
***MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM
FINANCIAL STATEMENTS
JUNE 30, 2018***

Contents

	Page
Independent Auditors' Report	1 - 3
Management's Discussion And Analysis	4 - 11
Basic Financial Statements	
Government-Wide Financial Statements	
Statement Of Net Position	12
Statements Of Activities	13 - 14
Fund Financial Statements	
Balance Sheet - Governmental Funds (2018).....	15
Reconciliation Of the Balance Sheet - Governmental Funds With the Statement Of Net Position (2018)	16
Balance Sheet - Governmental Funds (2017).....	17
Reconciliation Of the Balance Sheet - Governmental Funds With the Statement Of Net Position (2017)	18
Statement Of Revenues, Expenditures And Changes In Fund Balances - Governmental Funds (2018).....	19
Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances - Governmental Funds To The Statement Of Activities (2018).....	20
Statement Of Revenues, Expenditures And Changes In Fund Balances - Governmental Funds (2017).....	21
Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances - Governmental Funds To The Statement Of Activities (2017).....	22
Statement Of Fiduciary Net Position - Fiduciary Funds (2018).....	23
Statement Of Fiduciary Net Position - Fiduciary Funds (2017).....	24
Statement Of Changes In Fiduciary Net Position - Fiduciary Funds (2018).....	25
Statement Of Changes In Fiduciary Net Position - Fiduciary Funds (2017).....	26
Notes To Financial Statements.....	27 - 53

Contents

	Page	
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund - Agency Operating Fund	54 - 55	
Notes To Required Supplementary Information.....	56 - 57	
Other Supplementary Information		
Statement Of Revenues, Expenditures And Changes In Fund Balances - Governmental Funds By Object	58 - 59	
Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>		60 - 61



RubinBrown LLP
Certified Public Accountants
& Business Consultants

One North Brentwood
Saint Louis, MO 63105

T 314.290.3300
F 314.290.3400

W rubinbrown.com
E info@rubinbrown.com

Independent Auditor's Report

Missouri Department of Higher Education
Student Loan Program
Jefferson City, Missouri

Report On The Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Missouri Department of Higher Education Student Loan Program (the Program) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Missouri Department of Higher Education Student Loan Program as of June 30, 2018 and 2017, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Financial Reporting Entity

As discussed in Note 1, the financial statements of the Missouri Department of Higher Education Student Loan Program are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund and the aggregate remaining fund information of the State of Missouri that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State of Missouri as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 and the Budgetary Information for the General Fund on pages 53 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's basic financial statements. The Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds by Object is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Program's internal control over financial reporting and compliance.

RubinBrown LLP

December 27, 2018

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS For The Years Ended June 30, 2018 And 2017

Introduction

The Management Discussion and Analysis is a required section of governmental financial statements and is designed to provide an overview of the Missouri Department of Higher Education Student Loan Program's (MSLP) financial position and operating results for the fiscal years ended June 30, 2018 and 2017. The discussion and analysis has been prepared by management and should be read in conjunction with the financial statements.

MSLP Funds

The MSLP has two funds as required by the 1998 Amendments to the Higher Education Act of 1965 – the Guaranty Agency Operating Fund (Operating Fund) and the Federal Student Loan Reserve Fund (Federal Fund). The Operating Fund includes revenues earned from guaranty agency activities and is used for the day-to-day Federal Family Education Loan (FFEL) Program operations. The Operating Fund is classified as a governmental fund. The Federal Fund is the property of the federal government and is primarily used to pay claims to lenders. Funds used to pay claims are partially reimbursed by the federal government. The Federal Fund is classified as a fiduciary fund.

Basic Financial Statements

The MSLP's basic financial statements comprise three sections: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements provide both short and long-term information about the net financial position of the MSLP and how it has changed.

Statements of Net Position and Statements of Activities

The statements of net position depict the financial position at the end of a fiscal year, considering all of MSLP assets, deferred inflows of resources and liabilities. The Statements of Activities compare direct and indirect expenses and program revenues for each MSLP activity. All of the current year's revenues and expenditures are accounted for in the Statement of Activities, regardless of when the cash is received or paid.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Management's Discussion And Analysis (*Continued*)

Fund Financial Statements

The fund financial statements provide information about each of the MSLP funds.

Governmental Fund (Operating Fund):

Balance Sheets and Statements of Revenues, Expenditures and Changes in Fund Balance

The governmental fund statements provide a short-term view of the financial resources available for the coming year. The Balance Sheets present information about the assets, liabilities, and fund balance of the MSLP as of the end of a fiscal year. The fund balance is the total amount of assets less the total amount of liabilities. The Statements of Revenues, Expenditures and Changes in Fund Balance measure the revenues earned and the expenditures incurred for MSLP operations over a fiscal year. Because the information in these statements does not reflect the long-term focus of the government-wide statements, a reconciliation following the governmental funds statements explains the differences between the government-wide and fund financial statements.

Fiduciary Fund (Federal Fund):

Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position

The fiduciary fund statements account for the resources the MSLP holds for the benefit of the federal government. The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position provide financial information related to the federal fund. The Statements of Fiduciary Net Position show the financial position at the end of the fiscal year. The Statements of Changes in Fiduciary Net Position allows users to see the activity for the fiscal year.

Notes to Financial Statements

The notes provide additional detail that is essential to a complete understanding of the information included in the government-wide and fund financial statements.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Management's Discussion And Analysis (*Continued*)

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements. This section includes budgetary comparison schedules and a reconciliation of the budgetary basis and the GAAP basis fund balances for the governmental fund.

Other Supplementary Information

A section of additional supplementary information follows the required supplementary section. This section includes an alternative look at the Statements of Revenues, Expenditures and Changes in Fund Balance. Rather than grouping expenditures by function, these supplementary schedules break out expenditures by object type.

Government-wide Financial Analysis

Statement Of Net Position

A summary of the MSLP's assets, liabilities and net position at June 30:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 38,910,676	\$ 48,174,702	\$ 48,946,655
Noncurrent assets	446,511	187,185	294,506
Total Assets	39,357,187	48,361,887	49,241,161
Current liabilities	454,737	899,750	990,605
Net position			
Net investment in capital assets	446,511	187,185	294,506
Restricted for student financial aid related activities	38,455,939	47,274,952	47,956,050
Total Net Position	\$ 38,902,450	\$ 47,462,137	\$ 48,250,556

Comparative Analysis Of Fiscal Years 2018 And 2017

Net position decreased from \$47,462,137 to \$38,902,450 during 2018, a decline of 18 percent. The decrease is primarily due to an increase in the funds transferred to the MDHE's administration of the state grants and scholarship programs.

The capital assets consist of vehicles, the non-depreciated value of equipment, and software in progress. The remaining assets are available for financial aid related activities, as defined in federal statute.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Management's Discussion And Analysis (*Continued*)

Total liabilities decreased by approximately 49 percent in 2018. The decrease is due to the fact that more expenses incurred in Fiscal Year 2018 were paid during the same Fiscal Year in which the expense was incurred than in the prior Fiscal Year.

Comparative Analysis Of Fiscal Years 2017 And 2016

Net position decreased from \$48,250,556 to \$47,462,137 during 2017, a decline of 2 percent. The decrease is primarily due to an increase in the contract rate for the MDHE contracted loan servicer. The increase in the contract price was included in the original contract negotiated pricing structure and took effect in April 2016.

The capital assets consist of vehicles, the non-depreciated value of equipment, and software in progress. The remaining assets are available for financial aid related activities, as defined in federal statute.

Total liabilities decreased nearly 9 percent in 2017. The decrease is due to the fact that the June 2016 contract expense for the MDHE loan servicer was higher than is usual at the end of the year, while the June 2017 contract expense outstanding returned to a more typical amount.

Statement Of Activities

A summary of the MSLP's operating results for the years ended June 30, are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues			
Loan program revenues	\$ 12,699,927	\$ 14,455,450	\$ 13,738,413
Other	1,220	1,319	3,067
Total Revenues	12,701,147	14,456,769	13,741,480
Expenses			
Loan guarantee operations	11,317,883	12,964,569	12,146,957
State based aid programs	7,999,957	90,627	64,878
Other financial aid activities	1,482,697	1,468,010	1,562,221
Default prevention	460,297	721,982	816,641
Total Expenses	21,260,834	15,245,188	14,590,697
Change In Net Position	(8,559,687)	(788,419)	(849,217)
Net Position - Beginning Of Year	47,462,137	48,250,556	49,099,773
Net Position - End Of Year	\$ 38,902,450	\$ 47,462,137	\$ 48,250,556

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

Management's Discussion And Analysis (*Continued*)

Comparative Analysis Of Fiscal Years 2018 And 2017

Net position decreased from \$47,462,137 to \$38,902,450 during 2018, a decline of 18 percent. The decrease was because the cost of the non-guarantee activities supported by the fund exceeded the margin of operating revenue remaining after compensating the MDHE loan servicer.

Comparative Analysis Of Fiscal Years 2017 And 2016

Net position decreased from \$48,250,556 to \$47,462,137 during 2017, a decline of 1.6 percent. The decrease was because the cost of the non-guarantee activities supported by the fund exceeded the margin of operating revenue remaining after compensating the MDHE loan servicer.

Fund Financial Analysis

Governmental Fund

The Balance Sheet includes total assets of \$38,789,233, liabilities of \$92,330, and a fund balance of \$38,696,903 as of June 30, 2018. Total assets decreased by approximately 19.5 percent, while total liabilities decreased by approximately 78.3 percent, resulting in a fund balance decrease of \$9,051,601, which is a 19.0 percent decline from the prior fiscal year.

The decrease in assets is in large part due to MDHE transfer to support State Programs like Bright Flight and Access Missouri. In addition, revenues are generally related to the size of the Fund's declining guaranty portfolio. The guaranty portfolio is declining because the MDHE stopped guaranteeing loans in 2010, as described later in this analysis.

The decrease in liabilities is due to the fact that more expenses incurred in the Fiscal Year were able to be paid in the same year the expenses were incurred. Additionally, payroll expenditures at the end of Fiscal Year 2018 were less than in 2017. Finally, a change in the number of shared employees accounted for a decrease in compensated absences payable.

The governmental fund's total fund balance of \$38,696,903 is classified as restricted for student financial aid related activities.

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

Management's Discussion And Analysis (*Continued*)

The Statement of Revenues, Expenditures and Changes in Fund Balance of the governmental fund for 2018 shows revenues of \$12,701,147, expenditures of \$21,752,748, and a net decrease in fund balance of \$9,051,601. The ending fund balance for the 2018 was \$38,696,903. The decrease was because the cost of the non-guarantee activities supported by the fund exceeded the margin of operating revenue remaining after compensating the MDHE loan servicer.

Fiduciary Fund

The fiduciary fund (Federal Fund) is the property of the federal government and is primarily used to pay claims to lenders. The primary additions to the fund are reinsurance payments from the federal government and recoveries of defaulted student loans.

As of June 30, 2018, the fiduciary fund's net position was \$17,872,800, a \$1,656,798 increase from prior year net position. The improvement in net position was due to increased net recoveries, decreased loan claims, and a change to full reimbursement of claims expenses. Historically, the federal government provided partial reimbursement for most claims purchased by the MDHE. Beginning December 2015, the federal government began providing full reimbursement for all claims. Fiscal year 2017 was the first full year with 100% claims reimbursement.

Significant Factors Affecting Financial Outlook

The enactment of P.L. 111-185, the Healthcare and Affordability Act, terminated the authority of the MSLP to guaranty new loans as of June 30, 2010. As a result, the MSLP no longer adds new loans to its guaranty portfolio, but is still responsible for managing its residual portfolio, which as of June 30, 2018 consisted of \$1,182,186,495 in outstanding guarantees and \$248,718,507 in defaulted loans. The effect of this change will be that over time, the guaranty portfolio balance and associated revenues will decline.

Effective July 1, 2014, P.L. 113-67 reduced the percentage of collections that guaranty agencies are permitted to retain from rehabilitating defaulted student loans. This reduction will continue to significantly impact collection revenues in future years.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Management's Discussion And Analysis (*Continued*)

Capital Assets and Long-term Obligations

Capital Assets

The MSLP's investment in capital assets for its governmental activities as of June 30, 2018 amounted to \$446,511 (net of accumulated depreciation). This total represents a \$259,326 increase in capital assets from 2017. The investment in capital assets includes vehicles, equipment, and software in progress.

Note 3, Capital Assets, includes additional information about the MSLP capital assets.

Long-term Obligations

Long-term liability obligations include accrued vacation pay for which employees are paid upon termination from the MSLP.

During the year ended June 30, 2018, the MSLP's total long-term obligation decreased by \$111,145 from the prior year's balance. The decrease was in large part due to a decrease in the number of shared employees included in the MDHE obligation.

Note 5, Long-Term Obligations includes additional information on the MSLP's long-term obligations.

Budgetary Highlights

Each year, the MSLP requests spending authority (appropriations) in order to use its governmental fund for authorized expenditures over the coming fiscal year. A lack of sufficient spending authority could cause an inability to comply with program obligations, which are not always predictable due to unanticipated federal program changes, so the MSLP must request appropriations in excess of the amount of expenditures expected for each budget year. Therefore, actual spending for the year is expected to be less than the budgeted amount. In 2018, the actual charges to appropriations (expenditures) were \$4,235,160 less than the final budget amounts.

The variance stemmed from an inability to accurately project collection-related expenses. Accordingly, the MDHE budgeted amounts reflect that uncertainty, increasing the likelihood of unexpended appropriations at year end.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Management's Discussion And Analysis (*Continued*)

Requests For Information

This report is designed to provide an overview of MSLP finances. For questions concerning any of the information found in the report or requests for additional information, please contact the Missouri Department of Higher Education at (800) 473-6757.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

STATEMENT OF NET POSITION

	Governmental Activities	
	June 30,	
	2018	2017
Current Assets		
Cash and investments	\$ 37,863,713	\$ 46,330,842
Receivables:		
Federal		
Account maintenance fee	199,634	228,459
Other	314,664	63,815
Other receivables	82	73
Due from private purpose trust fund	411,139	1,551,513
Prepaid expenses	121,444	—
Total Current Assets	38,910,676	48,174,702
Noncurrent Assets		
Capital assets, net of accumulated depreciation	109,529	178,068
Software in progress	336,982	9,117
Total Noncurrent Assets	446,511	187,185
Total Assets	39,357,187	48,361,887
Current Liabilities		
Accounts payable	3,696	160,908
Accrued payroll and related benefits	23,671	134,401
Compensated absences payable	12,407	123,552
Default aversion rebate allowance	350,000	350,000
Due to private purpose trust fund	64,963	130,889
Total Current Liabilities	454,737	899,750
Net Position		
Net investment in capital assets	446,511	187,185
Restricted for student financial aid related activities	38,455,939	47,274,952
Total Net Position	\$ 38,902,450	\$ 47,462,137

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2018**

Functions/Programs	Direct Expenses	Indirect Expenses	Program Revenue Operating Grants And Contributions	Net Revenue And Changes In Net Assets
Governmental Activities				
Loan guarantee operations	\$ 10,220,163	\$ 1,097,720	\$ 12,699,927	\$ 1,382,044
State based aid programs	7,959,570	40,387	—	(7,999,957)
Other student financial aid activities	625,263	857,434	—	(1,482,697)
Default prevention	407,019	53,278	—	(460,297)
Total Governmental Activities	\$ 19,212,015	\$ 2,048,819	\$ 12,699,927	(8,560,907)
General Revenues				
Miscellaneous				<u>1,220</u>
Change In Net Position				(8,559,687)
Net Assets - Beginning Of Year				<u>47,462,137</u>
Net Assets - End Of Year				<u><u>\$ 38,902,450</u></u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2017**

Functions/Programs	Direct Expenses	Indirect Expenses	Program Revenue Operating Grants And Contributions	Net Revenue And Changes In Net Assets
Governmental Activities				
Loan guarantee operations	\$ 11,752,409	\$ 1,212,160	\$ 14,455,450	\$ 1,490,881
State based aid programs	40,274	50,353	—	(90,627)
Other student financial aid activities	631,947	836,063	—	(1,468,010)
Default prevention	674,085	47,897	—	(721,982)
Total Governmental Activities	\$ 13,098,715	\$ 2,146,473	\$ 14,455,450	(789,738)
General Revenues				
Miscellaneous				1,319
Change In Net Position				(788,419)
Net Assets - Beginning Of Year				48,250,556
Net Assets - End Of Year				\$ 47,462,137

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	General Fund (Agency Operating)
Assets	
Cash and investments	\$ 37,863,713
Receivables:	
Federal	
Account maintenance fee	199,635
Other	314,664
Other receivables	82
Due from other funds	411,139
	<hr/>
Total Assets	\$ 38,789,233
	<hr/> <hr/>
Liabilities	
Accounts payable	\$ 3,696
Accrued payroll and related benefits	23,671
Due to other funds	64,963
	<hr/>
Total Liabilities	92,330
Fund Balances	
Restricted for student financial aid related activities	38,696,903
	<hr/>
Total Liabilities And Fund Balances	\$ 38,789,233
	<hr/> <hr/>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2018

Total Fund Balances - Total Governmental Funds	\$ 38,696,903
Amounts Reported For Governmental Activities In The Statement Of Net Position Are Different Because:	
Prepaid expenses are not financial resources and, therefore, are not reported in the governmental funds.	121,444
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	109,529
Work in process used in governmental activities are not financial resources and, therefore, are not reported as assets in government funds.	336,981
Compensated absences are recognized as liabilities in the governmental funds when the amounts are normally expected to be liquidated with expendable available resources.	(12,407)
Default aversion rebate allowance is an allowance set up to offset rebates in excess of fees earned, does not represent a payable due in the current period, and is not reported as a liability in the governmental funds.	<u>(350,000)</u>
Total Net Assets - Governmental Position	<u><u>\$ 38,902,450</u></u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General Fund (Agency Operating)
Assets	
Cash and investments	\$ 46,330,842
Receivables:	
Federal	
Account maintenance fee	228,461
Other	63,815
Other receivables	73
Due from other funds	<u>1,551,513</u>
Total Assets	<u><u>\$ 48,174,704</u></u>
Liabilities	
Accounts payable	\$ 160,908
Accrued payroll and related benefits	134,401
Due to other funds	<u>130,891</u>
Total Liabilities	426,200
Fund Balances	
Restricted for student financial aid related activities	<u>47,748,504</u>
Total Liabilities And Fund Balances	<u><u>\$ 48,174,704</u></u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2017

Total Fund Balances - Total Governmental Funds	\$ 47,748,504
Amounts Reported For Governmental Activities In The Statement Of Net Position Are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	178,068
Work in process used in governmental activities are not financial resources and, therefore, are not reported as assets in government funds.	9,117
Compensated absences are recognized as liabilities in the governmental funds when the amounts are normally expected to be liquidated with expendable available resources.	(123,552)
Default aversion rebate allowance is an allowance set up to offset rebates in excess of fees earned, does not represent a payable due in the current period, and is not reported as a liability in the governmental funds.	<u>(350,000)</u>
Total Net Assets - Governmental Position	<u><u>\$ 47,462,137</u></u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For The Year Ended June 30, 2018**

	General Fund (Agency Operating)
Revenues	
Guaranty agency retention of collections	\$ 9,328,217
Account maintenance fee	843,118
Default aversion fees	437,921
Tax refund reimbursements/closed school	94,901
Teacher loan forgiveness	1,504,171
Interest income	491,599
Other	1,220
Total Revenues	<u>12,701,147</u>
Expenditures	
Loan guarantee operations	9,720,071
State based aid programs	7,960,840
Other student financial aid related activities	650,716
Default aversion rebate expense	561,676
Default prevention	408,091
Administrative	2,114,372
Capital outlay	336,982
Total Expenditures	<u>21,752,748</u>
Net Changes In Fund Balances	(9,051,601)
Fund Balances - Beginning Of Year	<u>47,748,504</u>
Fund Balances - End Of Year	<u><u>\$ 38,696,903</u></u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2018**

Net Change In Fund Balances - Total Governmental Funds \$ (9,051,601)

**Amounts Reported For Governmental Activities In The
Statement Of Activities Are Different Because:**

Prepaid expenses are recognized in the government-wide statement of net assets and expensed when they expire, but are recorded as an expenditure in the governmental funds when paid. 121,444

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	\$ (77,656)	
Capital outlays	<u>336,981</u>	
		259,325

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds until paid.

Compensated absences		<u>111,145</u>
----------------------	--	----------------

Change In Net Position Of Governmental Activities \$ (8,559,687)

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For The Year Ended June 30, 2017**

	General Fund (Agency Operating)
Revenues	
Guaranty agency retention of collections	\$ 11,332,436
Account maintenance fee	961,798
Default aversion fees	647,903
Tax refund reimbursements/closed school	158,630
Teacher loan forgiveness	1,061,105
Interest income	293,578
Other	1,319
Total Revenues	<u>14,456,769</u>
Expenditures	
Loan guarantee operations	11,107,891
State based aid programs	40,054
Other student financial aid related activities	636,918
Default aversion rebate expense	525,176
Default prevention	674,202
Administrative	2,158,154
Capital outlay	15,624
Total Expenditures	<u>15,158,019</u>
Net Changes In Fund Balances	(701,250)
Fund Balances - Beginning Of Year	<u>48,449,754</u>
Fund Balances - End Of Year	<u>\$ 47,748,504</u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2017**

Net Change In Fund Balances - Total Governmental Funds \$ (701,250)

**Amounts Reported For Governmental Activities In The
Statement Of Activities Are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	\$ (122,946)	
Capital outlays	<u>15,625</u>	
		(107,321)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds until paid.

Compensated absences	<u>20,152</u>	
----------------------	---------------	--

Change In Net Position Of Governmental Activities	<u><u>\$ (788,419)</u></u>	
--	----------------------------	--

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

June 30, 2018

	Private- Purpose Trust Fund (Federal Fund)
Assets	
Cash and investments	\$ 11,836,810
Due from federal government for reinsurance	6,278,351
Due from other funds	64,963
Loan recoveries receivable	<u>103,815</u>
Total Assets	<u>18,283,939</u>
Current Liabilities	
Due to other funds	<u>411,139</u>
Total Current Liabilities	<u>411,139</u>
Total Liabilities	<u>411,139</u>
Net Position	
Held in trust for U.S. Department of Education claims and default aversion fees	<u>17,872,800</u>
Total Net Position	<u><u>\$ 17,872,800</u></u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

June 30, 2017

	Private- Purpose Trust Fund (Federal Fund)
Assets	
Cash and investments	\$ 4,800,785
Due from federal government for reinsurance	12,771,738
Due from other funds	130,891
Loan recoveries receivable	64,101
	<hr/>
Total Assets	17,767,515
	<hr/>
Current Liabilities	
Due to other funds	1,551,513
Total Current Liabilities	1,551,513
	<hr/>
Total Liabilities	1,551,513
	<hr/>
Net Position	
Held in trust for U.S. Department of Education lender claims and default aversion fees	16,216,002
	<hr/>
Total Net Position	\$ 16,216,002
	<hr/> <hr/>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

For The Year Ended June 30, 2018

	Private- Purpose Trust Fund (Federal Fund)
Additions	
Federal reinsurance	\$ 29,245,596
Loan recoveries	47,602,221
Interest income	190,307
Default aversion rebate	123,750
Other income	161
Total Additions	<u>77,162,035</u>
Deductions	
Loan claims	66,177,020
Guaranty agency share of collections	9,328,217
Total Deductions	<u>75,505,237</u>
Change In Net Position	1,656,798
Net Position - Beginning Of Year	<u>16,216,002</u>
Net Position - End Of Year	<u>\$ 17,872,800</u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

For The Year Ended June 30, 2017

	Private- Purpose Trust Fund (Federal Fund)
Additions	
Federal reinsurance	\$ 16,751,291
Loan recoveries	61,543,839
Interest income	111,467
Other income	86
Total Additions	<u>78,406,683</u>
Deductions	
Loan claims	63,563,142
Guaranty agency share of collections	11,332,436
Default aversion fees	122,724
Total Deductions	<u>75,018,302</u>
Change In Net Position	3,388,381
Net Position - Beginning Of Year	<u>12,827,621</u>
Net Position - End Of Year	<u><u>\$ 16,216,002</u></u>

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018 And 2017

1. Nature Of Operations And Summary Of Significant Accounting Policies

Reporting Entity

The Missouri Department of Higher Education Student Loan Program (MSLP) was established in 1978 by the Missouri General Assembly through legislative action pursuant to the United States *Higher Education Act of 1965* to act as a guaranty agency for the Federal Family Education Loan Program (FFEL). Operational since October 1979, the MSLP is administered by the Missouri Department of Higher Education (MDHE), a department of the state of Missouri. The MDHE operates under the provisions outlined in Chapter 173 of the Missouri Revised Statutes and must meet certain state regulations as outlined in Division 10 of the Code of State Regulations.

The MDHE reports to the Coordinating Board for Higher Education (CBHE), which was authorized by an amendment to the Missouri Constitution in 1972 and established by statute in the *Omnibus State Reorganization Act of 1974*. The nine board members are appointed by the governor and confirmed by the Senate. The board consists of at least one, but not more than two members from each congressional district. The term of appointment is six years. No more than five of the nine members may be affiliated with the same political party. Members serve without compensation.

Basis Of Presentation

The MSLP's basic financial statements are prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as amended and modified by subsequently issued GASB Statements, collectively "GASB 34," and include three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

Government-Wide Financial Statements - The government-wide statements include statements of net position and statements of activities. These statements reflect all of the assets, liabilities, revenues, expenses, gains, losses and deferred inflows and outflows of resources of the MSLP's governmental activities. The MSLP's governmental activities comprise all of the activities of administering the guaranty agency activities of the FFEL Program for the state of Missouri and the U.S. Department of Education (USDE). The government-wide financial statements do not reflect fiduciary activities as those resources are not available to finance the guaranty agency activities of the FFEL Program.

The statements of net position present the financial position of the MSLP's governmental activities at year end. The statements of activities present a comparison between direct and indirect expenses and program revenues for each program of the MSLP's governmental activities. Direct expenses are those that are specifically associated with a program and, therefore, are clearly identifiable to a particular function/program. Indirect expenses are allocated by functions/programs utilizing a full cost allocation approach with the objective of allocating all expenses to the MSLP's programs.

Governmental activities' program revenues include charges for services and grants and contributions. The MSLP has no charges for services. Grants and contributions received by the MSLP include revenues that are established by federal regulations (see *Federal Family Education Loan Programs* on page 31) as a means of providing funding for the federally required program activities.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

Fund Financial Statements - The MSLP's fund financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to state government entities, which specify that accounting systems must be organized by funds to account for specific activities consistent with legal and operating requirements. The MSLP's governmental funds include the activities of administering the guaranty agency activities of the FFEL Program for the state of Missouri and the USDE. The MSLP's fiduciary fund accounts for activities that the MSLP administers for the federal government. The funds of the financial reporting entity are described below.

Governmental Funds - Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which the assets are to be used. Current liabilities are assigned to the fund from which the liabilities will be paid. The difference between governmental fund assets and liabilities is reported as the fund balance. The following is the MSLP's governmental fund:

Guaranty Agency Operating Fund, Referred To As The Agency Operating Fund: The 1998 Amendments to the *Higher Education Act of 1965*, (1998 Amendments), enacted October 7, 1998, effective October 1, 1998, required guaranty agencies to establish an Agency Operating Fund to separately account for operating revenues and expenditures. The Agency Operating Fund assets and earnings on those assets are the property of the MDHE and may be used for guaranty agency and other student financial aid related activities for the benefit of students as selected by the guaranty agency.

Sources of funds for the Agency Operating Fund include investment income, default aversion fees, account maintenance fees and agency retention on collections of defaulted loans. Expenditures from the Agency Operating Fund include personnel, professional and other administrative expenses directly related to loan guaranty program operations; loan administration fees paid to an external vendor to operate the day-to-day operations of the FFEL Program; commission expense paid to external collection agencies; expenses for default prevention activities; and expenses related to the MDHE's administration of the state grants and scholarship programs. The Agency Operating Fund is subject to federal oversight.

For GASB 34 reporting, the Agency Operating Fund is considered a major fund.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. MSLP's fiduciary fund consists of the following fund:

Private-Purpose Trust, Federal Student Loan Reserve Fund, Referred To As The Federal Fund: This fund was created pursuant to the provisions of the 1998 Amendments that required all guaranty agencies to establish a Federal Student Loan Reserve Fund to account for transactions related to lender claims and default aversion for the FFEL Program. The reserves of the MSLP were required to be deposited into the new Federal Fund no later than 60 days after enactment. The result of this federal legislation was that the MSLP's fund equity was transferred to the newly established Federal Fund and the MSLP's Agency Operating Fund commenced activities with a zero fund equity.

The legislation provides that the assets of the Federal Fund, including earnings on those assets, are the property of the federal government and may only be used to pay claims to lenders, to pay default aversion fees and to make other payments authorized by the U.S. Secretary of Education. Funds used to pay loan claims are replenished from reimbursements from the federal government (see *Federal Family Education Loan Programs* on page 31). Other sources of revenues to the Federal Fund include the federal retention on collections of defaulted loans and investment income. The Federal Fund is subject to federal oversight.

Basis Of Accounting/Measurement Focus

The financial statements of the MSLP have been prepared in conformity with accounting principles generally accepted in the United States of America. The GASB is the accepted standard-setting body for establishing governmental accounting and financial principles.

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. The measurement focus determines what financial items are recorded and reported. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, the presentation of expenses versus expenditures, the recording of capital assets, the recognition of depreciation and the recording of noncurrent liabilities. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

Notes To Basic Financial Statements (*Continued*)

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as are fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when the related liability is incurred regardless of the timing of related cash flows.

The governmental fund financial statements are prepared using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, *i.e.*, both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The MSLP considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Fee payments from the federal government are considered to be susceptible to accrual. Expenditures are recorded when the liability is incurred, except for claims, compensated absences and interest on noncurrent debt, which are recorded when normally expected to be liquidated with expendable available financial resources. Capital asset purchases are recorded as expenditures and depreciation is not recognized.

Federal Family Education Loan Programs

The FFEL Program was established by Congress through the *Higher Education Act of 1965* and was administered by the USDE as a means of making loans available to students attending colleges, universities and vocational institutions. Because of the Healthcare and Education Affordability Act, the MDHE no longer has the authority to guarantee new federal student loans as of June 30, 2010, as loans are distributed through the Federal Direct Loan Program. Existing FFEL Program loans continue to be eligible for all program benefits.

The following five types of loans were available to eligible borrowers under the FFEL Program:

Subsidized Federal Stafford Loans are need-based loans that were available to eligible undergraduate and graduate students. Generally, the federal government pays interest on the loan as long as the borrower is enrolled at least half-time and during the borrower's six-month grace period and authorized deferment periods.

Unsubsidized Federal Stafford Loans have the same terms and conditions as Subsidized Federal Stafford Loans except that the loans are not need-based and the borrower is responsible for all interest payments.

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

Notes To Basic Financial Statements (*Continued*)

PLUS Loans allowed parents to borrow guaranteed loan funds for dependent students. Borrowers are responsible for all interest, and repayment generally began within 60 days from the time the loan was fully disbursed. The *Higher Education Reconciliation Act of 2005*, Publication Law 109-71 (*HERA*), expanded the program to allow eligible graduate and professional students to receive PLUS loans after July 1, 2006.

Federal Consolidation Loans were available to borrowers who wished to combine existing student loans into one new loan. Generally, this resulted in lower monthly payments but higher total interest costs.

Supplemental Loans For Students were available before July 1, 1994, to independent undergraduate, graduate and professional students.

Although no new FFEL Program loans have been disbursed since July 1, 2010, guaranty agencies such as the MSLP insure approved lenders against losses for existing loans made in compliance with program requirements to qualified students or parents of qualified students. In addition, the MSLP will continue to act as the USDE's agent in fulfilling responsibilities related to outstanding guarantees, which include working with students, borrowers, schools, lenders and the USDE to ensure compliance with applicable federal laws and regulations. The MSLP continues to provide collection assistance to lenders for delinquent loans, pay lender claims for loans in default and collect loans on which default claims have been paid. The MSLP also performs outreach services to students, parents and schools.

Loans are insured for losses incurred from the default, death, disability or bankruptcy of the borrower and for other losses due to certain events such as school closures and false certifications. The aggregate original principal balance of outstanding insured student loans, commonly referred to as the Original Principal Outstanding (OPO), is measured annually based on a federal fiscal year. As of September 30, 2018 and 2017, the OPO of nondefaulted student loans was \$1.1 billion and \$1.3 billion, respectively.

Loans insured by the MSLP are reinsured under the FFEL Program by the federal government. Death, disability, bankruptcy, lender of last resort and closed school claims are reinsured at 100%. Closed school refunds are made to borrowers for payments made on FFEL Program loans that qualify for a closed school discharge because the borrower was unable to complete their program of study due to the school closing.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

The rate of reinsurance for default claims is determined by the MSLP's default claims rate. The default claims rate is calculated by dividing the reimbursed default claims for the federal fiscal year by the original principal amount of loans in repayment at the beginning of the federal fiscal year. The MSLP's annual default claims rate is below 5%, which allows for reimbursement rates at the highest level. Prior to December 1, 2015, reimbursement for default claims is determined according to the following schedule:

Default Claims Paid Prior to December 1, 2015 - Reimbursement Rate			
Annual Default Claims Rate	Loans Made Through September 30, 1993	Loans Made October 1, 1993 Through September 30, 1998	Loans Made October 1, 1998 And After
0% to 5%	100%	98%	95%
More than 5% up to 9%	100% of claims up to 5%, plus 90% of claims over 5% up to 9%	98% of claims up to 5%, plus 88% of claims over 5% up to 9%	95% of claims up to 5%, plus 85% of claims over 5% up to 9%
Over 9%	100% of claims up to 5%, plus 90% of claims over 5% up to 9%, plus 80% of claims over 9%	98% of claims up to 5%, plus 88% of claims over 5% up to 9%, plus 78% of claims over 9%	95% of claims up to 5%, plus 85% of claims over 5% up to 9%, plus 75% of claims over 9%

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

The Consolidated Appropriations Act, 2016, Pub. L. 114-113, signed by the President on December 18, 2015 changed the maximum reinsurance percentage for guaranty agencies in the FEEL program. Prior to this, the Department of Education reimbursed guaranty agencies 95% of the amount they pay lenders on default claims with reductions to 85% and 75% if the agency's default payment rate hits certain trigger figures. The Act changed the 95% to 100%. Subsequent to December 1, 2015, reimbursement for default claims is determined according to the following schedule:

Annual Default Claims Rate	Default Claims Paid On or After December 1, 2015 - Reimbursement Rate
0% to 5%	100%
More than 5% up to 9%	100% of claims up to 5% plus 85% of claims over 5% up to 9%
Over 9%	100% of claims up to 5% plus 85% of claims over 5% up to 9%, plus 75% of claims over 9%

The MSLP is required to maintain a reserve level of at least 0.25% of the MDHE's guaranteed loan portfolio's original principal balance outstanding. The MSLP was in compliance with the minimum reserve level requirement as of June 30, 2018 and 2017 as follows:

	2018	2017
Outstanding loans (original principal balance)	\$ 1,182,186,495	\$ 1,306,112,171
Minimum requirement	2,955,466	3,265,280
Reserve per Department of Education guidelines	17,872,800	16,216,002

The MSLP is entitled to the following program revenues:

Rehabilitated And Consolidated Loans: The MSLP is entitled to retain 0% of principal and 100% of interest for rehabilitated loans, plus 16% of collection costs. The MSLP is entitled to retain 10% of collection costs on consolidated loans. The amounts retained are recognized as additions in the Federal Fund when received.

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

Notes To Basic Financial Statements (*Continued*)

Beginning October 1, 2009, the *HERA of 2005* requires the MSLP to refund to the USDE 10% of the collection proceeds for consolidation recoveries in excess of 45% of the agency's total collections, based on a federal fiscal year. As of September 30, 2018 and 2017, the percentage of proceeds for consolidation recoveries was 26.38% and 22.54%, respectively.

Recoveries Payable To Federal Government: The MSLP is entitled to retain 16% of collections received for defaulted loans for which federal reinsurance has been received. The amounts retained are recognized as additions in the Federal Fund when received.

Account Maintenance Fees (AMF): The 1998 amendments established an account maintenance fee. The AMF is calculated as 0.06% of the original principal amount of outstanding loans. AMF is paid to the MSLP on a quarterly basis by the federal government. This fee is recognized as revenue in the Agency Operating Fund.

Default Aversion Fees (DAF): Default aversion fees were established under the 1998 amendments. The MSLP receives DAF for its aversion activities on delinquent loans at the time lenders request default aversion assistance. DAF are equal to 1% of principal and interest on the outstanding loan balance at the time the MSLP receives the request from a lender for pre-claim assistance. DAF is recognized as a deduction in the Federal Fund and as revenue in the Agency Operating Fund.

Pooled Cash And Investments

The cash and investments balances of the governmental funds and the private-purpose trust funds are pooled with other state funds and invested by the Missouri State Treasurer as authorized by the Missouri Constitution and state statutes. The state treasurer's investment policy is to ensure the preservation of capital in the overall portfolio while mitigating credit risk and interest rate risk. All deposits are fully collateralized with securities that have been approved by the governor, state treasurer and Missouri State Auditor.

Receivables

Governmental Funds

The MSLP receivables primarily consist of amounts due from the USDE for account maintenance fees and claims reimbursements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

Notes To Basic Financial Statements (*Continued*)

The account maintenance fee is an administrative fee paid by the USDE to the MSLP. Quarterly payment amounts are determined by the USDE based on the National Student Loan Data System. The receivable amount represents the fee earned for April through June but not yet received as of June 30.

The other federal receivables represent reimbursements due from USDE for claims such as unpaid refunds, and closed school, teacher loan forgiveness and tax refund reimbursements. Claims for reimbursements are filed with USDE semimonthly.

The other receivables represent various miscellaneous rebates, reimbursements and receivables not received as of June 30.

Fiduciary Funds

Reinsurance receivable in the Federal Fund represents the reinsurance earned at year end from claims paid, net of amounts due to the USDE for refunds of claims previously reimbursed; collections on defaulted loans, including administrative wage garnishments; collections on rehabilitated loans; and amounts received for loans paid in full through consolidation. The amount reimbursed by the USDE for defaulted claims is reported as an addition to the Federal Fund since the Federal Fund has already purchased the defaulted loan from the lender, insuring the lender against further loss. Except for refunds of claims previously reimbursed, which are fully refundable to the USDE, federal regulations allow the MSLP to retain a percentage of amounts collected, (see *Defaulted Student Loans - Fiduciary Funds* on page 38). The percentages retained vary according to the type of collection and the reinsurance rate effective at the time of the claim payment. The difference between amounts collected and the retention is due to the USDE and is offset against amounts due to the Federal Fund from the USDE for reinsurance on defaulted loans.

Due From/To Other Funds

Activity between funds that is outstanding at the end of the fiscal year is referred to as either “due from other funds” or “due to other funds.” Amounts reported in the governmental funds as receivable from or payable to fiduciary funds are reflected in the government-wide statement of net position.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid items on the purchase method. Prepaid items are recorded as expenditures when purchased rather than when consumed.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

Capital Assets

Capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities of the government-wide statements of net position but are not reported in the fund financial statement balance sheets - governmental funds.

Capital assets are recorded at cost or estimated historical cost and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated acquisition value as of the date received. Software in progress is used for the accumulation of the cost of software development or modification during the application development period. The assets are transferred out of the software in progress account when the project is completed. Software includes purchased off-the-shelf software, contractor developed software and software internally developed by agency employees. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset. The MSLP has established capitalization thresholds and estimated useful lives as follows:

<u>Description</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Lives In Years</u>
Vehicles	\$ 1,000	5
Equipment	1,000	3 - 15
Software	5,000	3 - 5

Compensated Absences

It is the MDHE's policy to permit employees to accumulate earned but unused vacation pay benefits not to exceed the number of vacation hours earned in a two-year period. Accumulated vacation benefits within limits set by MDHE policy, which are unused and vested to the employee, are payable upon termination. All vacation pay is accrued when incurred in the government-wide financial statements. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation related payments such as social security and Medicare taxes computed using rates in effect at that date. A liability for the vacation benefits is not reported in the governmental funds as the fund liability is not incurred until the period in which the amounts are normally expected to be liquidated under the modified accrual basis of accounting.

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

Notes To Basic Financial Statements (*Continued*)

Sick leave is accumulated at a rate set by MDHE policy, with no limit to the amount that can be accumulated. Accumulated sick leave is forfeited upon employee termination. Therefore, no liability has been reported for the accumulated sick leave.

Accrued Liabilities And Noncurrent Obligations

All payables, accrued liabilities and noncurrent obligations are reported in the government-wide financial statements. In general, incurred governmental fund payables and accrued liabilities are paid in a timely manner and in full from current financial resources that are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources.

Allowance For Uncollectible Loans - Fiduciary Fund

As previously described (see *Federal Family Education Loan Programs* on page 31), claims paid on or after December 1, 2015 are not typically subject to a reduced reimbursement rate. Accordingly, USDE issued written guidance eliminating the requirement for a loan loss allowance. Therefore, in 2017, the MDHE closed out its remaining allowance for uncollectable loans.

Net Position

Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings used to finance the purchase of those assets. Restricted net position is made up of noncapital assets that are restricted through limitations imposed on their use either through enabling legislation or through external restrictions imposed by grantors or laws or regulations of other governments. The MSLP has no unrestricted net position.

Defaulted Student Loans - Fiduciary Funds

Collections

All collections on defaulted loans are considered property of the federal government and are recorded as additions in the Federal Fund when received. The portion of collections due to the Agency Operating Fund is treated as a deduction to the Federal Fund. Federal defaulted loans outstanding are separately maintained for the federal government by the MSLP through a loan servicer and are not presented in the statement of fiduciary net position.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

Rebates

The MSLP is required to rebate back to the Federal Fund the default aversion fees when borrowers default on loans after being referred to the MSLP by the lender for pre-claim default aversion. The MSLP contracts with a vendor to provide default aversion assistance, which is paid from the Agency Operating Fund (Note 11).

The rebate amount is calculated as 1% of the principal and interest of the defaulted loan. The default aversion fees rebated from the Agency Operating Fund back to the Federal Fund were \$561,676 and \$525,176 for 2018 and 2017, respectively.

Allowance

An allowance for a default aversion rebate has been calculated and recorded as a liability in the statement of net position in the event that the rebate would exceed the default aversion fee received from the federal government. As of June 30, 2018 and 2017, the allowance for default aversion rebate was \$350,000.

Income Taxes

As a state agency, the income of the MSLP is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Estimates And Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses or expenditures and other changes in net position or fund balances during the reporting period. Actual results could differ from those estimates.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

2. Deposits, Investments And Investment Return

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned. The MSLP's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the state of Missouri; bonds of any city, county, school district or special road district of the state of Missouri; bonds of any state; a surety bond having an aggregate value at least equal to the amount of the deposits; tax anticipation notes issued by any first class county; irrevocable standby letter of credit issued by a Federal Home Loan Bank; out-of-state municipal bonds rated in the highest category by a nationally recognized statistical rating agency; or mortgage securities offered by a financial institution conforming with the standards of the Federal Home Loan Bank.

Investments

Chapter 173 of the Missouri Revised Statutes authorizes the MSLP to invest monies, through the state treasurer, which in the judgment of the CBHE, are not currently needed for the payment of defaults of guaranteed loans. The state treasurer's investment policy allows for investments in time deposits, linked deposits, U.S. Treasury and federal agency securities, commercial paper, banker's acceptances, repurchase agreements and reverse repurchase agreements. All cash and investments of the Agency Operating Fund and Federal Fund are pooled and invested with the Missouri State Treasurer.

The MSLP is also limited by federal regulations to investing the Federal Fund assets in low-risk securities, which are approved by the CBHE. Pursuant to reauthorization, the MSLP maintains the cash and investments of the Federal Fund as a reserve for the FFEL Program loan guarantee claim obligations.

The fair value hierarchy established by generally accepted accounting principles generally requires categorization based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant other unobservable inputs.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

MSLP's cash and investments consist entirely of deposits with the state treasurer. MSLP's participation in the State Treasurer's Office cash and investment pool is reported at fair value based on MSLP's proportional share of the pool's assets, which is the equivalent of net asset value. Accordingly, the cash and investments within the State Treasurer's Office pool are not categorized as being Level 1, 2 or 3. The State Treasurer's Office redeems securities upon request.

Cash and investments as of June 30, 2018 and 2017 are summarized as follows:

	<u>At Fair Value</u>	
	<u>2018</u>	<u>2017</u>
Governmental Funds:		
Deposited with the state treasurer	\$ 37,863,713	\$ 46,330,842
Fiduciary Funds:		
Deposited with the state treasurer	11,836,810	4,800,785
	<u>\$ 49,700,523</u>	<u>\$ 51,131,627</u>

Interest Rate Risk - The state treasurer minimizes the exposure to fair value losses arising from rising interest rates by maintaining an effective duration of its investment portfolio to less than 1.5 years and holding at least 40% of the portfolio's total market value in securities with a maturity of 12 months or less.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The state treasurer's policy limits its investments in commercial paper and bankers' acceptances to the highest letter and numerical ranking as rated by Moody's Investors Service and Standard & Poor's Corporation.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the MSLP will not be able to recover the value of its investment or collateralized securities that are in the possession of an outside party. The state treasurer minimizes its risk by establishing a pre-approved list of financial institutions and companies that will be used to purchase commercial paper.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

Concentration of Credit Risk - The state treasurer is prohibited by state statute from investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. government and agency securities and repurchase agreements. There are no restrictions on the amount that can be invested in U.S. government and agency securities; however, there can be no more than 15% of the total portfolio invested in repurchase agreements.

Investment Income

Investment income for the years ended June 30, 2018 and 2017 consisted of:

	<u>2018</u>	<u>2017</u>
<u>Interest income</u>	<u>\$ 681,906</u>	<u>\$ 405,045</u>

3. Capital Assets

Capital asset balances and activity for the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>				<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	
Vehicles	\$ 9,300	\$ —	\$ —	\$ —	\$ 9,300
Equipment	1,434,797	—	17,721	9,117	1,426,193
Software in progress	9,117	336,982	—	(9,117)	336,982
Total capital assets being depreciated	1,453,214	336,982	17,721	—	1,772,475
Less: Accumulated depreciation	1,266,029	77,656	17,721	—	1,325,964
	<u>\$ 187,185</u>	<u>\$ 259,326</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 446,511</u>

	<u>2017</u>				<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	
Vehicles	\$ 9,300	\$ —	\$ —	\$ —	\$ 9,300
Equipment	1,430,362	6,508	2,073	—	1,434,797
Software in progress	—	9,117	—	—	9,117
Total capital assets being depreciated	1,439,662	15,625	2,073	—	1,453,214
Less: Accumulated depreciation	1,145,156	122,946	2,073	—	1,266,029
	<u>\$ 294,506</u>	<u>\$ (107,321)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 187,185</u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements *(Continued)*

4. Due To Other Funds/Due From Other Funds

Amounts due from and due to other funds at June 30, 2018 and 2017 include the following:

Receivable Fund	Payable Fund	Purpose	2018	2017
AOF	FSLRF	Operating share of collections	\$ 411,139	\$ 1,449,678
AOF	FSLRF	Reinsurance reallocation	—	101,835
FSLRF	AOF	Default aversion fees	64,802	130,805
FSLRF	AOF	48 hour rule	161	86
			\$ 476,102	\$ 1,682,404

5. Long-Term Obligations

Governmental Activities

The following is a summary of long-term obligations transactions for the years ended June 30, 2018 and 2017:

	2018				
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Accrued compensated absences	\$ 123,552	\$ 13,660	\$ 124,805	\$ 12,407	\$ 12,407

	2017				
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Accrued compensated absences	\$ 143,704	\$ 155,725	\$ 175,877	\$ 123,552	\$ 123,552

The compensated absences liabilities will be liquidated by the governmental funds from which the related salaries are paid.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

6. Risk Management

The MSLP is exposed to various risks of loss from tort; theft of, damage to and destruction of assets; business interruption; errors and omissions; natural disasters; motor vehicle liability; contractor liability; employee injuries; and employee health benefits. Coverage for these various risks is managed through the MDHE's participation in the State of Missouri's risk management and self-insurance programs.

It is the general policy of the state of Missouri not to purchase property insurance unless required by contract or by law. Through the State Legal Expense Fund, the state provides liability coverage for its agencies and employees. Neither the MSLP nor the MDHE are required to provide funding or reimbursement for claims paid, as the State Legal Expense Fund, established by RSMo. 105.711, is funded through monies directly appropriated to the fund by the state of Missouri General Assembly. Section 537.610, RSMo limits the liability of the state and its public entities on claims within the scope of Sections 537.600 to 537.650, except for those claims governed by the provisions of the Missouri Workers' Compensation Law, Chapter 287, RSMo. The limits were \$2,000,000 for all claims arising out of a single accident or occurrence and \$300,000 for any one person in a single accident or occurrence for the years ended June 30, 2018 and 2017, respectively, as set by the Missouri Department of Insurance.

The state is self-insured for employee health benefits through the Missouri Consolidated Health Care Plan. The state is also self-insured for its workers' compensation program. The state purchases an employee dishonesty/faithful performance bond with limits of \$1,000,000 that protects from dishonest acts of state employees and loss sustained through the failure of a state employee to faithfully perform his/her duties or to account properly for all monies and property received within the course of his/her position or employment.

The State of Missouri contracts with a number of vendors for services to be performed on loans guaranteed by the MSLP. All contractors must acquire and maintain adequate general and professional liability insurance sufficient to protect the State of Missouri, its agencies, employees and clients and the general public against loss, damage or other expenses. In addition, the MSLP contractors providing services may be required to furnish a performance security deposit in the form of a bond. The purpose of the bond is to secure the contractor's performance with respect to liability for default claims paid by the MSLP after the date the contract expires, terminates or is cancelled. The MSLP currently has a performance bond with its loan servicer for \$1,000,000.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

7. Pension Plans

MOSERS

The MSLP through the MDHE contributes to the Missouri State Employees' Retirement System (MOSERS), a cost-sharing, multiple-employer, defined benefit pension plan administered by the state of Missouri.

Plan description. Chapter 104.320 of the Revised Statutes of Missouri grants the authority to establish a defined benefit plan for eligible state and other related agency employees. MOSERS issues an annual Comprehensive Annual Financial Report (CAFR), a publicly available financial report that can be obtained at www.mosers.org.

Benefits provided. MOSERS provides retirement, disability, and life insurance benefits to eligible employees. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. The factor is based on the specific plan in which the employee participates, which is based on the employee's hire date. Information on the three plans administered by MOSERS (MSEP, MSEP 2000, and MSEP2011 retirement plans) and how eligibility and the benefit amount is determined for each plan may be found in the Notes to the Financial Statements of MOSERS' CAFR starting on page 28.

Contributions. Per Chapter 104.436 of the Revised Statutes of Missouri, contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. Employees in the MSEP2011 Plan are required to contribute 4.0 percent of their annual pay. MHDE's required contribution rate for the years ended June 30, 2018 and 2017, was 20.35 percent and 17.88 percent, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities. At June 30, 2017 and 2016, the State of Missouri reported a liability of \$4,271,411,823 and \$3,809,061,941, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

The State of Missouri's proportion of the net pension liability was based on the State's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for MOSERS plan year ended June 30, 2017 and 2016. At June 30, 2017 and 2016, the State's proportion was 82.033 percent and 82.056 percent, respectively.

The MSLP does not report a net pension liability, as this is a liability of the State as a whole and is not proportionately allocated to the MSLP entity, as defined in Note 1. For more information, see the separately issued financial statements of the State of Missouri as of June 30, 2018.

8. Deferred Compensation Incentive Plan

The deferred compensation incentive plan was established by the Missouri State Public Employees' Deferred Compensation Commission in July 1995, pursuant to Section 401(a) of the Internal Revenue Code. It is currently administered by ICMA-RC.

Under the plan provisions, any employee of the state is eligible to participate in the plan if he/she has been an employee of the state for at least 12 consecutive months immediately preceding any employer contributions to the plan and is making continuous monthly deferrals of at least \$25 to the Missouri State Public Employees' Deferred Compensation Plan (Note 9). The state, subject to appropriation, provides matching contributions of \$25 to \$35 per month for each employee that meets these requirements. Participating employees are 100% vested in the plan.

Due to state expenditure restrictions necessary to balance the state budget, the employer match has been suspended indefinitely. No employee contributions are made to the plan.

Copies of the plan's financial statements can be requested from ICMA-RC, Attn: State of Missouri Deferred Compensation Plan, P.O. Box 96220, Washington, DC 20090.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

9. Missouri State Public Employees' Deferred Compensation Plan

In accordance with the Internal Revenue Code Section 457, the State of Missouri offers all employees the opportunity to participate in the Missouri State Public Employees' Deferred Compensation Plan. Under the plan, employees are permitted to defer a portion of their current salary until future years.

All amounts of compensation deferred under the plan must be held in a trust, custodial account or annuity contract for the exclusive benefit of plan participants and their beneficiaries. Investments are managed by the plan's trustee under one of several investment options or a combination thereof. A choice of investment option(s) is made available to the participants.

Copies of the plan's financial statements can be requested from ICMA-RC, Attn: State of Missouri Deferred Compensation Plan, P.O. Box 96220, Washington, DC 20090.

10. Student Loans

MDHE

The MDHE previously guaranteed and continues to purchase and hold various types of student loans as described in Note 1. The terms of these loans, which vary on an individual basis depending upon loan type and date originated, generally provide for repayment in monthly installments of principal and interest over a period of up to 30 years for consolidation loans and generally up to 10 years for other loans. The repayment period begins after a grace period of 6 months following graduation or loss of qualified student status for the Subsidized and Unsubsidized Stafford loans. The repayment period for consolidation, Supplemental Loans for Students and PLUS loans begins 60 days from the date the loan is fully disbursed. Interest rates on student loans vary depending on the type and date of origination of the individual loans.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

MDHE lender-held loans (non-defaulted) consist of the following at June 30, 2018 and 2017:

	<u>2018</u>		<u>2017</u>
Stafford - subsidized	\$ 260,238,108	\$	310,406,925
Stafford - unsubsidized	213,473,209		254,687,821
PLUS/SLS	26,462,159		39,256,261
Consolidations	834,138,776		922,928,102
	<u>\$ 1,334,312,252</u>	<u>\$</u>	<u>1,527,279,109</u>

All student loans are guaranteed by MSLP as to principal and accrued interest. In order for the loans to be or remain guaranteed, certain due diligence requirements in loan servicing must be met by lenders. When these requirements are not met, the guaranty agency is prohibited from paying lender claims related to these loans. At June 30, 2018 and 2017, \$11.0 and \$10.9 million of total MDHE student loans guaranteed by the MSLP were no longer considered guaranteed due to lender violation of due diligence requirements.

MOHELA

The Missouri Higher Education Loan Authority was created by state law and is authorized to issue debt to provide a secondary market for loans made under the FFEL Program. Its governing body consists of seven members, one of whom is the commissioner of higher education, who serves as the head of the MDHE, and one other is a member of the CBHE.

The MSLP has lender agreements to guarantee loans serviced by MOHELA. Total claims paid to MOHELA by the MSLP during the years ended June 30, 2018 and 2017 were \$40,973,726 and \$39,471,389, respectively.

Rehabilitated Loans

Defaulted borrowers who make 9 on-time payments during ten consecutive months are eligible to rehabilitate their loans. This returns the borrowers to a non-defaulted status and removes any negative reporting from their credit bureau report. The MSLP sells these loans to an eligible rehabilitation lender. Currently, SunTrust Education Loans is purchasing all rehab eligible loans from the MSLP. Rehabilitations are included in loan recoveries revenue. Total rehabilitation revenues, net of discounts, received by the MSLP during the years ended June 30, 2018 and 2017, were \$31,129,547 and \$44,371,770, respectively.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

11. Contracted Services

The MSLP contracts with loan servicer Great Lakes Higher Education Loan Corporation to provide necessary servicing activities to the outstanding loan portfolio. While past loan servicers only provided student loan accounting records, billings, loan maintenance and claims services, Great Lakes also provides to default aversion services and contracting of collection agency activity on behalf of the MSLP. For the years ended June 30, 2018 and 2017, the MSLP paid \$7,477,108 and \$8,310,624, respectively, to the loan servicer for combined services.

12. Operating Leases

The MDHE occupies a state office building under a lease agreement with the state that was effective July 1, 2011 through June 30, 2012, and extended through June 30, 2018. The MSLP is not responsible for any portion of the lease agreement effective July 1, 2011.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

13. Administrative Expenses

The MSLP determines administrative expenses based on review of employee activities. Activities not directly related to loan operations are considered administrative expenses. Additionally, based on the percentage of salaries considered to be administrative, a portion of the MSLP's indirect expenses, including building, utilities, supplies and communication expenses are also classified as administrative expenses. The percent of employee salaries is relatively high due to the extent to which the MSLP outsources its operations. The following summary indicates the administrative portion of salaries and other expenses for the years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
<u>Percentage of salaries administrative</u>	<u>59%</u>	<u>58%</u>
Administrative personnel expenses		
Loan guarantee	\$ 902,832	\$ 1,016,597
State based aid programs	34,189	30,719
Default prevention	53,927	46,301
Other student financial aid activities	816,190	788,285
Other administrative expenses		
Loan guarantee operations	220,478	200,530
State based aid programs	8,023	19,332
Default prevention	892	1,756
Other student financial aid activities	77,841	54,634
	<u>\$ 2,114,372</u>	<u>\$ 2,158,154</u>

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements (*Continued*)

14. Contingencies

Loans

The Federal Fund, a fiduciary fund maintained on behalf of the USDE, is contingently liable for loans made by financial institutions that qualify for guaranty. Due to the default ratio for loans guaranteed by the MDHE being below 5% for the fiscal years ended June 30, 2018 and 2017, the federal government's reinsurance rate for defaults was 100% for loans made prior to October 1, 1993, 98% for loans made on or after October 1, 1993 to September 30, 1998, and 95% for loans made after October 1, 1998. Effective December 1, 2015, the reinsurance rate became 100% regardless of loan issuance date. However, in the event of future increases in defaults, the MSLP's reinsurance rate would be reduced based on the schedule provided in Note 1. Reinsurance rates for the remainder of the year could fall to 75% of defaulted loans if the MSLP's default rate reaches 9%. At the beginning of each fiscal year, the MSLP's reinsurance rate returns to 95%.

Management does not expect that all guaranteed loans could default in one year. While management believes the Federal Fund's expected maximum contingent liability will remain less than 25% of outstanding guaranteed loans in repayment, the maximum contingent liability as of June 30, 2018 is calculated as follows:

Amount of guaranteed student loans in repayment	\$ 1,180,275,227
Less: Minimum federal government share - 75%	<u>885,206,420</u>
	<u>\$ 295,068,807</u>

MISSOURI DEPARTMENT OF HIGHER EDUCATION STUDENT LOAN PROGRAM

Notes To Basic Financial Statements (*Continued*)

Collection Costs

Section 484A(b) of the Higher Education Act of 1965 [20 USC 1091b(b)] states that borrowers who have defaulted on federal student loans shall be required to pay "reasonable collection costs." Accordingly, the MSLP historically has charged collection costs to all borrowers who do not pay their defaulted loan balances in full in a timely manner after defaulting. In July 2015, USDE issued written guidance prohibiting guaranty agencies from charging collection fees to borrowers who enter a repayment agreement within 60 days of default. The guidance did not include an effective date and a retroactive application of the guidance would have a significant impact on the MSLP. However, on March 16, 2017, USDE withdrew the 2016 guidance. Despite the withdrawal of the original guidance, a residual risk remains as USDE has announced intentions to develop regulations to clarify the issue through a negotiated rulemaking process, which happened in early 2018. The Notice Prior to Rulemaking was put out on July 31, 2018, but no Final Rule was before the November 1, 2018 deadline, so the Notice Prior to Rulemaking has been delayed until January 2019.

Federal Monies

The MSLP receives federal monies that are subject to oversight review and audit by federal agencies. This could result in requests for reimbursements to the federal agency for expenditures that are disallowed under existing agreements. The MSLP believes that such disallowances, if any, would be immaterial.

Current Economic Environment

The economic environment continues to present organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in revenues, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the MSLP.

The authority to make or insure new loans under the FFEL Program ended June 30, 2010. Although existing FFEL Program loans continue to be eligible for all program benefits, a significant decline in the MSLP's loan portfolio could have an adverse impact on the MSLP's future operating results.

In addition, given the volatility of current economic conditions, claims on loans guaranteed by the MDHE could rise rapidly while collections could decline significantly, which would negatively impact the MSLP's ability to maintain sufficient liquidity.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Basic Financial Statements *(Continued)*

Management is closely monitoring this uncertain economic environment and is attempting to adjust the MSLP's operating and financial plan based upon their significant experience and knowledge of the industry.

Required Supplementary Information

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**BUDGETARY COMPARISON SCHEDULE
AGENCY OPERATING FUND
For The Year Ended June 30, 2018**

	Budget Amounts		Actual Amounts	Variances - Actual Over (Under) Final Budget
	Original	Final		
Expenditures				
Student Loan Program				
Personal service	\$ 2,316,262	\$ 2,316,262	\$ 1,937,834	\$ (378,428)
Expense and equipment	2,825,693	2,825,693	2,309,993	(515,700)
Payment of fees for collection of defaulted loans	8,000,000	8,000,000	6,194,791	(1,805,209)
Payment of penalties to federal government associated with late deposit of default collections	500,000	500,000	86	(499,914)
Default prevention activities	890,000	890,000	368,100	(521,900)
Information technology consolidation				
Personal service	603,303	603,303	236,966	(366,337)
Expense and equipment	248,029	249,029	101,357	(147,672)
Total Expenditures	\$ 15,383,287	\$ 15,384,287	\$ 11,149,127	\$ (4,235,160)
Transfers From (To) Other Funds				
Transfers from Federal Student Loan Reserve Fund	\$ 15,000,000	\$ 15,000,000	\$ 8,846,677	\$ (6,153,323)
Transfers to Federal Student Agency Operating Fund to State Based Aid	(9,500,000)	(9,500,000)	(7,925,000)	1,575,000
Loan Reserve Fund	(1,000,000)	(1,000,000)	—	1,000,000
Total Transfers	\$ 4,500,000	\$ 4,500,000	\$ 921,677	\$ (3,578,323)
Reconciliation Of Budget Basis To GAAP Basis				
Total Expenditures On Budget Basis			\$ 11,149,127	
Expenditures increase due to:				
Change in accounts payable				(157,212)
Change in accrued payroll and benefits				(110,730)
Employee fringe benefits not appropriated for MSLP				1,053,980
Default aversion fee rebate expense not appropriated for MSLP				561,676
Discounts on loan recoveries not appropriated for MSLP				1,330,907
Transfer related to death claim				7,925,000
Total Expenditures On GAAP Basis			\$ 21,752,748	
Total Transfers On Budget Basis			\$ 921,677	
Transfers increase (decrease) due to:				
Transfers to State Aid were recorded as expenditures in the Agency Operating Fund				7,925,000
Transfers from Federal Fund were recorded as revenues in Agency Operating Fund				(8,846,677)
Total Transfers On GAAP Basis			\$ —	

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**BUDGETARY COMPARISON SCHEDULE
AGENCY OPERATING FUND
For The Year Ended June 30, 2017**

	Budget Amounts		Actual Amounts	Variances - Actual Over (Under) Final Budget
	Original	Final		
Expenditures				
Student Loan Program				
Personal service	\$ 2,561,741	\$ 2,561,741	\$ 1,944,785	\$ (616,956)
Expense and equipment	5,371,047	5,371,047	2,163,455	(3,207,592)
Payment of fees for collection of defaulted loans	8,000,000	8,000,000	6,793,026	(1,206,974)
Payment of penalties to federal government associated with late deposit of default collections	500,000	500,000	41	(499,959)
Default prevention activities	890,000	890,000	634,410	(255,590)
Information technology consolidation				
Personal service	603,303	603,303	274,276	(329,027)
Expense and equipment	248,030	248,030	90,159	(157,871)
Total Expenditures	\$ 18,174,121	\$ 18,174,121	\$ 11,900,152	\$ (6,273,969)
Transfers From (To) Other Funds				
Transfers from Federal Student Loan Reserve Fund	\$ 15,000,000	\$ 15,000,000	\$ 9,979,955	\$ (5,020,045)
Transfers to Federal Student Loan Reserve Fund	(1,000,000)	(1,000,000)	—	1,000,000
Total Transfers	\$ 14,000,000	\$ 14,000,000	\$ 9,979,955	\$ (4,020,045)
Reconciliation Of Budget Basis To GAAP Basis				
Total Expenditures On Budget Basis				\$ 11,900,152
Expenditures increase due to:				
Change in accounts payable				(200,741)
Change in accrued payroll and benefits				(371)
Employee fringe benefits not appropriated for MSLP				1,036,741
Default aversion fee rebate expense not appropriated for MSLP				525,176
Discounts on loan recoveries not appropriated for MSLP				1,897,062
Total Expenditures On GAAP Basis				\$ 15,158,019
Total Transfers On Budget Basis				\$ 9,979,955
Transfers increase (decrease) due to:				
Transfers from Federal Fund were recorded as revenues in Agency Operating Fund				(9,979,955)
Total Transfers On GAAP Basis				\$ —

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018 And 2017**

1. Budgets

The MSLP budget is prepared in conjunction with the MDHE budget and is a part of the State of Missouri's budget. The state's annual budget is prepared principally on the cash basis and represents departmental appropriations recommended by the governor and passed by the General Assembly prior to the beginning of the fiscal year. Appropriations can only be amended through the normal appropriation process which requires approval of the General Assembly and governor. Certain estimated original appropriation amounts may be increased as necessary. If supplemental appropriations are required for an appropriation year, they are enacted during the next General Assembly by the same process used for original appropriations.

The MSLP receives appropriations for the funds over which it has spending authority. Budgetary control is maintained at the individual appropriation level. The state accounting system does not allow expenditures to exceed appropriations. The governor has the authority to reduce the allotments of appropriations in any fund if it appears that revenues for the fiscal year will fall below estimated revenues. Appropriations related to the MSLP do not lapse at the end of the fiscal year.

Appropriations related to building lease payments are administered by the state of Missouri, Office of Administration and Division of Facilities Management.

Appropriations related to information technology services are administered by the State of Missouri, Office of Administration and Information Technology Services Division.

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

Notes To Required Supplementary Information (*Continued*)

2. Budget vs. GAAP Basis Of Accounting

The budget does not include expected revenues. Appropriations are classified into broad categories that do not reflect detailed expenditure classifications. The actual amounts presented in the schedules differ from the amounts included in the fund financial statements due to the schedules being presented on the budget basis. The following is a summary of the differences:

- The Agency Operating Fund budget and actual statements include appropriations for personal service, expense and equipment, payment of fees for collection of defaulted loans, and payment of penalties to federal government associated with late deposit of default collections. Fringe benefits are not included in the MSLP budget because they are in an appropriation also under another agency's control. Default aversion rebate expenses are an appropriation of the Federal Fund. The expense and equipment appropriation includes all expenditures not covered by other appropriations.

Other Supplementary Information

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS BY OBJECT
For The Year Ended June 30, 2018**

	General (Major) Fund (Agency Operating)
Revenues	
Guaranty agency retention of collections	\$ 9,328,217
Account maintenance fee	843,118
Default aversion fees	437,921
Tax refund reimbursements/closed school	94,901
Teacher loan forgiveness	1,504,171
Interest income	491,599
Other	1,220
Total Revenues	12,701,147
Expenditures	
Personal service	887,996
Employee fringe benefits	422,829
Professional development	22,941
Guaranty servicing	7,598,551
Discounts on loan recoveries	1,330,327
Loan administration fees expense	368,100
Default aversion rebate expense	561,676
Other professional services	442,055
Travel	17,690
Supplies	21,423
Communications services and support	7,300
Equipment rent and lease	619
Equipment expense	18,715
Equipment repair and maintenance	10,816
Administrative	2,114,969
Miscellaneous	1,580
48 hour transfer	161
Transfers to SBA	7,925,000
Total Expenditures	21,752,748
Net Changes In Fund Balances	(9,051,601)
Fund Balances - Beginning Of Year	47,748,504
Fund Balances - End Of Year	\$ 38,696,903

**MISSOURI DEPARTMENT OF HIGHER
EDUCATION STUDENT LOAN PROGRAM**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS BY OBJECT
For The Year Ended June 30, 2017**

	General (Major) Fund (Agency Operating)
Revenues	
Guaranty agency retention of collections	\$ 11,332,436
Account maintenance fee	961,798
Default aversion fees	647,903
Tax refund reimbursements/closed school	158,630
Teacher loan forgiveness	1,061,105
Interest income	293,578
Other	1,319
Total Revenues	14,456,769
Expenditures	
Personal service	931,784
Employee fringe benefits	435,485
Professional development	22,329
Guaranty servicing	8,310,623
Discounts on loan recoveries	1,897,062
Default aversion rebate expense	525,176
Default prevention grants to schools	634,410
Other professional services	142,664
Travel	27,704
Supplies	18,179
Communications services and support	13,052
Equipment rent and lease	1,234
Equipment expense	13,224
Equipment repair and maintenance	14,275
Administrative	2,168,145
Miscellaneous	2,673
Total Expenditures	15,158,019
Net Changes In Fund Balances	(701,250)
Fund Balances - Beginning Of Year	48,449,754
Fund Balances - End Of Year	\$ 47,748,504

**Independent Auditors' Report 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***

Missouri Department of Higher Education
Student Loan Program
Jefferson City, Missouri

We have audited, in accordance with the 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Missouri Department of Higher Education Student Loan Program (the Program), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated December 27, 2018

Internal Control Over Financial Reporting

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

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

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

Compliance And Other Matters

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

Purpose Of This Report

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

RubinBrown LLP

December 27, 2018