounts due; sixth, to Class B Noteholders, any unpaid interest due; seventh, to Class B Noteholders, any unpaid principal amounts due; and eighth, to the Company any remaining balance. If in the event 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 outstanding amount of the Highest Priority Notes, 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

Higher Education Loan Authority of the State of Missouri

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

6. Financings (continued)

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 and it was increased to \$100,000 on November 6, 2019. The Company uses the LOC to purchase FFELP student loans from approved guarantors. On December 2, 2020, a second amendment to the Agreement was made to increase the LOC to \$270,000 to facilitate with the issuance of two additional trust indentures. A third amendment to the Agreement was made on May 19, 2021 to set the available commitment of the LOC to \$175,000. This available commitment was used to pay down outstanding bond principal. A fourth amendment to the Agreement was made on May 18, 2022 to set the available commitment of the LOC to \$100,000. As of June 30, 2022, the Company has outstanding notes totaling \$0 related to the LOC. The unused portion of the LOC as of June 30, 2022 is \$100,000. The LOC terminates on May 16, 2023. 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 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.

Higher Education Loan Authority of the State of Missouri

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

6. Financing (continued)

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. Financings (continued)

The following is a summary of debt service requirements at June 30, 2022:

| Fiscal Years | Libor Notes | | Note Payable from Direct Borrowing | | Total |
|------------------------------|---------------------|-------------------|------------------------------------|---------------|---------------------|
| | Principal | Interest | Principal | Interest | |
| 2023 | \$ 93,031 | \$ 21,998 | \$ 1,251 | \$ 386 | \$ 116,666 |
| 2024 | 116,666 | 19,691 | 8,297 | 253 | 144,907 |
| 2025 | 118,234 | 17,107 | - | - | 135,341 |
| 2026 | 117,815 | 14,510 | - | - | 132,325 |
| 2027 | 108,383 | 12,021 | - | - | 120,404 |
| Total fiscal years 2023-2027 | 554,129 | 85,327 | 9,548 | 639 | 649,643 |
| 2028 – 2032 | 260,139 | 37,275 | - | - | 297,414 |
| 2033 – 2037 | 100,479 | 19,127 | - | - | 119,606 |
| 2038 – 2042 | 39,017 | 12,029 | - | - | 51,046 |
| 2043 – 2047 | 14,283 | 9,278 | - | - | 23,561 |
| 2048 – 2052 | 4,659 | 8,327 | - | - | 12,986 |
| 2053 – 2057 | 2,002 | 7,992 | - | - | 9,994 |
| 2058 - 2062 | 60,213 | 1,578 | - | - | 61,791 |
| | <u>\$ 1,034,921</u> | <u>\$ 180,933</u> | <u>\$ 9,548</u> | <u>\$ 639</u> | <u>\$ 1,226,041</u> |

The principal requirements in the table above include the LIBOR floating rate notes and fixed rate notes that are based on scheduled borrower repayments of the student loans in those trusts and note payable from direct borrowing. The interest requirements in the table above were prepared using the applicable variable rates and fixed rates in effect at June 30, 2022. 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, 2022 and 2021, the Company was in compliance with all financial covenants and requirements of our debt agreements.

Higher Education Loan Authority of the State of Missouri

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

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 \$28,253 and \$18,125 for the years ended June 30, 2022 and 2021, respectively.

The Company leases office space in Washington, DC as lessee for the right to use the office space. In April 2016, the first amendment was executed which extends the terms to January 31, 2026. Under the terms of the 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, and utilities. An initial lease liability was recorded in the amount of \$682. As of June 30, 2022 and 2021, the value of the lease liability was \$442 and \$562, respectively. The lease has an interest rate of 1.08%. The value of the right-to-use asset as of June 30, 2022 and 2021 was \$682 and \$682, respectively and accumulated amortization was \$244 and \$122, 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

Higher Education Loan Authority of the State of Missouri

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

8. Employee Benefits (continued)

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, 2022 and 2021, the Company contributed employer matching funds of \$1,133 and \$1,099 and employees contributed \$1,410 and \$1,364 to the 401(k) Plan, respectively.

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 is 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

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

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 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. During the year ended June 30, 2021, the plan was amended. The amendment changed future benefit accruals, effective July 1, 2021, to limit the applicable interest rate used for lump sum purposes to no less than 2.32%.

Employees covered by benefit terms

As of June 30, 2022 and 2021, Pension Plan membership consisted of the following:

| <u>Pension Plan Membership</u> | <u>6/30/2022</u> | <u>6/30/2021</u> |
|---|-------------------------|-------------------------|
| Inactive plan members (or beneficiaries) currently receiving benefits | 18 | 19 |
| Inactive plan members entitled to but not yet receiving benefits | 28 | 67 |
| Active plan members | 333 | 338 |
| Total | <u>379</u> | <u>424</u> |

Contributions

Annual contributions approved by the Board are made based on a recommendation of an independent actuary. For the years ended June 30, 2022 and 2021, the Company made pension contributions of approximately \$2,009 and \$6,676, respectively. The 5-year average contribution rate for the plan year beginning 2017 - 2021 is 14.73% of annual payroll. There are no annual maximum contribution rates. Employees do not make contributions to the Pension Plan.

Higher Education Loan Authority of the State of Missouri

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

8. Employee Benefits (continued)

Net Pension Liability (Asset)

The net pension liability (asset) was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2021, 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 6/30/2021 | \$ 51,906 | \$ 64,614 | \$ (12,708) |
| Changes for the year: | | | |
| Service Cost | 2,581 | - | 2,581 |
| Interest on the total pension liability | 3,959 | - | 3,959 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | 6,615 | - | 6,615 |
| Changes of Assumptions | 1,711 | - | 1,711 |
| Contributions – employer | - | 2,009 | (2,009) |
| Investment income (loss) | - | (10,812) | 10,812 |
| Investment expenses | - | (174) | 174 |
| Benefit payments | (4,918) | (4,918) | - |
| Net changes | 9,948 | (13,895) | 23,843 |
| Balances at 6/30/2022 | \$ 61,854 | \$ 50,719 | \$ 11,135 |

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, 2021. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2020, 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 6/30/2020 | \$ 56,760 | \$ 53,262 | \$ 3,498 |
| Changes for the year: | | | |
| Service Cost | 2,509 | - | 2,509 |
| Interest on the total pension liability | 3,573 | - | 3,573 |
| Changes of benefit terms | (150) | - | (150) |
| Differences between expected and actual experience | (1,399) | - | (1,399) |
| Changes of Assumptions | 499 | - | 499 |
| Contributions – employer | - | 6,676 | (6,676) |
| Investment income | - | 14,730 | (14,730) |
| Investment expenses | - | (168) | 168 |
| Benefit payments | (9,886) | (9,886) | - |
| Net changes | (4,854) | 11,352 | (16,206) |
| Balances at 6/30/2021 | \$ 51,906 | \$ 64,614 | \$ (12,708) |

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>2022</u> | <u>2021</u> |
|--|--|---------------------|
| Investment rate of return | 6.75 percent | 6.75 percent |
| Discount rate | 6.75 percent | 6.75 percent |
| Inflation rate | 2.75 percent | 2.25 percent |
| Salary scale | 6.0, 5.0, 4.5 percent thereafter | 4.50 percent |
| Lump sum rate | 67 percent | 67 percent |
| Actuarial cost method | Entry Age Normal | Entry Age Normal |
| Valuation date, rolled forward to measurement date | 7/1/2021 | 7/1/2020 |
| Measurement date | 6/30/2022 | 6/30/2021 |
| Mortality table – annuity purposes | PubG-2010 / MP 2021 | PubG-2010 / MP 2020 |
| Mortality table – lump sums | Applicable IRS 2022 Lump sum table / MP 2021 | IRS 2021 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, 2022 the funds were invested 74:23:2:1 equities to fixed income to alternative to cash and at June 30, 2021 the funds were invested 76:22:1:1 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 | 37.74% | 4.8% |
| Mid Cap | 10.84% | 6.1% |
| Small Cap | 5.43% | 6.2% |
| Developed International | 14.70% | 6.1% |
| Emerging Market Equity | 4.86% | 7.5% |
| Core Domestic Fixed Income | 22.79% | 1.3% |
| Real Estate Cash | 2.07% | 4.0% |
| Cash | 1.57% | -0.1% |
| | 100.00% | |

For the years ended June 30, 2022 and 2021, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was -16.69% and 27.94%, 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, 2022:

| Investments by Fair Value Level | 6/30/2022 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
|--|------------------|--|---|
| Money market funds | \$ 467 | \$ 467 | \$ - |
| Equity mutual fund investments | | | |
| Domestic equity mutual funds | 27,273 | 27,273 | - |
| International equity mutual funds | 10,169 | 10,169 | - |
| Total equity mutual fund investments | \$ 37,442 | \$ 37,442 | \$ - |
| Fixed income | | | |
| Mortgage-backed securities | \$ 1,531 | \$ - | \$ 1,531 |
| Corporate bonds | 7,153 | - | 7,153 |
| U.S Treasury securities | 1,467 | 1,467 | - |
| Taxable municipal bonds | 1,511 | - | 1,511 |
| Total fixed income | \$ 11,662 | \$ 1,467 | \$ 10,195 |
| Other exchange traded investments | | | |
| REITs | \$ 1,057 | \$ 1,057 | \$ - |
| Total other exchange traded investments | \$ 1,057 | \$ 1,057 | \$ - |
| Total investments measured at fair value | <u>\$ 50,628</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, 2021:

| Investments by Fair Value Level | 6/30/2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
|--|------------------|--|---|
| Money market funds | \$ 464 | \$ 464 | \$ - |
| Equity mutual fund investments | | | |
| Domestic equity mutual funds | 36,059 | 36,059 | - |
| International equity mutual funds | 12,948 | 12,948 | - |
| Total equity mutual fund investments | \$ 49,007 | \$ 49,007 | \$ - |
| Fixed income | | | |
| Mortgage-backed securities | \$ 1,815 | \$ - | \$ 1,815 |
| Corporate bonds | 9,106 | - | 9,106 |
| U.S Treasury securities | 1,786 | 1,786 | - |
| Taxable municipal bonds | 1,687 | - | 1,687 |
| Total fixed income | \$ 14,394 | \$ 1,786 | \$ 12,608 |
| Other exchange traded investments | | | |
| REITs | \$ 780 | \$ 780 | \$ - |
| Total other exchange traded investments | \$ 780 | \$ 780 | \$ - |
| Total investments measured at fair value | <u>\$ 64,645</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, 2022 and 2021, 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, 2022 and 2021 is as follows:

| Investment Type | <u>Rating as of June 30, 2022</u> | | | | | | | | |
|--------------------------------------|-----------------------------------|-----------|----------|----------|----------|----------|-----------|----------|--|
| | Exchange Traded | AAA | Aa | A | Baa/BBB | BB | Not Rated | Agency | |
| Money market funds | \$ 467 | \$ - | \$ 467 | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Equity mutual fund investments | | | | | | | | | |
| Domestic equity mutual funds | 27,273 | 27,273 | - | - | - | - | - | - | |
| International equity mutual funds | 10,169 | 10,169 | - | - | - | - | - | - | |
| Total equity mutual fund investments | \$ 37,442 | \$ 37,442 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Fixed income | | | | | | | | | |
| Mortgage-backed securities | \$ 1,531 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,531 | |
| Corporate bonds | 7,153 | - | - | 299 | 4,400 | 2,420 | 34 | - | |
| U.S. Treasury securities | 1,467 | - | 969 | - | - | - | - | 498 | |
| Taxable municipal bonds | 1,511 | - | - | 838 | 673 | - | - | - | |
| Total fixed income | \$ 11,662 | \$ - | \$ 969 | \$ 1,137 | \$ 5,073 | \$ 2,420 | \$ 34 | \$ 2,029 | |
| Other exchange traded funds | | | | | | | | | |
| REITs | \$ 1,057 | \$ 1,057 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Total other exchange traded funds | \$ 1,057 | \$ 1,057 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Total investments | \$ 50,628 | \$ 38,499 | \$ 1,436 | \$ 1,137 | \$ 5,073 | \$ 2,420 | \$ 34 | \$ 2,029 | |

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, 2021

| Investment Type | | Exchange Traded | AAA | Aa | A | Baa/BBB | Not Rated | Agency |
|---|------------------|----------------------------|-----------------|-----------------|-----------------|-----------------|----------------------|-----------------|
| Money market funds | \$ 464 | \$ - | \$ 464 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Equity mutual fund investments | | | | | | | | |
| Domestic equity mutual funds | 36,059 | 36,059 | - | - | - | - | - | - |
| International equity mutual funds | 12,948 | 12,948 | - | - | - | - | - | - |
| Total equity mutual fund investments | <u>\$ 49,007</u> | <u>\$ 49,007</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Fixed income | | | | | | | | |
| Mortgage-backed securities | \$ 1,815 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,815 |
| Corporate bonds | 9,106 | - | - | 660 | 5,487 | 2,920 | 39 | - |
| U.S. Treasury securities | 1,786 | - | 1,231 | - | - | - | - | 555 |
| Taxable municipal bonds | 1,687 | - | 151 | 938 | 598 | - | - | - |
| Total fixed income | <u>\$ 14,394</u> | <u>\$ -</u> | <u>\$ 1,382</u> | <u>\$ 1,598</u> | <u>\$ 6,085</u> | <u>\$ 2,920</u> | <u>\$ 39</u> | <u>\$ 2,370</u> |
| Other exchange traded funds | | | | | | | | |
| REITs | \$ 780 | \$ 780 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total other exchange traded funds | <u>\$ 780</u> | <u>\$ 780</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total investments | <u>\$ 64,645</u> | <u>\$ 49,787</u> | <u>\$ 1,846</u> | <u>\$ 1,598</u> | <u>\$ 6,085</u> | <u>\$ 2,920</u> | <u>\$ 39</u> | <u>\$ 2,370</u> |

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, 2022 and 2021, the Pension Plan investments in the following exceeded 5.00% of the total investments.

| | % of Total Investment 2022 |
|--|---|
| Fidelity Mid Cap Value Index Fund | 5.47% |
| Schwab Fundamental US Large Company Index Fund | 9.55% |
| Schwab Select Large Cap Growth Fund | 6.36% |
| T Rowe Price Growth Stock Fund | 5.06% |
| TIAA-CREF Large-Cap Growth Index Fund | 6.80% |
| TIAA-CREF Large-Cap Value Index Fund | 9.90% |
| Fidelity Emerging Markets Index Fund | 5.05% |
| TIAA-CREF Institutional International Index Fund | 15.04% |
| | % of Total Investment 2021 |
| Financial Square Tr Government Fd | 5.79% |
| Fidelity Mid Cap Growth Index Fund | 5.37% |
| Laudus US Large Cap Growth Fund | 6.77% |
| Schwab Fundamental US Large Company Index Fund | 9.42% |
| T Rowe Price Growth Stock Fund | 6.78% |
| TIAA-CREF Large-Cap Growth Index Fund | 6.79% |
| TIAA-CREF Large-Cap Value Index Fund | 9.40% |
| Fidelity Emerging Markets Index Fund | 5.04% |
| TIAA-CREF Institutional International Index Fund | 15.03% |

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, 2022, fixed income investments included: (Duration is in years.)

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Duration</u> |
|--------------------------------|-------------------|-----------------|
| Commerce Fixed Income Strategy | \$ 11,662 | 5.67 |
| Total Fair Value | <u>\$ 11,662</u> | |
| Duration | | <u>5.67</u> |

As of June 30, 2021, fixed income investments included: (Duration is in years.)

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Duration</u> |
|--------------------------------|-------------------|-----------------|
| Commerce Fixed Income Strategy | \$ 14,394 | 5.91 |
| Total Fair Value | <u>\$ 14,394</u> | |
| Duration | | <u>5.91</u> |

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2022 and 2021 was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at 14.73% and 16.33% for June 30, 2022 and 2021, 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.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

The components of the net pension liability (asset) at June 30, 2022 and 2021 were as follows:

| | 2022 | 2021 |
|-------------------------------|------------------|--------------------|
| Total Pension Liability | \$ 61,854 | \$ 51,906 |
| Plan Fiduciary Net Position | (50,719) | (64,614) |
| Net Pension Liability (Asset) | <u>\$ 11,135</u> | <u>\$ (12,708)</u> |

| | | |
|--|--------|---------|
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 82.00% | 124.48% |
|--|--------|---------|

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) | | | |
| 2022 | \$ 18,190 | \$ 11,135 | \$ 5,244 |
| 2021 | \$ (6,075) | \$ (12,708) | \$ (18,224) |

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, 2022 and 2021, pension expense of \$5,261 and \$1,026, respectively, was recognized. At June 30, 2022, deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

| | 2022 Deferred Inflows of Resources | 2022 Deferred Outflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ (1,915) | \$ 6,795 |
| Changes of Assumptions | (209) | 4,945 |
| Net difference between projected and actual earnings on Pension Plan investments | (6,645) | 12,949 |
| | <u>\$ (8,769)</u> | <u>\$ 24,689</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: | |
|-----------------------------|---------|
| 2023 | \$3,046 |
| 2024 | 3,040 |
| 2025 | 2,581 |
| 2026 | 4,626 |
| 2027 | 1,408 |
| Thereafter | 1,219 |

Supplemental Pension Plan (SERP)

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. At June 30, 2022 and 2021, SERP membership consisted of 5 participants. At June 30, 2022 and 2021, the Company's liability was \$1,409 and \$1,728, respectively. For the years ended June 30, 2022 and 2021, SERP expense of \$6 and \$49, respectively, was recognized. At June 30, 2022, the Company had \$148 deferred outflows of resources and \$503 deferred inflows of resources related to the SERP. At June 30, 2021, the Company had \$181 deferred outflows of resources and \$267 deferred inflows of resources related to the SERP.

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, 2022, the Company had six 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 2020, the outstanding debt of the Company 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. During fiscal year 2021, the Company fully redeemed the seven Trust Indentures. The outstanding debt of the Company at June 30, 2022 consisted of student loan revenue bonds issued in accordance with three Trust Indentures adopted by the Board of Directors from fiscal year 2021 through fiscal year 2022. 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 May 16, 2023.

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, 2022 and 2021 is as follows:

| | 2022 | | | | | | | Total |
|--|------------------------------|------------------------------|------------------------------|-------------------|-------------------|-------------------|----------------------|-------------------|
| | Bond Funds | | | Line of Credit | Operating Fund | Foundation | Knowledge Finance | |
| | 2021-1 Trust Indenture | 2021-2 Trust Indenture | 2021-3 Trust Indenture | | | | | |
| Condensed Statement of Net Position | | | | | | | | |
| Assets: | | | | | | | | |
| Current assets | \$ 75,607 | \$ 99,098 | \$ 38,655 | \$ (188) | \$ 127,263 | \$ 160,991 | \$ 2,943 | \$ 504,369 |
| Long-term assets | 334,120 | 391,918 | 152,814 | 209 | 62,001 | 20,846 | - | 961,908 |
| Total assets | 409,727 | 491,016 | 191,469 | 21 | 189,264 | 181,837 | 2,943 | 1,466,277 |
| Deferred outflows of resources | - | - | - | - | 24,837 | - | - | 24,837 |
| Liabilities: | | | | | | | | |
| Current liabilities | 37,658 | 41,912 | 17,377 | 33 | 37,745 | 8 | - | 134,733 |
| Long-term liabilities | 351,588 | 427,336 | 162,965 | - | 21,163 | 356 | - | 963,408 |
| Interfund payable (receivable) | (588) | (633) | (238) | - | 1,413 | 52 | (6) | - |
| Total liabilities | 388,658 | 468,615 | 180,104 | 33 | 60,321 | 416 | (6) | 1,098,141 |
| Deferred inflows of resources | - | - | - | - | 9,555 | - | - | 9,555 |
| Net position: | | | | | | | | |
| Net investment in capital assets | - | - | - | - | 8,522 | - | - | 8,522 |
| Restricted for debt service | 21,069 | 22,401 | 11,365 | (12) | 9,990 | - | - | 64,813 |
| Unrestricted | - | - | - | - | 125,713 | 181,421 | 2,949 | 310,083 |
| Total net position | \$ 21,069 | \$ 22,401 | \$ 11,365 | \$ (12) | \$ 144,225 | \$ 181,421 | \$ 2,949 | \$ 383,418 |

Higher Education Loan Authority of the State of Missouri

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

9. Segment Information (continued)

| | 2021 | | | | | | Total |
|----------------------------------|------------------------------|------------------------------|-------------------|-------------------|-------------------|----------------------|-------------------|
| | Bond Funds | | | Operating Fund | Foundation | Knowledge Finance | |
| | 2021-1 Trust Indenture | 2021-2 Trust Indenture | Line of Credit | | | | |
| Assets: | | | | | | | |
| Current assets | \$ 71,118 | \$ 100,292 | \$ 26,423 | \$ 132,314 | \$ 186,176 | \$ 3,051 | \$ 519,374 |
| Long-term assets | 380,374 | 442,624 | 160,723 | 82,897 | 19,702 | – | 1,086,320 |
| Total assets | <u>451,492</u> | <u>542,916</u> | <u>187,146</u> | <u>215,211</u> | <u>205,878</u> | <u>3,051</u> | <u>1,605,694</u> |
| Deferred outflows of resources | – | – | – | 7,056 | – | – | 7,056 |
| Liabilities: | | | | | | | |
| Current liabilities | 37,091 | 45,230 | 146,230 | 64,330 | 5,934 | – | 298,815 |
| Long-term liabilities | 396,391 | 478,459 | – | 11,719 | – | – | 886,569 |
| Interfund payable (receivable) | (173) | (713) | (80) | 1,830 | (976) | 112 | – |
| Total liabilities | <u>433,309</u> | <u>522,976</u> | <u>146,150</u> | <u>77,879</u> | <u>4,958</u> | <u>112</u> | <u>1,185,384</u> |
| Deferred inflows of resources | – | – | – | 12,177 | – | – | 12,177 |
| Net position: | | | | | | | |
| Net investment in capital assets | – | – | – | 7,927 | – | – | 7,927 |
| Restricted for debt service | 18,183 | 19,940 | 40,996 | 10,055 | – | – | 89,174 |
| Unrestricted | – | – | – | 114,229 | 200,920 | 2,939 | 318,088 |
| Total net position | <u>\$ 18,183</u> | <u>\$ 19,940</u> | <u>\$ 40,996</u> | <u>\$ 132,211</u> | <u>\$ 200,920</u> | <u>\$ 2,939</u> | <u>\$ 415,189</u> |

Higher Education Loan Authority of the State of Missouri

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

9. Segment Information (continued)

| | 2022 | | | | | | | |
|---|------------------------|------------------------|------------------------|----------------|----------------|------------|-------------------|------------|
| | Bond Funds | | | Line of Credit | Operating Fund | Foundation | Knowledge Finance | Total |
| | 2021-1 Trust Indenture | 2021-2 Trust Indenture | 2021-3 Trust Indenture | | | | | |
| Condensed Statement of Revenues, Expenses, and Changes in Net Position | | | | | | | | |
| Operating revenues | \$ 13,917 | \$ 15,267 | \$ 4,275 | \$ 1,876 | \$ 88,974 | \$ (9,909) | \$ 255 | \$ 114,655 |
| Operating expenses | 11,031 | 12,830 | 6,446 | 185 | 100,099 | 9,590 | 245 | 140,426 |
| Operating income (loss) | 2,886 | 2,437 | (2,171) | 1,691 | (11,125) | (19,499) | 10 | (25,771) |
| Non-operating expenses | – | – | – | – | (6,000) | – | – | (6,000) |
| Income (loss) before transfers | 2,886 | 2,437 | (2,171) | 1,691 | (17,125) | (19,499) | 10 | (31,771) |
| Interfund transfers | – | 24 | 13,536 | (42,699) | 29,139 | – | – | – |
| Change in net position | 2,886 | 2,461 | 11,365 | (41,008) | 12,014 | (19,499) | 10 | (31,771) |
| Net position, beginning of year | 18,183 | 19,940 | – | 40,996 | 132,211 | 200,920 | 2,939 | 415,189 |
| Net position, end of year | \$ 21,069 | \$ 22,401 | \$ 11,365 | \$ (12) | \$ 144,225 | \$ 181,421 | \$ 2,949 | \$ 383,418 |

Higher Education Loan Authority of the State of Missouri

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

9. Segment Information (continued)

2021

| | Bond Funds | | | | | | | | | | | | | Total |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|-------------------|-------------------|------------|----------------------|------------|
| | 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 | 2021-1 Trust Indenture | 2021-2 Trust Indenture | Line of Credit | Operating Fund | Foundation | Knowledge Finance | |
| Condensed Statement of Revenues, Expenses, and Changes in Net Position | | | | | | | | | | | | | | |
| Operating revenues | \$ 1,469 | \$ 3,917 | \$ 2,929 | \$ 2,766 | \$ 3,423 | \$ 1,224 | \$ 9,568 | \$ 5,195 | \$ 2,771 | \$ 2,296 | \$ (38,555) | \$ 134,576 | \$ 71 | \$ 131,650 |
| Operating expenses | 890 | 1,832 | 750 | 1,419 | 2,217 | 461 | 4,093 | 10,484 | 9,571 | 2,212 | 59,469 | 5,715 | 140 | 99,253 |
| Operating income (loss) | 579 | 2,085 | 2,179 | 1,347 | 1,206 | 763 | 5,475 | (5,289) | (6,800) | 84 | (98,024) | 128,861 | (69) | 32,397 |
| Non-operating expenses | (489) | – | – | – | (3,309) | – | – | – | – | – | (4,000) | – | – | (7,798) |
| Income (loss) before transfers | 90 | 2,085 | 2,179 | 1,347 | (2,103) | 763 | 5,475 | (5,289) | (6,800) | 84 | (102,024) | 128,861 | (69) | 24,599 |
| Interfund transfers | (14,605) | (27,684) | (67,301) | (31,147) | (25,531) | (12,231) | (53,235) | 23,472 | 26,740 | 33,087 | 148,435 | – | – | – |
| Change in net position | (14,515) | (25,599) | (65,122) | (29,800) | (27,634) | (11,468) | (47,760) | 18,183 | 19,940 | 33,171 | 46,411 | 128,861 | (69) | 24,599 |
| Net position, beginning of year | 14,515 | 25,599 | 65,122 | 29,800 | 27,634 | 11,468 | 47,760 | – | – | 7,825 | 85,800 | 72,059 | 3,008 | 390,590 |
| Net position, end of year | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – | \$ 18,183 | \$ 19,940 | \$ 40,996 | \$ 132,211 | \$ 200,920 | \$ 2,939 | \$ 415,189 |

Higher Education Loan Authority of the State of Missouri

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

9. Segment Information (continued)

| | 2022 | | | | | | | Total |
|--|------------------------------|------------------------------|------------------------------|-------------------|-------------------|-------------|----------------------|------------|
| | Bond Funds | | | Line of Credit | Operating Fund | Foundation | Knowledge Finance | |
| | 2021-1 Trust Indenture | 2021-2 Trust Indenture | 2021-3 Trust Indenture | | | | | |
| Condensed Statement of Cash Flows | | | | | | | | |
| Net cash flows from operating activities | \$ 49,160 | \$ 59,915 | \$ (165,504) | \$ 145,195 | \$ 22,681 | \$ (10,464) | \$ (201) | \$ 100,782 |
| Net cash flows from non-capital financing activities | (48,360) | (60,038) | 176,505 | (146,227) | (27,662) | 20,023 | – | (85,759) |
| Net cash flows from capital and related financing activities | – | – | – | – | (824) | – | – | (824) |
| Net cash flows from investing activities | 14 | 27 | 10 | – | (102) | (6,098) | – | (6,149) |
| Net increase (decrease) in cash and cash equivalents | 814 | (96) | 11,011 | (1,032) | (5,907) | 3,461 | (201) | 8,050 |
| Cash and cash equivalents, beginning of year | 11,914 | 25,831 | – | 1,053 | 95,596 | 6,467 | 3,028 | 143,889 |
| Cash and cash equivalents, end of year | \$ 12,728 | \$ 25,735 | \$ 11,011 | \$ 21 | \$ 89,689 | \$ 9,928 | \$ 2,827 | \$ 151,939 |

Higher Education Loan Authority of the State of Missouri

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

9. Segment Information (continued)

| | 2021 | | | | | | | | | | | | | Total |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|----------------|----------------|------------|-------------------|------------|
| | Bond Funds | | | | | | | | | Line of Credit | Operating Fund | Foundation | Knowledge Finance | |
| | 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 | 2021-1 Trust Indenture | 2021-2 Trust Indenture | | | | | |
| Condensed Statement of Cash Flows | | | | | | | | | | | | | | |
| Net cash flows from operating activities | \$ 41,319 | \$ 167,690 | \$ 140,183 | \$ 100,488 | \$ 123,132 | \$ 46,406 | \$ 318,260 | \$(413,917) | \$(490,384) | \$(65,149) | \$ 129,758 | \$ (7,903) | \$ 28 | \$ 89,911 |
| Net cash flows from non-capital financing activities | (42,760) | (173,074) | (145,802) | (104,098) | (125,925) | (47,545) | (325,099) | 425,830 | 516,214 | 64,795 | (123,500) | 117,707 | – | 36,743 |
| Net cash flows from capital and related financing activities | – | – | – | – | – | – | – | – | – | – | (1,626) | – | – | (1,626) |
| Net cash flows from investing activities | 291 | 1,195 | 1,251 | 768 | 878 | 384 | 1,454 | 1 | 1 | – | (315) | (110,199) | – | (104,291) |
| Net (decrease) increase in cash and cash equivalents | (1,150) | (4,189) | (4,368) | (2,842) | (1,915) | (755) | (5,385) | 11,914 | 25,831 | (354) | 4,317 | (395) | 28 | 20,737 |
| Cash and cash equivalents, beginning of year | 1,150 | 4,189 | 4,368 | 2,842 | 1,915 | 755 | 5,385 | – | – | 1,407 | 91,279 | 6,862 | 3,000 | 123,152 |
| Cash and cash equivalents, end of year | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – | \$ 11,914 | \$ 25,831 | \$ 1,053 | \$ 95,596 | \$ 6,467 | \$ 3,028 | \$ 143,889 |

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, 2022</u> | <u>As of June 30, 2021</u> |
|--|--------------------------------|--------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents: | | |
| Unrestricted | \$ 9,928 | \$ 6,467 |
| Investments - unrestricted | 148,539 | 177,594 |
| Student loans receivable | 2,269 | 1,895 |
| Miscellaneous receivables | 255 | 220 |
| Due from the Higher Education Loan Authority of the State of Missouri | - | 976 |
| Total current assets | <u>160,991</u> | <u>187,152</u> |
| Long-term assets | | |
| Student loans receivable (less allowance for doubtful loans \$1,716 and \$1,071) | <u>20,846</u> | <u>19,702</u> |
| Total long-term assets | <u>20,846</u> | <u>19,702</u> |
| Total assets | <u>\$ 181,837</u> | <u>\$ 206,854</u> |
| Liabilities and net position | | |
| Current liabilities | | |
| Other liabilities | \$ 8 | \$ 5,934 |
| Due to the Higher Education Loan Authority of the State of Missouri | <u>52</u> | <u>-</u> |
| Total current liabilities | <u>60</u> | <u>5,934</u> |
| Long-term liabilities | | |
| MyMo Class of 2025 Promise Program | <u>356</u> | <u>-</u> |
| Total long-term liabilities | <u>356</u> | <u>-</u> |
| Total liabilities | <u>\$ 416</u> | <u>\$ 5,934</u> |
| Net position: | | |
| Unrestricted | <u>181,421</u> | <u>200,920</u> |
| Total net position | <u>\$ 181,421</u> | <u>\$ 200,920</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, 2022</u> | <u>For the Year Ended June 30, 2021</u> |
|--|---|---|
| Operating revenues, net: | | |
| Investment Income | \$ 2,964 | \$ 992 |
| Realized and unrealized (loss) gain on investments | (31,884) | 15,669 |
| Contributions from the Higher Education Loan Authority of the State of Missouri | <u>19,010</u> | <u>117,915</u> |
| Total operating revenues, net | <u>(9,910)</u> | <u>134,576</u> |
| Operating expenses: | | |
| Provision for loan losses | <u>1,123</u> | <u>214</u> |
| Total student loan-related expenses | <u>1,123</u> | <u>214</u> |
| Professional fees | 35 | 31 |
| Scholarships | 4,561 | 2,346 |
| Grants | 1,101 | 827 |
| Other operating expenses | <u>2,769</u> | <u>2,297</u> |
| Total general and administrative expenses | <u>8,466</u> | <u>5,501</u> |
| Total operating expenses | <u>9,589</u> | <u>5,715</u> |
| Operating (loss) income | <u>(19,499)</u> | <u>128,861</u> |
| Change in net position | (19,499) | 128,861 |
| Net position, beginning of year | <u>200,920</u> | <u>72,059</u> |
| Net position, end of year | <u>\$ 181,421</u> | <u>\$ 200,920</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, 2022</u> | <u>For the Year Ended June 30, 2021</u> |
|--|---|---|
| Cash flows from operating activities: | | |
| Disbursement of new student loans | \$ (4,719) | \$ (4,116) |
| Student loan repayments | 2,079 | 1,554 |
| Payments to vendors | (7,067) | (4,799) |
| Cash paid for servicing fees | (757) | (542) |
| Net cash used in operating activities | <u>(10,464)</u> | <u>(7,903)</u> |
| Cash flows from noncapital financing activities: | | |
| Contributions from the Higher Education Loan Authority of the State of Missouri | <u>20,023</u> | <u>117,707</u> |
| Net cash provided by noncapital financing activities | <u>20,023</u> | <u>117,707</u> |
| Cash flows from investing activities: | | |
| Purchase of investments, net of sales | (9,056) | (111,192) |
| Interest received on cash, cash equivalents and investments | 2,958 | 993 |
| Net cash used in investing activities | <u>(6,098)</u> | <u>(110,199)</u> |
| Change in cash and cash equivalents | 3,461 | (395) |
| Cash and cash equivalents, beginning of year | 6,467 | 6,862 |
| Cash and cash equivalents, end of year | <u>\$ 9,928</u> | <u>\$ 6,467</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, 2022</u> | <u>For the Year Ended June 30, 2021</u> |
|---|---|---|
| Reconciliation of operating income to net cash provided | | |
| by operating activities: | | |
| Operating income | \$ (19,499) | \$ 128,861 |
| Adjustments to reconcile operating income to net cash provided | | |
| by operating activities: | | |
| Contributions from the Higher Education Loan Authority of the State of Missouri | (19,010) | (117,915) |
| Realized and unrealized loss (gain) on investments | 31,884 | (15,669) |
| Investment income | (2,695) | (834) |
| Provision for loan losses | 1,123 | 214 |
| Change in assets and liabilities: | | |
| Increase in student loans receivable | (2,641) | (2,554) |
| Decrease (Increase) in due from the Higher Education Loan Authority of the State of Missouri | 15 | (6) |
| Increase in other liabilities | 359 | - |
| Total adjustments | <u>9,035</u> | <u>(136,764)</u> |
| Net cash used in operating activities | <u>\$ (10,464)</u> | <u>\$ (7,903)</u> |
| Noncash investing, capital, and financing activities: | | |
| Changes in investments and outstanding liabilities related to capital assets | <u>\$ (41,511)</u> | <u>\$ 19,741</u> |

Higher Education Loan Authority of the State of Missouri

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

10. Blended Component Unit (continued)

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

Statement of Net Position

| <u>Knowledge Finance</u> | <u>As of June 30, 2022</u> | <u>As of June 30, 2021</u> |
|---|--------------------------------|--------------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 2,827 | \$ 3,028 |
| Due from the Higher Education Loan Authority of the State of Missouri | 6 | - |
| Miscellaneous receivables | 116 | 23 |
| Total current assets | <u>2,949</u> | <u>3,051</u> |
| Total assets | <u>\$ 2,949</u> | <u>\$ 3,051</u> |
| Liabilities and net position | | |
| Current liabilities | | |
| Due to the Higher Education Loan Authority of the State of Missouri | \$ - | \$ 112 |
| Total current liabilities | <u>-</u> | <u>112</u> |
| Total liabilities | <u>\$ -</u> | <u>\$ 112</u> |
| Net position: | | |
| Unrestricted | 2,949 | 2,939 |
| Total net position | <u>\$ 2,949</u> | <u>\$ 2,939</u> |

Higher Education Loan Authority of the State of Missouri

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

10. Blended Component Unit (continued)

Statement of Revenues, Expenses and Changes in Net Position

| <u>Knowledge Finance</u> | <u>For the Year Ended June 30, 2022</u> | <u>For the Year Ended June 30, 2021</u> |
|--|---|---|
| Operating revenues, net: | | |
| Contributions from the Higher Education Loan Authority of the State of Missouri | \$ - | \$ - |
| Servicing revenue | <u>255</u> | <u>71</u> |
| Total operating revenues, net | <u>255</u> | <u>71</u> |
| Operating expenses: | | |
| Computer services and management fees | <u>245</u> | <u>140</u> |
| Total operating expenses | <u>245</u> | <u>140</u> |
| Operating income (loss) | <u>10</u> | <u>(69)</u> |
| Change in net position | 10 | (69) |
| Net position, beginning of year | <u>2,939</u> | <u>3,008</u> |
| Net position, end of year | <u>\$ 2,949</u> | <u>\$ 2,939</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>Knowledge Finance</u> | <u>For the Year Ended June 30, 2022</u> | <u>For the Year Ended June 30, 2021</u> |
|--|---|---|
| Cash flows from operating activities: | | |
| Cash (paid) received for servicing fees | \$ (201) | \$ 28 |
| Net cash (used in) provided by operating activities | <u>(201)</u> | <u>28</u> |
| Cash flows from noncapital financing activities: | | |
| Contributions from the Higher Education Loan Authority of the State of Missouri | <u>-</u> | <u>-</u> |
| Net cash provided by noncapital financing activities | <u>-</u> | <u>-</u> |
| Cash flows from investing activities: | | |
| Net cash used in investing activities | <u>-</u> | <u>-</u> |
| Change in cash and cash equivalents | (201) | 28 |
| Cash and cash equivalents, beginning of year | 3,028 | 3,000 |
| Cash and cash equivalents, end of year | <u>\$ 2,827</u> | <u>\$ 3,028</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>Knowledge Finance</u> | <u>For the Year Ended June 30, 2022</u> | <u>For the Year Ended June 30, 2021</u> |
|---|---|---|
| Reconciliation of operating income to net cash provided by (used in) operating activities: | | |
| Operating (loss) income | \$ <u>10</u> | \$ <u>(69)</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Change in assets and liabilities: | | |
| Increase in miscellaneous receivables and prepaid expenses | (93) | (15) |
| (Increase) in due from Higher Education Loan Authority of the State of Missouri | (6) | - |
| (Decrease) Increase in due to the Higher Education Loan Authority of the State of Missouri | <u>(112)</u> | <u>112</u> |
| Total adjustments | <u>(211)</u> | <u>97</u> |
| Net cash provided by operating activities | <u>\$ (201)</u> | <u>\$ 28</u> |

Higher Education Loan Authority of the State of Missouri

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

11. Future Accounting Pronouncements

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to (1) define subscription-based information technology arrangements (SBITAs), (2) establish that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability, (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and (4) require note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This Statement is effective for the Company beginning in fiscal year 2023. The Company is evaluating the impact of the adoption of this pronouncement.

12. Subsequent Events

On August 24, 2022, the Biden-Harris Administration announced a Student Debt Relief Plan that includes one-time student loan debt relief targeted to low- and middle-income families. The U.S. Department of Education (ED) will provide up to \$20,000 in debt relief to Federal Pell Grant recipients and up to \$10,000 in debt relief to non-Pell Grant recipients. Borrowers with loans held by ED are eligible for this relief if their individual income is less than \$125,000 (or \$250,000 for households). The Company is still evaluating the impact of the plan.

Higher Education Loan Authority of the State of Missouri

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

As of and for the Years Ended June 30, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015 and 2014

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total Pension Liability | | | | | | | | | |
| Service cost | \$ 2,581 | \$ 2,509 | \$ 2,731 | \$ 2,707 | \$ 2,616 | \$ 3,900 | \$ 3,334 | \$ 3,306 | \$ 3,175 |
| Interest on the Total Pension Liability | 3,959 | 3,573 | 3,547 | 3,191 | 3,027 | 3,015 | 2,526 | 2,234 | 2,134 |
| Changes of Benefit Terms | - | (150) | - | - | - | (4,346) | - | - | - |
| Differences between expected and actual experience | 6,615 | (1,399) | 241 | (688) | 1,480 | 1,273 | (666) | (989) | 473 |
| Changes of Assumptions | 1,711 | 499 | 2,174 | 1,880 | (515) | 215 | 2,061 | - | - |
| Benefit payments | (4,918) | (9,886) | (3,040) | (2,493) | (1,675) | (3,960) | (1,064) | (2,957) | (3,705) |
| Net change in total pension liability | 9,948 | (4,854) | 5,653 | 4,597 | 4,933 | 97 | 6,191 | 1,594 | 2,077 |
| Total pension liability - beginning | 51,906 | 56,760 | 51,107 | 46,510 | 41,577 | 41,480 | 35,289 | 33,695 | 31,618 |
| Total pension liability - ending (a) | 61,854 | 51,906 | 56,760 | 51,107 | 46,510 | 41,577 | 41,480 | 35,289 | 33,695 |
| Plan fiduciary net position | | | | | | | | | |
| Contributions - employer | 2,009 | 6,676 | 3,176 | 2,894 | 3,166 | 4,496 | 3,221 | 2,980 | 3,262 |
| Investment income | (10,812) | 14,730 | 1,778 | 3,368 | 3,440 | 3,647 | 456 | 1,296 | 4,573 |
| Investment expenses | (174) | (168) | (156) | (151) | (175) | (166) | (144) | - | - |
| Benefit payments | (4,918) | (9,886) | (3,040) | (2,493) | (1,675) | (3,960) | (1,064) | (2,957) | (3,705) |
| Administrative expense | - | - | - | - | - | - | (1) | (153) | (138) |
| Net change in plan fiduciary net position | (13,895) | 11,352 | 1,758 | 3,618 | 4,756 | 4,017 | 2,468 | 1,166 | 3,992 |
| Plan fiduciary net position-beginning | 64,614 | 53,262 | 51,504 | 47,886 | 43,130 | 39,113 | 36,645 | 35,479 | 31,487 |
| Plan fiduciary net position-ending (b) | \$ 50,719 | \$ 64,614 | \$ 53,262 | \$ 51,504 | \$ 47,886 | \$ 43,130 | \$ 39,113 | \$ 36,645 | \$ 35,479 |
| Net pension liability (asset) - ending (a) - (b) | 11,135 | (12,708) | 3,498 | (397) | (1,376) | (1,553) | 2,367 | (1,356) | (1,784) |
| Plan fiduciary net position as a percentage of the total pension liability | 82.00% | 124.48% | 93.84% | 100.78% | 102.96% | 103.74% | 94.29% | 103.84% | 105.29% |
| Covered payroll beginning of year | \$ 22,619 | \$ 21,760 | \$ 26,710 | \$ 27,278 | \$ 27,282 | \$ 26,641 | \$ 21,490 | \$ 19,996 | \$ 20,304 |
| Net pension liability (asset) as a percentage of covered-employee payroll | 49.23% | -58.40% | 13.10% | -1.45% | -5.04% | -5.83% | 11.02% | -6.78% | -8.79% |

Information provided for years available

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

Higher Education Loan Authority of the State of Missouri

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

Last 10 Fiscal Years

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--|----------------------------|---------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------|-----------|-----------|-----------|
| Actuarially determined contribution | \$ 2,009 | \$ 3,178 | \$ 3,176 | \$ 2,894 | \$ 3,166 | \$ 4,496 | \$ 3,221 | \$ 2,980 | \$ 3,262 | \$ 2,876 |
| Actual contribution recognized during the year | 2,009 | 6,676 | 3,176 | 2,894 | 3,166 | 4,496 | 3,221 | 2,980 | 3,262 | 2,741 |
| Contribution deficiency (excess) | - | (3,498) | - | - | - | - | - | - | - | 135 |
| Covered payroll beginning of year | \$ 22,619 | \$ 21,760 | \$ 26,710 | \$ 27,278 | \$ 27,282 | \$ 26,641 | \$ 21,490 | \$ 19,996 | \$ 20,304 | \$ 18,607 |
| Contributions as a % of covered – employee payroll | 8.88% | 30.68% | 11.89% | 10.61% | 11.60% | 16.88% | 14.99% | 14.90% | 16.07% | 14.73% |
| Methods and Assumptions for Actuarially Determined Contribution | | | | | | | | | | |
| Salary Scale | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 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% | 6.75% | 6.75% | 6.75% | 7.00% |
| Amortization Period | 6.5 | 6.8 | 6.9 | 6.9 | 6.8 | 8.8 | 10.0 | 9.9 | 10.1 | 9.8 |
| Inflation Rate | 2.25% | 2.00% | 2.25% | 2.25% | 2.25% | 2.25% | 2.50% | 2.50% | 2.50% | 4.00% |
| Mortality Table | PubG -2010/ MP 2020 | PubG - 2010/ MP 2019 | PubG- 2010/ MP 2018 | 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 |
| 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 period presented herein.

Higher Education Loan Authority of the State of Missouri

Required Supplementary Information
Schedule of Investment Returns
(Unaudited)

Last 9 Fiscal Years

| Fiscal Year Ended | Annual Money-Weighted Rate of Return |
|--------------------------|---|
| 2022 | -16.69% |
| 2021 | 27.94% |
| 2020 | 3.44% |
| 2019 | 6.95% |
| 2018 | 7.77% |
| 2017 | 9.01% |
| 2016 | 0.82% |
| 2015 | 3.45% |
| 2014 | 14.64% |



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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 of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities and fiduciary activities of the Higher Education Loan Authority of the State of Missouri (“the Company”), as of and the for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2022.

Report on 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) as a basis for designing 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 a 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 or significant deficiencies may exist that were not identified.



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Report on 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 financial statements. 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.

Ernst & Young LLP

September 19, 2022