Higher Education Loan Authority of the State of Missouri

Financial Statements as of and for the Years Ended June 30, 2005 and 2004, and Independent Auditors' Report

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

TABLE OF CONTENTS

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2005 (UNAUDITED)

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

THE AUTHORITY

The Authority is recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education. The Authority is a leading holder and servicer of student loans with more than $4.5 billion in assets, and annual loan purchases in excess of $1 billion. During fiscal 2005, the Authority has focused on the development of creative solutions to support the new mission of eliminating barriers for students so they can access higher education. The Authority advances its benevolent mission through local, regional, and national partnerships with a variety of educational and financial related institutions.

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

The Authority is governed by a seven member Board of Directors, five of whom are appointed by the Governor of the State, subject to the advice and consent of the Senate of the State, and two others who are designated by statute, the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. Michael Cummins, selected by the Board during fiscal 2004, serves as Executive Director and CEO of the Authority.

The Authority owns and services student loans established by the Higher Education Act under the Federal Family Education Loan Program (FFELP). Loans authorized under FFELP include Subsidized and Unsubsidized Stafford, Parent Loans for Undergraduate Students (PLUS), Supplemental Loans for Students (SLS), and Consolidation loans. The Authority also owns a limited number consolidated Health Education Assistance Loans (HEAL) established by the Public Health Service Act insured through the Department of Health and Human Services (HHS). In addition, the Authority is the lender and guarantor for supplemental loans made available predominantly to students in the Midwestern area who have reached the maximum available funding under the FFELP. There are several types of loans under the supplemental program providing for eligible borrowers attending eligible medical, law, undergraduate, technical, graduate, and pharmacy schools.

During fiscal year 2005, the Authority purchased/originated $1,698 million of gross principal student loans from a variety of financial institutions. This compares to $1,574 million gross principal during fiscal year 2004 representing an 8% increase in purchases over the previous fiscal year. The net loan activity of new purchases less existing loan principal decreases through borrower payments, consolidation payment collections and loan sales resulted in a 15% increase in the overall portfolio.

The Authority is able to finance the purchase of student loans through the issuance of Taxable and Tax-Exempt Student Loan Revenue Bonds, recycled funds, and other credit facilities. During fiscal 2005 the Authority did not issue any additional Student Loan Revenue Bonds. This compares to issuances in fiscal 2004 of $1,200 million in Student Loan Revenue Bonds including $1,025 million Senior Series Taxable Auction Rate Bonds, $50 million in Subordinate Series Taxable Auction Rate Bonds, and $125 million Senior Series Tax-Exempt Auction Rate Bonds. $700 million of the $1,200 million bond issuances occurred late in fiscal 2004 thereby eliminating the need for an issuance in fiscal 2005. Purchases made in addition to those funded by the $1,200 million were funded primarily from the recycled funds of the existing portfolio and a $150 million credit facility secured late in fiscal 2005.

The interest rate environment during fiscal 2005 affects the Authority in several ways. Borrower interest rate decreases, outlined later in this report, have caused loan interest revenues to loose ground to debt service expense despite the increase in loans outstanding. As consume r interest rates rise, the immediate effect to the Authority is increased debt expense. Student loan borrower interest rates generally remain static until they reset every July 1. However, these revenues are leveraged somewhat against the increasing debt expense by a government subsidy known as Special Allowance made by the Department of Education. Special Allowance payments are based upon the type of student loan and regulations in effect at the time the loan was originated.

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

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005
(UNAUDITED)

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

CONDENSED STATEMENT OF NET ASSETS
(In thousands)

	2005	2004
Cash and cash equivalents	$ 126,278	$ 617,866
Accrued interest receivable	85,585	61,666
Capital assets	14,413	14,899
Investments held by Trustee	10,966	13,445
Other	11,965	10,267
Student loans receivable	4,370,105	3,807,517
Total assets	$4,619,312	$4,525,660
Current liabilities	$ 156,578	$ 23,898
Long-term liabilities	4,254,256	4,315,456
Total liabilities	$4,410,834	$4,339,354
Invested in capital assets	$ 14,413	$ 14,899
Restricted	112,310	113,523
Unrestricted	81,755	57,884
Total net assets	$ 208,478	$ 186,306

CONDENSED OPERATING RESULTS
(In thousands)

	2005	2004
Interest on loans	$134,107	$113,564
Special allowance	51,178	21,820
Investment income	10,145	5,154
Total operating revenue	195,430	140,538
Bond expense	140,390	77,490
Administrative and general expense	33,180	29,712
Provision for (reduction of) arbitrage rebate liability	(312)	(2,221)
Total operating expense	173,258	104,981
Change in net assets	$ 22,172	$ 35,557

FINANCIAL ANALYSIS
2005 AS COMPARED TO 2004

Financial Position

Total assets increased $93.7 million compared to an increase in liabilities of $71.5 million resulting in an increase to the Authority's net assets of $22.2 million or 12%. This increase compares to an increase of $35 million or 24% in fiscal 2004. The year to year decrease in the change in net assets is related to the increase in interest rates throughout the fiscal year. Commercial paper rates increased from 1.490% to 3.4% and the 91 day T-bill increased from 1.381% to 3.147% during fiscal 2005. The increase has a direct effect on variable rate debt issued by the Authority.

Cash and cash equivalents decreased by 80% to $126.3 million from $617.9 million in fiscal 2004. The decrease in cash and cash equivalents was due to the issuance of $700 million in Student Loan Revenue Bonds in May of 2004 resulting in substantial cash and cash equivalents at 2004 fiscal year end. These funds were used to purchase student loans and were depleted within the first quarter of fiscal 2005.

Accrued interest receivable is up 39% over the prior year and is a direct result of the growth of the student loan portfolio as the overall interest rates on student loans decreased from fiscal 2004 to 2005.

Student Loans Receivable or loans outstanding increased 15% from $3,808 million to $4,370 million reflecting the net purchase activity less loan principal reductions during fiscal 2005.

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

Operating Results

Total operating revenue increased 39% from fiscal 2004 to fiscal 2005. Gains in student loan interest were realized as a result of portfolio growth. The increase in special allowance is related to the increasing spread between the student loan rate and the commercial paper and 91-day T bill during the fiscal year.

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

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

Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998 and prior to July 1, 2005, bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

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

The Public Service Reward Program provides rate reductions and in some cases loan principal reduction or forgiveness for people who have chosen careers in public service in the state of Missouri including police officers, teachers, social workers, nurses, Missouri National Guard and Reserves, and Missouri State Government employees.

The Rate Relief program offers additional rate reductions for borrowers who choose to have their payments made by automatic deduction. Substantial rate reductions are realized when a borrower qualifies for both programs.

In addition, the Authority has forgiven over $4.5 million in loan principal from student borrower accounts during fiscal 2005. These loan forgiveness programs focused primarily on Freshman Pell Grant recipients in an effort to reduce the debt burden for returning sophomores.

The Authority realized significant gain in special allowance subsidy issued by the Department of Education to lenders participating in the Federal Family Education Loan Program. As illustrated earlier, the increase is related to the growing spread between student loan interest rates, which are relatively fixed for a year, and the increase in commercial paper and 91-day T-bill rates during the fiscal year. These gains helped offset increases in bond expenses related to debt service. Interest rates related to bond debt service expenses realized a 78% increase, or an average 1.42 basis point increase through the end of the fiscal year.

Total operating expense realized a 65% increase, or $68.3 million. Administrative and general expenses increased by 12% relative to the portfolio increase. Arbitrage liability is calculated based upon the earnings of tax-exempt debt. The arbitrage liability is affected by increased bond earnings and the reduction of those earnings through student borrower benefit programs. The increased participation in borrower benefits through rate reduction and loan principal forgiveness contributed to the decrease in the arbitrage liability.

In summary, operating income decreased by $13.4 million from the prior year. Fiscal 2005 represented the inverse of fiscal 2004 in terms of the interest rate environment. During fiscal 2004 student loan rates were established and commercial lending rates realized decreases throughout the majority of the year. During fiscal 2005, student loan rates reset lower than the prior year, yet commercial lending rates increased throughout the year.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the Higher Education Loan Authority of the State of Missouri (the "Authority") as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Higher Education Loan Authority of the State of Missouri, as of June 30, 2005 and 2004, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1–5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 2005, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/ Deloitte & Touche LLP

St. Louis, Missouri
September 14, 2005

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004
(In thousands)

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 30,282	$ 30,393
Unrestricted	95,996	587,473
Total cash and cash equivalents	126,278	617,866
Investments held by Trustee—unrestricted	2,159	4,795
Investments held by Trustee—restricted	3,138	
Total investments held by Trustee	5,297	4,795
Student loans receivable	43,917	32,677
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	5,400	4,853
Special allowance	19,024	5,977
Investments held by Trustee	362	696
Student loans receivable	60,799	50,140
Miscellaneous receivables and prepaid expenses	4,254	1,913
Deferred charges	266	282
Total current assets	265,597	719,199
LONG-TERM ASSETS:		
Investments held by Trustee:		
Restricted	2,585	5,723
Unrestricted	3,084	2,927
Total investments held by Trustee	5,669	8,650
Student loans receivable (less allowance for doubtful loans—$3,286 in 2005 and $2,173 in 2004)	4,326,188	3,774,840
Prepaid pension expense	3,413	3,800
Deferred charges—at cost less accumulated amortization of $2,349 in 2005 and $2,093 in 2004	4,032	4,272
Capital assets—at cost less accumulated depreciation of $3,270 in 2005 and $2,905 in 2004	14,413	14,899
Total long-term assets	4,353,715	3,806,461
TOTAL	$ 4,619,312	$ 4,525,660

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Line of credit	$ 85,200	$ -
Bonds payable—net	46,562	9,458
Accrued interest payable	13,782	8,113
Other liabilities	11,034	6,327
Total current liabilities	156,578	23,898
LONG-TERM LIABILITIES:		
Bonds payable—net	4,221,813	4,278,041
Arbitrage rebate payable	32,443	37,415
Total long-term liabilities	4,254,256	4,315,456
Total liabilities	4,410,834	4,339,354
NET ASSETS:		
Invested in capital assets	14,413	14,899
Restricted	112,310	113,523
Unrestricted	81,755	57,884
Total net assets	208,478	186,306
TOTAL	$ 4,619,312	$ 4,525,660

See notes to financial statements.

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(In thousands)

	2005	2004
OPERATING REVENUES:		
Interest on student loans	$ 113,661	$ 95,944
U.S. Secretary of Education:		
Interest subsidy	20,446	17,620
Special allowance	51,178	21,820
Investment income:		
Interest on cash equivalents and investments	7,137	4,003
Loss on investments held by Trustee		(109)
Loss on sale of investments		(30)
Gain on sale of loans	2,639	916
Servicing fee income	369	374
Total operating revenues	195,430	140,538
OPERATING EXPENSES:		
Interest expense	116,255	58,696
Program participation fees	21,924	16,694
Salaries and employee benefits	16,605	15,777
Computer services	5,456	4,514
Postage and forms	2,833	2,595
Professional fees	1,671	790
Occupancy expense	1,627	1,260
Bond maintenance fees	1,219	1,094
Letter of credit fees	992	1,006
Depreciation	815	843
Reduction of arbitrage rebate liability	(312)	(2,221)
Other operating expenses	4,173	3,933
Total operating expenses	173,258	104,981
CHANGE IN NET ASSETS	22,172	35,557
NET ASSETS—Beginning of year	186,306	150,749
NET ASSETS—End of year	$ 208,478	$ 186,306

See notes to financial statements.

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(In thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	$ (1,742,434)	$ (1,621,213)
Student loan repayments	1,039,936	782,610
Cash received for sale of loans and interest	179,397	24,188
Payment to employees and vendors	(35,570)	(49,837)
Cash received for interest	109,147	115,825
Other	14	(116)
Net cash used in operating activities	(449,510)	(748,543)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds—net		1,194,992
Proceeds from line of credit	85,200	
Repayment of bonds	(20,131)	(44,558)
Interest paid on bonds and line of credit	(109,323)	(56,782)
Net cash (used in) provided by noncapital financing activities	(44,254)	1,093,652
CASH FLOWS FROM CAPITAL ACTIVITIES—		
Purchase of capital assets	(329)	(333)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments held by Trustee	4,800	1,392
Purchase of investments held by Trustee	(2,295)	
Net cash provided by investing activities	2,505	1,392
CHANGE IN CASH AND CASH EQUIVALENTS	(491,588)	346,168
CASH AND CASH EQUIVALENTS—Beginning of year	617,866	271,698
CASH AND CASH EQUIVALENTS—End of year	$ 126,278	$ 617,866

(Continued)

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004
(In thousands)

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in net assets	$ 22,172	$ 35,557
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization:		
Capital assets	815	843
Premium/discount on investments held by Trustee	(26)	(17)
Prepaid pension	387	136
Loan and bond charges	28,824	23,756
Interest expense	114,992	58,696
Provision for loan loss	2,880	2,264
Reduction of arbitrage rebate liability	(312)	(2,221)
Gain on sale of loans	(2,639)	916
Loss on investments held by Trustee		109
Loss on sale of investments		30
Loss on disposal of capital assets		44
Change in assets and liabilities:		
Increase in student loans receivable	(594,024)	(859,240)
Increase in accrued interest receivable	(23,919)	(8,827)
Increase in miscellaneous receivables and prepaid expenses	(3,333)	(1,309)
Arbitrage rebate payments	(34)	(200)
Increase in other liabilities	4,707	920
Total adjustments	(471,682)	(784,100)
Net cash used in operating activities	$ (449,510)	$ (748,543)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES—Student loan principal and interest forgiveness	$ 4,710	$ 5,136

See notes to financial statements. (Concluded)

1. DESCRIPTION OF THE ORGANIZATION

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

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

Under the bond agreements from the various bond issuances, the Authority purchases loans from a variety of financial institutions with whom they have loan purchase commitments. Of the total remaining commitments at June 30, 2005, 93% are with ten financial institutions and their branches. The most significant financial institutions individually comprise 25%, 20% and 14% of the total remaining commitments. The Authority relies on these sources of loans to increase the loans owned by the Authority. Should any of these ten primary financial institutions cease business operations, the student loans would be originated by another financial institution or directly by the federal government. Management does not believe that the volume of loans purchased would be significantly impacted by lenders ceasing operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting—In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* as amended by Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* and modified by Statement No. 38, *Certain Financial Statement Disclosures,* the Authority's financial statements have been prepared on the basis of the governmental enterprise fund concept which pertains to financial activities that operate similarly to a private business enterprise. The Authority's funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The Authority applies all applicable Financial Accounting Standards Board pronouncements which do not conflict with GASB pronouncements.

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

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

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

Investments Held by Trustee—Investment securities with original maturities of 90 days or greater are classified as investments held by Trustee. Investments with a remaining maturity of less than one year are considered current; all others are considered long-term. Investments are recorded at fair market value. In accordance with the bond resolutions, such investments consist of cash, securities of the Federal government or its agencies and repurchase agreements. The securities underlying the repurchase agreements are book entry securities. During the years ended June 30, 2005 and 2004, the securities were delivered by appropriate entry into a third-party custodian's account designated by the Authority under a written custodial agreement that explicitly recognizes the Authority's interest in the securities. All investments whose proceeds are restricted for debt service reserve or the payment of rebate liabilities are classified as restricted investments (see Note 7).

Student Loans Receivable—Student loans receivable are stated at the principal amount outstanding adjusted for premiums. The related interest income generated from the loans is offset by premium amortization expense. Premiums on student loans are amortized over the estimated life of new loans purchased using a method that approximates the effective interest method. Because the Authority holds a large number of similar loans, the life of the loans can be estimated while considering expected amounts of prepayments from borrowers and loan consolidations. During the years ended June 30, 2005 and 2004, the estimated life of new loans purchased was three years. In addition, for the years ended June 30, 2005 and 2004, the Authority expensed all premiums for pools of loan purchases with less than $40 of initial premiums.

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

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

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

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

Capital Assets—Capital assets consist of land, building, and office furniture and equipment recorded at cost. The Authority's policy is to capitalize all expenditures in excess of $10. Depreciation is charged to operations on the straight-line method over the estimated useful lives of the related assets, which is 30 years for the building and generally five years for all other asset classes.

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

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

Income Taxes—The Authority is a body corporate and politic of the State of Missouri and is tax-exempt from federal and state income taxes.

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

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

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

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

Reclassifications—Where appropriate, prior year's financial information has been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

At June 30, 2005 and 2004, the Authority's carrying amount of deposits was $17,636 and $12,511, respectively. These deposits are insured and collateralized with securities held by the Authority or by its agent in the Authority's name.

4. INVESTMENTS HELD BY TRUSTEE

As of June 30, 2005 and 2004, the Authority had the following investments:

Investment	Weighted Average Maturities (Years)	Fair Value 2005	Fair Value 2004
U.S. Treasury bonds	2.38	$ 1,003	$ 5,786
U.S. Treasury strips	0.38	1,946	1,936
Federal National Mortgage Association	3.67	949	
Federal Home Loan Bank bonds	1.86	1,197	
Repurchase agreements	1.55	5,723	5,723
Other	1.07	148	
Total		$ 10,966	$ 13,445
Portfolio weighted average maturity	1.63		

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

As of June 30, 2005 and 2004, the Authority's investment in repurchase agreements was fully collateralized by U.S. government-backed securities.

5. STUDENT LOANS RECEIVABLE

Student loans receivable are insured namely by the Missouri Department of Higher Education on behalf of the Coordinating Board for Higher Education ("CBHE"), the Student Loan Guarantee Foundation of Arkansas ("SLGFA"), Pennsylvania Higher Education Assistance Agency ("PHEAA"), United Student Aid Funds, Inc. ("USA Funds"), the Tennessee Student Assistance Corporation ("TSAC"), the California Student Aid Commission ("CSAC"), the Nebraska Student Loan Program ("NSLP"), the Kentucky Higher Education Assistance Authority ("KHEAA"), the American Student Assistance

(“ASA”), the Illinois Student Assistance Commission (“ISAC”), the New York State Higher Education Services Corporation (“HESC”), the Texas Guaranteed Student Loan Corporation (“TGSLC”), the Education Assistance Corporation (“EAC”), the Northwest Education Loan Association (“NELA”), the Educational Credit Management Corporation (“ECMC”), the Rhode Island Higher Education Assistance Authority (“RIHEAA”), or by the Secretary of the United States Department of Health & Human Services (the “Secretary of HHS”), or by other non-profit or state organizations, as to principal and accrued interest to the fullest extent allowed under current law. The supplemental loans are not federally insured. The Authority has established an allowance for doubtful self insured supplemental loans. Each year the provision for the allowance for doubtful loans runs through other operating expenses.

Student loans receivable at June 30, 2005 and 2004, are as follows:

	2005	2004
CBHE	$1,663,287	$1,430,265
SLGFA	775,484	652,713
PHEAA	541,849	405,027
USA Funds	482,470	499,640
TSAC	180,854	159,655
CSAC	151,070	92,086
NSLP	123,910	55,109
KHEAA	67,868	58,127
ASA	62,978	27,761
ISAC	47,539	50,118
HESC	43,998	30,551
TGSLC	30,119	18,002
EAC	11,373	3,246
NELA	7,459	5,111
ECMC	5,874	3,350
RIHEAA	3,839	2,147
Secretary of HHS	3,007	191,598
Other	11,628	6,303
Total federal loans	4,214,606	3,690,809
Supplemental loans:		
Third party insured	35,632	40,575
Self-insured	123,153	78,306
Allowance for doubtful loans	(3,286)	(2,173)
Total supplemental loans	155,499	116,708
Total student loans receivable	$4,370,105	$3,807,517
Weighted average yield at end of year	4.36 %	4.46 %

The activity for the allowance of losses on supplemental loans for the years ended June 30, 2005 and 2004, is as follows:

	2005	2004
Beginning balance	$ 2,173	$ 1,423
Provision for loan losses	1,169	750
Write off of loans	(56)	
	$ 3,286	$ 2,173

6. CAPITAL ASSETS

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

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

Capital asset activity for the year ended June 30, 2004:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 3,304	$ -	$ -	$ 3,304
Depreciable capital assets:				
Building	11,499			11,499
Furniture and equipment	3,480	333	(812)	3,001
Leasehold improvements	195		(195)	
Total depreciable capital assets	15,174	333	(1,007)	14,500
Less accumulated depreciation	3,025	843	(963)	2,905
Net depreciable capital assets	12,149	(510)	(44)	11,595
Total	$ 15,453	$ (510)	$ (44)	$ 14,899

7. BONDS PAYABLE

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

	2005	2004
Beginning bonds payable	$4,305,361	$3,149,919
Additional proceeds		1,200,000
Repayments	(20,131)	(44,558)
Ending bonds payable	$4,285,230	$4,305,361

Bonds payable at June 30 consist of:

	2005	2004
Student loan revenue bonds, variable interest rates ranging from 2.30% to 3.52% at June 30, 2005 and from 1.06% to 2.00% at June 30, 2004 maturing from 2006 to 2044	$4,102,000	$4,118,131
Student loan revenue bonds, fixed interest rates ranging from 4.10% to 6.75% at June 30, 2005 and 2004 maturing through 2022	183,230	187,230
Gross student loan revenue bonds	4,285,230	4,305,361
Less unaccreted discount	16,855	17,862
Bonds payable—net	$4,268,375	$4,287,499
Weighted average rate	3.25 %	1.83 %

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

Fiscal Year	Principal	Interest	Total
2006	$ 47,345	$ 138,533	$ 185,878
2007	3,555	137,710	141,265
2008	4,400	137,514	141,914
2009	67,280	135,871	203,151
2010	33,625	133,016	166,641
Total fiscal years 2006-2010	156,205	682,644	838,849
2011-2015	5,825	659,088	664,913
2016-2020	128,300	654,680	782,980
2021-2025	305,000	632,234	937,234
2026-2030	969,900	528,795	1,498,695
2031-2035	1,520,000	255,979	1,775,979
2036-2040	125,000	188,633	313,633
2041-2044	1,075,000	124,292	1,199,292
	$4,285,230	$3,726,345	$8,011,575

Variable student loan revenue bonds consist of variable rate bonds and auction rate certificates. Variable rate bonds bear interest at a rate determined by the remarketing agent. Such rate is determined on a weekly basis. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. The repricing fee is expensed as incurred and included within interest expense on the statements of revenues, expenses and changes in net assets. Auction rate certificates bear interest at the applicable auction rate as determined by a bidding process every 28 or 35 days as stipulated in the related Bond Agreement. The debt service requirements in the table above were prepared using the applicable variable rates on June 30, 2005 and may significantly differ from the rates paid in future periods. Fixed rate bonds pay interest at a rate specified in the related Bond Agreement.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Authority under certain conditions as set forth in the Bond Agreement. In addition, at June 30, 2005, $304,555 of the bonds are subordinate to the remainder of the outstanding bonds.

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including monies and securities therein. For certain bonds, the Authority has entered into agreements with the Municipal Bond Investors Assurance Corporation, Bank of America N.A., State Street Bank and Trust and AMBAC Indemnity, whereby the parties have issued letters of credit or insurance policies to the Trustees as beneficiaries for the respective bondholders. The purpose of the letters of credit or insurance policies is to guarantee payment of the bonds upon maturity or earlier redemption. The agreements contain certain covenants which, among other requirements, include minimum collateral requirements. The Authority maintains a minimum amount of assets pledged under required bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2005 and 2004 is $4,398,902 and $4,409,737, respectively. At June 30, 2005 and 2004, the Authority was in compliance with all financial covenants.

During fiscal 2005, the Authority paid off $11,010 associated with bond 94P. The Authority incurred no penalties as a result of this early extinguishment.

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

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

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

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

Debt Service Reserve Accounts—Under the terms of certain bond provisions, minimum amounts are required to be maintained in the debt service reserve accounts for related bond series. The total of these minimum requirements at June 30, 2005 and 2004 were $32,588 and $32,739, respectively. These funds are only to be used to make principal and/or interest payments on the bonds and any interest due on the borrowed funds. In accordance with the bond provisions, the Authority has purchased a non-cancelable Surety Bond in lieu of cash deposits in the debt service reserve accounts for certain of the bond obligations in the amount of $6,930 at June 30, 2005 and 2004. Such Surety Bonds expire on the earlier of the bond maturity date or the date in which the Authority satisfies all required payments related to such bond obligations.

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

As of June 30, 2005 and 2004, cash, cash equivalents and investments were segregated as follows:

	June 30,	
	2005	**2004**
Special trust accounts:		
Unrestricted:		
Loan accounts	$ 47,365	$ 520,282
Revenue accounts	19,574	47,590
Restricted:		
Debt service reserve accounts	35,521	35,641
Rebate accounts	484	475
Total special trust accounts	102,944	603,988
Operating Fund:		
Unrestricted	19,296	17,872
Due to special trust accounts	15,004	9,451
Total operating fund	34,300	27,323
Total cash, cash equivalents and investments	$ 137,244	$ 631,311

8. LINE OF CREDIT

The Authority entered into a one hundred and twenty day, $150,000 revolving line of credit on May 25, 2005. This credit agreement charges an interest rate of LIBOR plus .40% payable at expiration and was collateralized by the loans purchased with the line of credit.

At June 30, 2005, the Authority was in compliance with all financial covenants related to the line of credit.

On July 27, 2005, the Authority amended its credit agreement dated May 25, 2005, as amended June 23, 2005. The amendment increased the borrowing commitment from $150,000 to $250,000.

On September 14, 2005, the Authority entered into a three-year $400,000 revolving line of credit. The credit agreement charges an interest rate on outstanding borrowings of LIBOR plus .30% based on the chosen borrowing period of one week or one, three or six months, and an unused commitment fee of .10%. Interest payments are due on the expiration date of the corresponding LIBOR rate loan. This $400,000 revolving line of credit refinanced and replaced the 120-day $250,000 revolving line of credit.

The following table displays the aggregate changes in the line of credit borrowings for the year ended June 30, 2005:

	2005
Beginning balance	$ -
Additional borrowings	85,200
Ending balance	$ 85,200

9. CONTRACTS AND COMMITMENTS

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

Year Ending June 30	
2006	$ 101
2007	101
2008	101
2009	101
2010	76
Total future minimum lease obligation	$ 480

Total rent and leased equipment expense charged to operations amounted to $136 and $350 in 2005 and 2004, respectively.

The Authority has three contracts to utilize electronic data processing systems. Two contracts mature on December 31, 2005, which are renewable by the Authority, and the other contract remains intact until the serviced loans are paid in full or are transferred to another servicing system. The contracts provide for monthly charges based on the number of student loan accounts serviced and the amount of computer equipment supplied.

Charges incurred under the contracts for the years ended June 30, 2005 and 2004, are as follows:

	2005	2004
Charges based on loan accounts	$ 5,456	$ 4,514
Hardware rentals	21	21
Total	$ 5,477	$ 4,535

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

To the extent permitted under applicable law, the Authority has authorized an expenditure of a maximum of $550 in five equal annual installments beginning July 1, 2006 to support the University of Missouri – St. Louis GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) Partnership (the "Partnership"), which provides need-based scholarships and grants to students seeking higher education. Actual expenditures may be less in the event funding for these grants and scholarships is obtained by members of the Partnership.

To the extent permitted under applicable law and in the event the following funds are unavailable from the Missouri Department of Higher Education ("MDHE"), the Authority has committed approximately $5,000 to assist MDHE in providing matching scholarship funds to eligible GEAR UP students. If such funds are unnecessary, then to the extent permitted by law, the Authority may use such funds to award scholarships to needy students or alternatively place said funds in a non-profit foundation for the purpose of funding early awareness and outreach activities to increase access to higher education.

10. EMPLOYEE BENEFITS

The Authority maintains a single employer defined contribution plan, the Higher Education Loan Authority of the State of Missouri 401(k) Plan (the "401(k) Plan"), with investment management performed by Goldman Sachs and recordkeeping provided by Edward Jones for all employees who are at least 21 years of age, and who work in excess of 1,000 hours per plan year, and who have been employed at least one year by the Authority. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. Sixteen investment fund options are available for choice by the employee. The Authority contributes an amount equal to 100% of the first 8% contributed by the employee. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five-year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. The Authority may make a non-matching contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Authority when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During 2005 and 2004, the Authority contributed $400 and $480 and employees contributed $461 and $413 to the 401(k) Plan.

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

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

Pension Plan assets are invested primarily in growth and income stocks at the discretion of the trustee. During the current year the Authority contributed the actuarially determined minimum required funding. The annual required contribution for the years ended June 30, 2005, 2004 and 2003, was determined as part of the July 1, 2004, 2003 and 2002, respectively, actuarial valuations. The Authority's policy is to contribute annually not less than the actuarially determined minimum required contribution determined by using the Aggregate Actuarial Cost Method. Because this method is used, the amortization is a level percentage of payroll over the average remaining service life of active members. Separate determination and amortization of the unfunded actuarial liability are not part of such method and are not required when that method is used.

The following tables detail the components of net periodic pension cost. The funded status of the Pension Plan as of June 30, 2005, 2004 and 2003, the amounts recognized in the Authority's financial statements, and major assumptions used to determine these amounts are as follows:

	2005	2004	2003
Change in plan assets:			
Fair value of plan assets at beginning of year	$ 14,078	$ 10,274	$ 7,222
Actual return on plan assets	652	1,162	681
Employer contributions	2,561	2,800	2,463
Benefits disbursed from plan assets (including expense charges)	(247)	(158)	(92)
Fair value of plan assets at the end of the year	17,044	14,078	10,274
Net pension obligation ("NPO"):			
NPO at beginning of year	(4,186)	(4,134)	(4,321)
Annual pension cost	2,760	2,748	2,650
Contributions for year	(2,561)	(2,800)	(2,463)
NPO at end of year	(3,987)	(4,186)	(4,134)
Funding excess	$ 13,057	$ 9,892	$ 6,140
Major assumptions:			
Investment return	7 %	7 %	7 %
Inflation rate	4 %	4 %	4 %
Discount rate used for amortization of NPO	3 %	3 %	3 %
Salary scale	5 %	5 %	5 %
Amortization period (open) (years)	10.4	10.4	10.4
Cost method	Aggregate	Aggregate	Aggregate
Components of annual pension cost:			
Annual required contribution ("ARC")	$ 2,561	$ 2,553	$ 2,463
Interest on NPO	(294)	(290)	(303)
Adjustment to ARC	493	485	490
	$ 2,760	$ 2,748	$ 2,650
Percentage of ARC contributed	100.0 %	109.7 %	100.0 %
Annual covered payroll	$ 8,932	$ 8,206	$ 7,727
ARC as a % of payroll	30.9 %	33.5 %	34.3 %
Funding excess to annual covered payroll	146.2 %	120.5 %	79.5 %
Funded ratio	427.5 %	336.3 %	248.5 %

11. STUDENT LOAN PURCHASE COMMITMENTS

In addition to the student loans already purchased, the Authority was contractually committed to primary lending institutions to purchase student loans under purchase agreements. Under these agreements the lending institution is required to use into best efforts to make and sell student loans to the Authority up to a contractually agreed-upon amount; however, the Authority has the right to refuse the purchase. The average length of the purchase commitments is three years. Management intends to fulfill the commitments using funds held by the Trustee and funds generated through the normal financing operations of the Authority. At June 30, 2005 and 2004, the Authority was servicing $1,034,004 and $784,902, respectively, in student loans for these and other lending institutions.

12. ARBITRAGE REBATE PAYABLE

In accordance with Section 148 and the regulations thereunder of the Internal Revenue Code of 1986, as amended, the Authority is required to pay to the United States Treasury certain amounts related to the Authority's tax-exempt bond issues. The amount required to be paid represents the excess of amounts earned over the interest cost of the tax-exempt borrowings. Non-purpose rebate payments are due every fifth year and when the bonds are retired. Purpose rebate payments are due every tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. The rebate calculation utilizes various assumptions and allows for the selection of alternative calculation options under the Code. Management estimates at June 30, 2005 and 2004, the liability to be $32,443 and $37,415, respectively, which has been provided for in the financial statements, however, the ultimate liability, if any, is dependent on investment yields and bond rates in the future.

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

	2005	2004
Beginning balance	$ 37,415	$ 44,972
Reduction of arbitrage liability	(312)	(2,221)
Student loan forgiveness	(4,626)	(5,136)
Payments	(34)	(200)
Ending balance	$ 32,443	$ 37,415

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

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	June 30, 2005		June 30, 2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
ASSETS:				
Cash and cash equivalents	$ 126,278	$ 126,278	$ 617,866	$ 617,866
Investments held by Trustee	10,966	10,966	13,445	13,445
Student loans receivable	4,370,105	4,430,181	3,807,517	3,859,209
LIABILITIES:				
Bonds payable—net	4,268,375	4,279,089	4,287,499	4,294,076
Line of credit	85,200	85,200		
OFF-BALANCE SHEET INSTRUMENTS:				
Standby letters of credit	-	2,346	-	3,360

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

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

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

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

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

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

14. SEGMENT INFORMATION

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

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

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

Summary financial information for the Student Loan Revenue Bonds as of June 30, 2005 and 2004, are as follows:

	2005		2004	
Condensed Statements of Net Assets	**Operating Fund**	**Bond Fund**	**Operating Fund**	**Bond Fund**
Assets:				
Current assets	$ 31,708	$ 233,889	$ 24,945	$ 693,264
Long-term assets	20,979	4,332,736	21,635	3,785,816
Total assets	$ 52,687	$ 4,566,625	$ 46,580	$ 4,479,080
Liabilities:				
Current liabilities	$ 3,313	$ 153,265	$ 4,445	$ 19,453
Long-term liabilities		4,254,256		4,315,456
Interfund payable (receivable)	22,672	(22,672)	24,327	(24,327)
Total liabilities	25,985	4,384,849	28,772	4,310,582
Net assets:				
Invested in capital assets	14,413		14,899	
Restricted		112,310		113,523
Unrestricted	12,289	69,466	2,909	54,975
Total net assets	26,702	181,776	17,808	168,498
Total liabilities and net assets	$ 52,687	$ 4,566,625	$ 46,580	$ 4,479,080
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 742	$ 194,688	$ 446	$ 140,092
Operating expenses	3,033	170,225	3,051	101,930
Operating (loss) income	(2,291)	24,463	(2,605)	38,162
Interfund transfers	11,185	(11,185)		
Increase (decrease) in net assets	8,894	13,278	(2,605)	38,162
Net assets, beginning of year	17,808	168,498	20,413	130,336
Net assets, end of year	$ 26,702	$ 181,776	$ 17,808	$ 168,498

Condensed Statements of Cash Flow	2005 Operating Fund	2005 Bond Fund	2004 Operating Fund	2004 Bond Fund
Net cash flows from operating activities	$ 7,281	$ (456,791)	$ 1,063	$ (749,606)
Net cash flows from non-capital financing activities		(44,254)		1,093,652
Net cash flows from capital activities	(329)		(333)	
Net cash flows from investing activities	2,505		1,392	
Net increase (decrease) in cash and cash equivalents	9,457	(501,045)	2,122	344,046
Cash and cash equivalents, beginning of year	19,599	598,267	17,477	254,221
Cash and cash equivalents, end of year	$ 29,056	$ 97,222	$ 19,599	$ 598,267

* * * * * *