Tab 17

Overview of Recent Audit Reports

Coordinating Board for Higher Education
March 3, 2021

BACKGROUND

DHEWD undergoes routine annual audits by the following entities:

1. State Auditor's Office (SAO) – The SAO determines which funds have the most significant amount of activity and tests transactions from those funds during its annual Statewide Financial Statements Audit (SEFA). Within DHEWD, the loan program, the state financial aid funds, and federal funds administered by the Office of Workforce Development typically have activity at a level that the SAO considers significant. The SAO conducts the SEFA of these funds and includes the findings in its comprehensive annual financial report (CAFR).

2. United States Department of Education (USDE) – The USDE performs on-site reviews of the Missouri Student Loan Program (MSLP) information security controls, as well as requires the department to submit self-assessments of information security controls each year.

3. ClifftonLarsonAllen, LLP – Through a contract awarded by the Office of Administration, ClifftonLarsonAllen, LLP audits the MSLP's annual comparative financial statements. An independent audit is required by the USDE of all guaranty agencies; the department must submit a copy of its audited financial statements to the USDE each year.

CURRENT STATUS

State Auditor

The SAO has completed its review of DHEWD financial statements for the SEFA and has no findings. The SAO is continuing its review of the DHEWD loan program.

USDE Program Audit of DHEWD – 2019

USDE conducted its Program of Review of DHEWD from September 17, 2019, through September 19, 2019, for the period of October 1, 2017, through September 30, 2018. The draft report identified one finding. DHEWD provided a copy of the report during the June board meeting. The finding identifies an issue with the DHEWD contract with Ascendium. USDE believes that DHEWD's contract with Ascendium asks Ascendium to do both default aversion and post default collections, in violation of 34 CFR 682.404(j)(4). DHEWD submitted its response to the finding on June 1, 2020, and provided a copy of its response to the CBHE at the September board meeting. To date, DHEWD has not received a response to its submission.

USDE Information Security Audit – 2019

USDE issued resolution to all outstanding findings in this audit when it noted the same issues resolved in the 2020 Information Security Self-Assessment. All outstanding information security findings are currently resolved.

Clifton Larson Allen (CLA) Audit

CLA conducted its interim field work for the annual independent audit of the financial statements for the loan program and is presenting its update to the CBHE today. A copy of the audit report is attached. There are no findings in the audit, but there are two management recommendations.

Office of the Inspector General (OIG) – United States Department of Education

The OIG is conducting its first audit of the State of Missouri's administration of the Governor's Emergency Education Relief (GEER) Fund grant. The audit is reviewing the awarding process and planned monitoring process. Since the December CBHE meeting, the OIG has conducted interviews of Commissioner Mulligan and several staff members. Staff have provided significant documentation to support the DHEWD's administration of the grant to the OIG.

NEXT STEPS

State Auditor

DHEWD will continue to work with the State Auditor on the pending audit.

USDE Program Audit of DHEWD – 2019

DHEWD staff continue to wait for a response from USDE.

USDE Information Security Self-Assessment – 2021

DHEWD staff will begin work on the 2021 Information Security Self-Assessment on March 16, 2021 with work required to be completed by June 23, 2021. DHEWD staff will update the CBHE on the status of this self-assessment at upcoming meetings.

Office of the Inspector General (OIG) – United States Department of Education

DHEWD staff will continue to work with DESE staff to comply with the OIG audit.

RECOMMENDATION

This is an information item only.

ATTACHMENT

- CLA Audit Report

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT STUDENT LOAN PROGRAM

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

Board of Directors
Missouri Department of Higher Education and
Workforce Development 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 and Workforce Development Student Loan Program ("MHEWD" or the "Program"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the entity'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and Workforce Development Student Loan Program as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Information for the Agency Operating Fund 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 Missouri Department of Higher Education and Workforce Development Student Loan Program's basic financial statements. The Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by Object are presented for purposes of additional analysis and are 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.

The June 30, 2019 financial statements were audited by other auditors, whose report dated December 24, 2019, expressed an unmodified opinion on those statements.

Board of Directors
Missouri Department of Higher Education and
Workforce Development Student Loan Program

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2021, on our consideration of the Missouri Department of Higher Education and Workforce Development Student Loan 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Missouri Department of Higher Education and Workforce Development Student Loan Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Missouri Department of Higher Education and Workforce Development Student Loan Program's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
February 17, 2021

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 and Workforce Development Student Loan Program's (MSLP) financial position and operating results for the fiscal years ended June 30, 2020 and 2019. MSLP is administered by the Missouri Department of Higher Education and Workforce Development (MDHEWD), a department of the State of Missouri. 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 Program (FFEL) 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.

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.

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 statements 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:

	2020	2019	2018
Current Assets	$ 24,011,900	$ 17,709,218	$ 38,910,675
Capital Assets	722,852	899,384	446,511
Total Assets	24,734,752	18,608,602	39,357,186
Current	375,134	475,082	442,329
Noncurrent Liabilities	-	-	12,407
Total Liabilities	375,134	475,082	454,736
Net Position			
Invested in Capital Assets	722,852	899,384	446,512
Restricted for student financial aid related activities	23,636,766	17,234,136	38,455,938
Total Net Position	$ 24,359,618	$ 18,133,520	$ 38,902,450

Comparative Analysis of Fiscal Years 2020 and 2019

Net position increased from $18,133,520 to $24,359,618 during 2020, an increase of $6,226,098. The increase is primarily due to a transfer of the operating share of collections funds from the Federal Fund to the Operating Fund.

The capital assets consist of 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 by $99,948 in 2020. The decrease is primarily due to a reduction in the default aversion allowance due to declining sales offset by higher accrued payroll.

Comparative Analysis of Fiscal Years 2019 and 2018

Net position decreased from $38,902,450 to $18,133,520 during 2019. The decrease is primarily due to an increase in the funds transferred to the MDHEWD's administration of the state grants and scholarship programs.

The capital assets consist 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 increased by $20,345 in 2019. The decrease is due to the fact that more expenses incurred in Fiscal year 2019 were not paid during the same Fiscal year in which the expense was incurred than in the prior Fiscal year.

Statement of Activities

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

	2020	2019	2018
Revenues:			
Loan Program Revenues	$ 26,112,024	$ 14,187,054	$ 12,699,927
Other	101	37	1,220
Total Revenues	26,112,125	14,187,091	12,701,147
Expenditures:			
Loan Guarantee Operations	19,886,027	11,060,495	11,317,883
State Based Aid Programs	-	23,350,000	7,999,957
Other Financial Aid Activities	-	545,526	1,482,697
Default Prevention	-	-	460,297
Total Expenditures	19,886,027	34,956,021	21,260,834
Change in Net Position	6,226,098	(20,768,930)	(8,559,687)
Net Position – Beginning of Year	18,133,520	38,902,450	47,462,137
Net Position – End of Year	$ 24,359,618	$ 18,133,520	$ 38,902,450

Comparative Analysis of Fiscal Years 2020 and 2019

Net position increased from $18,133,520 to $24,359,618 during 2020. The increase was due to an increase in the retention of collection revenue.

Comparative Analysis of Fiscal Years 2019 and 2018

Net position decreased from $38,902,450 to $18,133,520 during 2019, a decline of approximately 54.78 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 MDHEWD loan servicer.

Fund Financial Analysis

Governmental Fund

The Balance Sheet included assets of $24,011,898, liabilities of $167,750 and a fund balance of $23,844,148 as of June 30, 2020. Total assets increased by $6,348,405, while total liabilities increased by $55,146, resulting in a fund balance increase of $6,293,259, from the prior fiscal year.

The increase in assets is in large part due to MDHEWD operating funds transfer owed from SFY2019 collections.

The increase in liabilities is due to the fact that payroll expenditures at the end of Fiscal Year 2020 were more than in 2019. Additionally, expenses incurred in the Fiscal Year were not able to be paid in the same year the expenses occurred.

The governmental fund's total fund balance of $23,844,148 is classified as restricted for student financial aid related activities.

The Statement of Revenues, Expenditures and Changes in Fund Balance of the governmental fund for 2020 shows revenues of $26,112,125, expenditures of $19,818,865, and a net increase in fund balance of $6,293,259. The ending fund balance for 2020 was $23,844,148. The increase was because a large portion of the retention of collections from SFY2019 was received in 2020.

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, 2020, the fiduciary fund's net position was $6,364,965, a $13,045,310 decrease from prior year net position. The decline in net position was due to decreased recoveries and decreased loan claims due to the coronavirus pandemic.

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, 2020 consisted of $898,562,137 in outstanding guarantees and $186,879,720 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.

Capital Assets and Other Obligations

Capital Assets

The MSLP's investment in capital assets for its governmental activities as of June 30, 2020 amounted to $722,852 (net of accumulated depreciation). This total represents a $176,532 decrease in capital assets from 2019. The investment in capital assets includes equipment and software in progress.

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

<u>Other Obligations</u>

Other obligations include accrued vacation pay for which employees are paid upon termination from the MSLP.

During the year ended June 30, 2020, the MSLP's total other obligations increased by $28,906 from the prior year's balance.

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 2020, the actual charges to appropriations (expenditures) were $3,713,862 less than the final budget amounts.

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

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 and Workforce Development at (800) 473-6757.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF NET POSITION
JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

	Governmental Activities	
	2020	2019
ASSETS		
Current Assets:		
Cash and Investments	$ 7,590,372	$ 9,646,854
Receivables:		
Federal:		
Account Maintenance Fee	155,073	174,859
Other Federal Receivables	236,399	160,261
Due from Other Funds	16,030,041	31
Other	15	7,681,488
Prepaid Expenses	-	45,725
Total Current Assets	24,011,900	17,709,218
Noncurrent Assets:		
Capital Assets, net of Accumulated Depreciation	722,852	899,384
Total Noncurrent Assets	722,852	899,384
Total Assets	24,734,752	18,608,602
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	13,377	1,532
Accrued Payroll and Related Benefits	44,885	29,653
Compensated Absences Payable	41,384	12,478
Default Aversion Rebate Allowance	166,000	350,000
Due to Other Funds	109,488	81,419
Total Current Liabilities	375,134	475,082
Total Liabilities	375,134	475,082
Net Position:		
Invested in Capital Assets, Net of Related Debt	722,852	899,384
Restricted for:		
Restricted, Student Financial Aid Related Activities	23,636,766	17,234,136
Total Net Position	$ 24,359,618	$ 18,133,520

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Expenses	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs:			
Governmental Activities:			
Loan Guarantee Operations	$ 19,886,027	$ 26,112,024	$ 6,225,997
Total Governmental Activities	$ 19,886,027	$ 26,112,024	6,225,997
GENERAL REVENUES			
Miscellaneous			101
Total General Revenues			101
CHANGE IN NET POSITION			6,226,098
Net Position - Beginning of Year			18,133,520
NET POSITION - END OF YEAR			$ 24,359,618

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Expenses	Program Revenue Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs:			
Governmental Activities:			
Loan Guarantee Operations	$ 11,060,495	$ 14,187,054	$ 3,126,559
State Based Aid Programs	23,350,000	-	(23,350,000)
Other Student Financial Aid Activities	545,526	-	(545,526)
Total Governmental Activities	$ 34,956,021	$ 14,187,054	(20,768,967)
GENERAL REVENUES			
Miscellaneous			37
Total General Revenues			37
CHANGE IN NET POSITION			(20,768,930)
Net Position - Beginning of Year			38,902,450
NET POSITION - END OF YEAR			$ 18,133,520

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund (Agency Operating)
ASSETS	
Cash and Investments	$ 7,590,372
Receivables:	
Federal:	
Account Maintenance Fee	155,073
Other Federal Receivables	236,399
Other Receivables	13
Due from Other Funds	16,030,041
Total Assets	$ 24,011,898
LIABILITIES AND FUND BALANCES	
Current Liabilities:	
Accounts Payable	$ 13,377
Accrued Payroll and Benefits	44,885
Due to Other Funds	109,488
Total Liabilities	167,750
Fund Balances	
Restricted for:	
Default Prevention	
Student Financial Aid Related Activities	23,844,148
Total Fund Balances	23,844,148
Total Liabilities and Fund Balances	$ 24,011,898

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total Fund Balances - Total Governmental Funds	$ 23,844,148
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.	722,852
Compensated absences are not recognized as liabilities in the governmental funds when the amounts are normally expected to be liquidated with expendable available resources.	(41,384)
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.	(165,998)
Total Net Position - Governmental Activities	$ 24,359,618

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund (Agency Operating)
ASSETS	
Cash and Investments	$ 9,646,854
Receivables:	
Federal:	
Account Maintenance Fee	174,859
Other Federal Receivables	160,261
Other Receivables	31
Due from Other Funds	7,681,488
Total Assets	$ 17,663,493
LIABILITIES AND FUND BALANCES	
Current Liabilities:	
Accounts Payable	$ 1,532
Accrued Payroll and Benefits	29,653
Due to Other Funds	81,419
Total Liabilities	112,604
Fund Balances	
Restricted for:	
Default Prevention	
Student Financial Aid Related Activities	17,550,889
Total Fund Balances	17,550,889
Total Liabilities and Fund Balances	$ 17,663,493

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total Fund Balances - Total Governmental Funds	$ 17,550,889
Amounts reported for governmental activities in the statement of net position is different because:	
Prepaid assets are not financial resources and therefore are not reported in the governmental funds.	45,725
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	899,384
Compensated absences are not recognized as liabilities in the governmental funds when the amounts are normally expected to be liquidated with expendable available resources	(12,478)
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	(350,000)
Total Net Position - Governmental Activities	$ 18,133,520

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund (Agency Operating)
REVENUES	
Account Maintenance Fee	$ 649,773
Default Aversion Fees	271,839
Guaranty Agency Retention of Collections	22,928,299
Tax Refund/Closed School Reimbursements	933,425
Teacher Loan Forgiveness	1,115,510
Interest Income	213,177
Other	101
Total Revenues	26,112,124
EXPENDITURES	
Loan Guarantee Operations	9,469,513
State Based Aid Programs	10,000,000
Default Aversion Rebate Expense	328,717
Capital Outlay	20,635
Total Expenditures	19,818,865
NET CHANGE IN FUND BALANCE	6,293,259
Fund Balance - July 1, 2019	17,550,889
FUND BALANCE - JUNE 30, 2020	$ 23,844,148

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Net Change in Fund Balances - Total Governmental Funds		$ 6,293,259
Amounts reported for governmental activities in the statement of activities are different because:		
Prepaid expenses are recognized in the government-wide statement of net position and expensed when they expire but are recorded as an expenditure in the governmental funds when paid.		(45,724)
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	$ (197,167)	
Capital Outlays	20,636	(176,531)
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		(28,906)
Other Loan Servicer Fees		184,000
Change in Net Position of Governmental Activities		$ 6,226,098

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	General Fund (Agency Operating)
REVENUES	
Account Maintenance Fee	$ 734,977
Default Aversion Fees	510,027
Guaranty Agency Retention of Collections	11,457,312
Tax Refund/Closed School Reimbursements	219,074
Teacher Loan Forgiveness	744,395
Closed School Reimbursements	5,544
Interest Income	515,725
Other	37
Total Revenues	14,187,091
EXPENDITURES	
Loan Guarantee Operations	10,913,516
State Based Aid Programs	23,350,000
Default Aversion Rebate Expense	545,526
Capital Outlay	524,063
Total Expenditures	35,333,105
NET CHANGE IN FUND BALANCE	(21,146,014)
Fund Balance - July 1, 2018	38,696,903
FUND BALANCE - JUNE 30, 2019	$ 17,550,889

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances - Total Governmental Funds		$ (21,146,014)
Amounts reported for governmental activities in the statement of activities are different because:		
Prepaid expenses are recognized in the government-wide statement of net position and expensed when they expire but are recorded as an expenditure in the governmental funds when paid.		(75,719)
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	$ (71,190)	
Capital Outlays	524,063	452,873
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.		
Loan Servicer Conversion Fees		(70)
Change in Net Position of Governmental Activities		$ (20,768,930)

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020

	Private-Purpose Trust Fund (Federal Fund)
ASSETS	
Current Assets:	
Cash and Investments	$ 21,994,722
Due from Federal Government-Reinsurance	281,012
Due from Other Funds	109,488
Loan Recoveries Receivable	9,784
Total Current Assets	22,395,006
Total Assets	22,395,006
LIABILITIES	
Current Liabilities:	
Due to Other Funds	16,030,041
Total Liabilities	16,030,041
NET POSITION	
Held in trust for USDE lender claims and default aversion fees	6,364,965
Total Net Position	$ 6,364,965

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	Private-Purpose Trust Fund (Federal Fund)
ASSETS	
Current Assets:	
Cash and Investments	$ 26,717,540
Due from Federal Government-Reinsurance	2,596,319
Due from Other Funds	81,419
Loan Recoveries Receivable	28,008
Total Current Assets	29,423,286
Total Assets	29,423,286
LIABILITIES	
Current Liabilities:	
Due to Federal Government	2,331,523
Due to Other Funds	7,681,488
Total Current Liabilities	10,013,011
Total Liabilities	10,013,011
NET POSITION	
Held in trust for USDE lender claims and default aversion fees	19,410,275
Total Net Position	$ 19,410,275

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2020

	Private-Purpose Trust Fund (Federal Fund)
ADDITIONS	
Federal Reinsurance	$ 1,848,483
Loan Recoveries	48,420,974
Interest Income	380,968
Default Aversion Rebate	328,717
Other Income	203
Total Additions	50,979,345
DEDUCTIONS	
Loan Claims	40,824,217
Guaranty Agency Retention of Collections	22,928,300
Default Aversion Fees	271,839
Miscellaneous Expense	299
Total Deductions	64,024,655
CHANGE IN NET POSITION	(13,045,310)
Net Position - July 1, 2019	19,410,275
NET POSITION - JUNE 30, 2020	$ 6,364,965

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2019

	Private-Purpose Trust Fund (Federal Fund)
ADDITIONS	
Federal Reinsurance	$ 20,562,500
Loan Recoveries	55,696,260
Interest Income	332,359
Default Aversion Rebate	465,022
Other Income	416
Total Additions	77,056,557
DEDUCTIONS	
Loan Claims	63,632,246
Guaranty Agency Retention of Collections	11,457,312
Default Aversion Fees	429,524
Total Deductions	75,519,082
CHANGE IN NET POSITION	1,537,475
Net Position - July 1, 2019	17,872,800
NET POSITION - JUNE 30, 2020	$ 19,410,275

See accompanying Notes to Basic Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Missouri Department of Higher Education and Workforce Development 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 and Workforce Development (MDHEWD), a department of the State of Missouri. The MDHEWD 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 MDHEWD 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 form each congressional district. The term of appointment is six year. No more than five of the nine members may be affiliated with the same political party. Members serve without compensation.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, as amended, establishes the criteria to be used for defining primary governments, component units and related organizations. The Program does not meet the GASB's criteria to be reported as its own primary government or other stand-alone government and is part of the primary government of the state. Like other state agencies, the Program is included in the financial statements of the state.

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

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (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 expenses and program revenues for each program of the MSLP's governmental activities.

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*) as a means of providing funding for the federally required program activities.

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.

Government 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 differences 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 MDHEWD and may be used for guaranty agency and others student financial aid related activities for the benefit of students as selected by the guaranty agency.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Sources of funds for the Agency Operating Fund include investments income, default aversion fees, account maintenance fees and agency retention on collections of defaulted loans. Expenditures for 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; expenses for default prevention activities and expenses related to the MDHEWD's administration of the state grants and scholarship programs or student access and success initiatives. The Agency Operating Fund is subject to federal oversight.

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

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 Funds, 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 commended activities with a zero fund equity.

The legislation provides that the Federal Fund, including earnings on those assets, are the property of the federal government and many 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*). 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.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 revenues, the recording of unearned revenue, the presentation of expenses versus expenditures, the recording of noncurrent liabilities. Government fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the government fund financial statements.

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 of 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 MDHEWD 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.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Family Education Loan Programs (Continued)

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

Subsidized Federal Stafford Loans are need-based loans there were available to eligible undergraduate and graduate students. Generally, the federal government pays interest on the loans 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.

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 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 supports outreach services to students, parents and schools.

Loans are insured for losses incurred from the default, death, disability or bankruptcy of the borrowers 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, 2020 and 2019, the OPO of nondefaulted student loans was $899 million and $1.0 billion, respectively.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Family Education Loan Programs (Continued)

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.

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, 2-15, 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%

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Family Education Loan Programs (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 FFEL 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 MDHEWD's guaranteed loan portfolio's original principal balance outstanding. The MSLP was in compliance with the minimum reserve level requirement as of June 30, 2,020, and 2019 as follows:

	2020	2019
Outstanding Loans (Original Principal Balance)	$ 898,562,137	$ 1,005,802,010
Minimum Requirement	2,246,405	2,514,505
Reserve Per Department of Education Guidelines	6,364,968	19,410,275

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.

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, 2020 and 2019, the percentage of proceeds for consolidation recoveries was 25.61% and 26.64%, respectively.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Family Education Loan Programs (Continued)

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 investments 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.

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.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables (Continued)

Fiduciary Funds

Reinsurance receivables 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 USDE for defaulted claims is reported as an addition to the Federal Fund since the Federal Fund has already purchased the defaulted loans 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*). 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 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.

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.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Depreciation is computed using the straight-line method over the estimated useful life of the asset. The MDHEWD follows the state process that applies to all departments. The established capitalization thresholds and estimated useful lives are as follows:

Description	Capitalization Threshold	Estimated Useful Lives in Years
Equipment and Furniture	$ 1,000	2 – 7
Software	5,000	3 – 5
Trademark	5,000	10

Compensated Absences

It is the MDHEWD'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 MDHEWD 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 Medicate 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 due and normally expected to be liquidated with current resources.

Sick leave is accumulated at a rate set by MDHEWD 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. The following is a summary of the compensated absences for the years ended June 30, 2020 and 2019:

	2020				
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Accrued Compensated Absences	$ 12,478	$ 28,906	$ -	$ 41,384	$ 41,384

	2019				
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Accrued Compensated Absences	$ 12,407	$ 71	$ -	$ 12,478	$ 12,478

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 payable 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 and special termination benefits.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Uncollectible Loans – Fiduciary Fund

As previously described (see *Federal Family Education Loan Programs*), 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 MDHEWD 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.

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.

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 $328,717 and $545,526 for 2020 and 2019, respectively.

Allowance

An allowance for a default aversion rebate has been calculated and recorded as a liability in the statement or net position in the event that the rebate would exceed the default aversion fee received from the federal government. As of June 30, 2020, the allowance for default aversion rebate was $166,000. As of June 20, 2019, the allowance for default aversion rebate was $350,000.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement and the reported amounts of revenues, expenses or expenditures and other changes in the net position or fund balances during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain 2019 amounts have been reclassified to conform to the 2020 presentation.

NOTE 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.

NOTE 2 DEPOSITS, INVESTMENTS, AND INVESTMENT RETURN (CONTINUED)

Investments (Continued)

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 claims 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.

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, 2020 and 2019 are summarized as follows:

	At Fair Value	
	2020	2019
Governmental Funds		
Deposited with the State Treasurer	$ 7,590,372	$ 9,646,854
Fiduciary Funds		
Deposited with the State Treasurer	21,994,722	26,717,540
Total	$ 29,585,094	$ 36,364,394

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 in 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.

NOTE 2 DEPOSITS, INVESTMENTS, AND INVESTMENT RETURN (CONTINUED)

Investments (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 institutions 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 all funds for the years ended June 30, 2020 and 2019 consisted of:

	2020	2019
Interest Income	$ 594,145	$ 848,084

NOTE 3 CAPITAL ASSETS

Capital asset balances and activity for the years ended June 30, 2020 and 2019 were as follows:

2020	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Equipment and Furniture	$ 2,290,847	$ 20,635	$ 9,841	$ -	$ 2,301,641
Total Capital Assets being Depreciated	2,290,847	20,635	9,841	-	2,301,641
Less: Accumulated Depreciation	1,391,463	197,167	9,841	-	1,578,789
Total	$ 899,384	$ (176,532)	$ -	$ -	$ 722,852

2019	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Equipment and Furniture	$ 1,435,495	$ 24,063	$ 5,693	$ 836,982	$ 2,290,847
Software in Progress	336,982	500,000	-	(836,982)	-
Total Capital Assets being Depreciated	1,772,477	524,063	5,693	-	2,290,847
Less: Accumulated Depreciation	1,325,966	71,190	5,693	-	- 1,391,463
Total	$ 446,511	$ 452,873	$ -	$ -	$ 899,384

NOTE 4 DUE TO OTHER FUNDS/DUE FROM OTHER FUNDS

Amounts due from and due to other funds at June 30, 2020 and 2019 include the following:

Receivable Fund	Payable Fund	Purpose	2020	2019
AOF	FSLRF	Operating Share of Collections	$ 16,030,041	$ 7,681,488
FSLRF	AOF	Default Aversion Fees	109,285	81,003
FSLRF	AOF	48 Hour Rule	203	416
			$ 16,139,529	$ 7,762,907

NOTE 5 RISK MANAGEMENT

The MSLP is exposed to various risks of loss from tort; theft of, damage to and destruction of assets; business interruptions; errors and omissions; natural disasters; motor vehicle liability; contractor liability; employee injuries; and employee health benefits. Coverage for these various risks in managed through the MDHEWD'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 MDHEWD 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. 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, 2020 and 2019 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.

NOTE 6 PENSION PLANS

MOSERS

The MSLP through the MDHEWD 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 (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 for 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 MSEP 2011 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 31.

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 MSEP 2011 Plan are required to contribute 4.0 percent of their annual pay. MDHEWD's required contribution rate for the years ended June 30, 2020 and 2019, was 22.68 percent and 21.12 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

The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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, 2019 and 2018. At June 30, 2019 and 2018, the State's proportion was 82.84 percent and 82.19 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, as defined in Note 1. For more information, see the separately issued financial statements of the State of Missouri as of June 30, 2020.

NOTE 7 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 reach employee that meets these requirements. Participating employees are 100% vested in the plan.

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

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

NOTE 8 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 participates and their beneficiaries. Investments are managed by the plan's trustee under one of several investment options or a combination thereof. A choice of investments 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.

NOTE 9 STUDENT LOANS

MDHEWD

The MDHEWD 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 types 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 upon the type and date of origination of the individual loans.

MDHEWD lender-held loans (non-defaulted) consist of the following at June 30, 2020 and 2019:

	2020	2019
Stafford – subsidized	$ 185,385,603	$ 216,712,923
Stafford – unsubsidized	154,080,892	178,770,710
PLUS/SLS	10,781,743	19,960,672
Consolidations	681,516,390	753,886,685
Total	$ 1,037,193,728	$ 1,169,330,990

All student loans 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, 2020 and 2019, $11.31 and $11.26 million, respectively, of total MDHEWD 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 MDHEWD, and one other is a member of the CBHE.

The MSLP has lender agreements to guaranteed loans serviced by MOHELA. Total claims paid to MOHELA by the MSLP during the years ended June 30, 2020 and 2019 were $17,217,978 and $32,938.915, respectively.

NOTE 9 STUDENT LOANS (CONTINUED)

Rehabilitated Loans

Defaulted borrowers who made 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. Both SunTrust Education Loans and MOHELA purchased rehab eligible loans from the MSLP throughout SFY2020. Rehabilitations are included in loan recoveries revenue. Total rehabilitation revenues, net of discounts, received by the MSLP during the years ended June 30, 2020 and 2019, were $36,424,722 and $38,377,120, respectively.

NOTE 10 CONTRACTED SERVICES

The MSLP contracts with loan servicer Ascendium Education Solutions Inc. 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. Ascendium also provides default aversion servicing and contracting of collection agency activity on behalf of the MSLP. For the years ended June 30, 2020 and 2019, the MSLP paid $7,682,220 and $8,560,673, respectively, to the loan servicer for combined services.

NOTE 11 OPERATING LEASES

The MDHEWD occupied a state office building under a lease agreement with the state that was effective July 1, 2019 through October 31, 2019. MDHEWD moved in November 2019 to a new state office building. An additional lease agreement with the state was in effect November 1, 2019 through June 30, 2020. The MSLP is not responsible for any portion of the lease agreement since July 1, 2011.

NOTE 12 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 MDHEWD being below 5% for the fiscal Years ended June 30, 2020 and 2019, 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, 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%.

NOTE 12 CONTINGENCIES (CONTINUED)

Loans (Continued)

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, 2020 is calculated as follows:

Amount of Guaranteed Student Loans in Repayment	$ 897,702,883
Less: Minimum Federal Government Share – 75%	673,277,162
Total	$ 224,425,721

Collection Costs

Section 484A9b) of the Higher Education Act of 1965 [20 USC 1091(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 loans balances in full in a timely manner after defaulting. In July 2015, USDE issued written guidance prohibiting guaranty agencies from charging collection fees to borrower 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 of Proposed Rulemaking was published on July 31, 2018, but no Final Rule was issued before the November 1, 1018 deadline. The Notice of Proposed Rulemaking was delayed until January 2019. The Final Rule was subsequently issued September 23, 2019, making the regulatory change for collection costs effective July 1, 2020. Effective that date, guaranty agencies are prohibited from charging collection costs to a defaulted borrower who enters into an acceptable repayment agreement within 60 days after the guaranty agency sends the initial notice of default and honors that agreement. The regulatory change were not selected for early implementation. There was no retroactive application of the guidance; therefore, there was no significant impact on the MSLP and no remaining risk.

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.

NOTE 12 CONTINGENCIES (CONTINUED)

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 MDHEWD could rise rapidly while collections could decline significantly, which would negatively impact the MSLP's ability to maintain sufficient liquidity.

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 AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - AGENCY OPERATING FUND
YEAR ENDED JUNE 30, 2020

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget-Positive (Negative)
Expenditures:				
Student Loan Program:				
Personal Service	$ 618,891	$ 618,891	$ 658,376	$ 39,485
Expense and Equipment	2,478,693	2,478,693	1,606,480	(872,213)
Payment of Fees for Collection of Defaulted Loans	8,000,000	8,000,000	6,109,194	(1,890,806)
Payment of Penalties to Federal Government Associated with Late Deposit of Default Collections	500,000	500,000	416	(499,584)
Default Prevention Activities	640,000	640,000	342,797	(297,203)
Information Technology Consolidation:				
Personal Service	193,540	193,540	-	(193,540)
Expense and Equipment	1	1	-	(1)
Total Expenditures	$ 12,431,125	$ 12,431,125	$ 8,717,263	$ (3,713,862)
Transfers From (To) Other Funds				
Transfers To				
Agency Operating Fund to State based aid	$ 10,000,000	$ 10,000,000	$ 10,000,000	$ -
	-			
Federal Student Loan Reserve Fund	1,000,000	1,000,000	-	(1,000,000)
Total Transfers From (To) Other Funds	$ 11,000,000	$ 11,000,000	$ 10,000,000	$ (1,000,000)

RECONCILIATION OF BUDGET BASIS TO GAAP BASIS

Total Expenditures on a Budget Basis	$ 8,717,263
Expenditures Increase (Decrease) due to:	
Change in Accounts Payable	(11,845)
Change in Accrued Payroll and Benefits	(15,232)
Employee Fringe Benefits not appropriated for MSLP	300,149
Default Aversion Fee Rebate expense not appropriated for MSLP	328,717
Discount not appropriated	499,813
Transfer to Student Financial Aid	10,000,000
Total Expenditures on GAAP Basis	$ 19,818,865
Total Transfers on Budget Basis	$ 10,000,000
Transfers Increase (Decrease) due to:	
Transfers to State-based aid were recorded as an expenditure in Agency Operation Fund	(10,000,000)
Change in Accounts Payable/Due to Transferred	$ -

See accompanying Notes to Required Supplementary Information.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - AGENCY OPERATING FUND
YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget- Positive (Negative)
Expenditures:				
Student Loan Program:				
Personal Service	$ 597,456	$ 597,456	$ 436,774	$ (160,682)
Expense and Equipment	2,978,693	2,978,693	2,739,033	(239,660)
Payment of Fees for Collection of Defaulted Loans	8,000,000	8,000,000	5,743,316	(2,256,684)
Payment of Penalties to Federal Government associated with late deposit of Default Collections	500,000	500,000	161	(499,839)
Default Prevention Activities	640,000	640,000	640,000	-
Information Technology Consolidation:				
Personal Service	191,979	56,293	-	(56,293)
Expense and Equipment	1	132,763	-	(132,763)
Total Expenditures	$ 12,908,129	$ 12,905,205	$ 9,559,284	$ (3,345,921)
Transfers From (To) Other Funds				
Transfers To				
Agency Operating Fund to State based aid	$ (23,350,000)	$ (23,350,000)	$ (23,350,000)	$ -
Total Transfers From (To) Other Funds	$ (23,350,000)	$ (23,350,000)	$ (23,350,000)	$ -

RECONCILIATION OF BUDGET BASIS TO GAAP BASIS

Total Expenditures on a Budget Basis	$ 9,559,284
Expenditures Increase (Decrease) due to:	
Change in Accounts Payable	(2,164)
Change in Accrued Payroll and Benefits	5,982
Employee Fringe Benefits not appropriated for MSLP	233,714
Default Aversion Fee Rebate expense not appropriated for MSLP	545,526
Discount not appropriated	1,640,763
Transfer to Student Financial Aid	23,350,000
Total Expenditures on GAAP Basis	$ 35,333,105
Total Transfers on Budget Basis	$ (23,350,000)
Transfers Increase (Decrease) due to:	
Transfers to State-based aid were recorded as an expenditure in Agency Operation Fund	23,350,000
Change in Accounts Payable/Due to Transferred	$ -

See accompanying Notes to Required Supplementary Information.

NOTE 1 BUDGETS

The MSLP budget is prepared in conjunction with the MDHEWD 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.

NOTE 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 AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS BY OBJECT
YEAR ENDED JUNE 30, 2020

	General (Major) Fund (Agency Operating)
REVENUE	
Account Maintenance Fee	$ 649,773
Default Aversion Fees	271,839
Guaranty Agency Retention of Collections	22,928,300
Tax Refund/Closed School Reimbursements	933,425
Teacher Loan Forgiveness	1,115,510
Interest Income	213,175
Other	102
Total Revenues	26,112,124
EXPENDITURES	
Personal Service	643,144
Employee Fringe Benefits	300,149
Professional Development	21,609
Guaranty Servicing	7,682,220
Default Aversion Rebate Expense	328,717
Discount Loan Recoveries	499,813
Other Professional Services	84,646
Travel	1,636
Supplies	13,905
Communications Services and Support	9,164
Utilities	85
Equipment Expense	220,397
Equipment Repair and Maintenance	12,870
Program Distributions	10,000,000
Miscellaneous	510
Total Expenditures	19,818,865
NET CHANGE IN FUND BALANCE	6,293,259
Fund Balance, July 1, 2019	17,550,889
FUND BALANCE - JUNE 30, 2020	$ 23,844,148

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS BY OBJECT
YEAR ENDED JUNE 30, 2019

	General (Major) Fund (Agency Operating)
REVENUE	
Account Maintenance Fee	$ 734,977
Default Aversion Fees	510,027
Guaranty Agency Retention of Collections	11,457,312
Tax Refund/Closed School Reimbursements	219,074
Teacher Loan Forgiveness	744,395
Interest Income	515,725
Federal Reporting Reimbursements	5,544
Other	37
Total Revenues	14,187,091
EXPENDITURES	
Personal Service	442,756
Employee Fringe Benefits	233,714
Professional Development	56,041
Guaranty Servicing	8,484,954
Default Aversion Rebate Expense	545,526
Discount Loan Recoveries	1,640,763
Other Professional Services	544,193
Travel	3,722
Communications Services and Support	3,967
Equipment Expense	26,078
48 hour transfer	416
Program Distributions	23,350,000
Miscellaneous	975
Total Expenditures	35,333,105
NET CHANGE IN FUND BALANCE	(21,146,014)
Fund Balance, July 1, 2018	38,696,903
FUND BALANCE - JUNE 30, 2019	$ 17,550,889

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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 and
Workforce Development 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 and Workforce Development Student Loan Program, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Missouri Department of Higher Education and Workforce Development Student Loan Program's basic financial statements, and have issued our report thereon dated February 17, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Missouri Department of Higher Education and Workforce Development Student Loan 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 Missouri Department of Higher Education and Workforce Development Student Loan Program's internal control. Accordingly, we do not express an opinion on the effectiveness of Missouri Department of Higher Education and Workforce Development Student Loan 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Missouri Department of Higher Education and Workforce Development Student Loan Program's financial statements are free from 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.

CliftonLarsonAllen LLP

St Louis, Missouri
February 17, 2021

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Board of Directors
Missouri Higher Education and Workforce Development Student Loan Program
St. Louis, Missouri

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Missouri Higher Education and Workforce Development Student Loan Program as of and for the year ended June 30, 2020, and have issued our report thereon dated February 17, 2021. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Missouri Higher Education and Workforce Development Student Loan Program are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2020.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

- Management's estimate of the default aversion rebate allowance is based on projected and forecasted rebates. We evaluated the key factors and assumptions used to develop the estimated allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the employee leave liability is based on earned hours at an estimated hourly compensation rate. We tested the accuracy of the earned hours and hourly rate used to develop the estimated liability and concluded it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

- The disclosure of the outstanding student loan portfolio in Note 9 to the financial statements is important to the financial statements as it describes the Departments current loan portfolio.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. The completion of our audit was delayed from the initial contract due date of December 1, 2020. The reason for not meeting the agreed upon due date is because of delays in the department providing draft financial statements and other audit documents.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Corrected misstatements

The following material misstatements detected as a result of audit procedures were corrected by management:

- When performing procedures over the recording of expenditures in the appropriate period, it was noted that approximately $12,605 of expenses were not recorded in the proper period. Management agreed with this difference and the financial statements have been adjusted to reflect this difference.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated February 17, 2021.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Other information is being included in documents containing the audited financial statements and the auditors' report thereon. Our responsibility for such other information does not extend beyond the financial information identified in our auditors' report. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in such documents. As required by professional standards, we read the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by Object (the other information) in order to identify material inconsistencies between the audited financial statements and the other information. We did not identify any material inconsistencies between the other information and the audited financial statements.

* * *

This communication is intended solely for the information and use of the Board of Directors and management of Missouri Higher Education and Workforce Development Student Loan Program and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St Louis, Missouri
February 17, 2021

DEPARTMENT OF
HIGHER EDUCATION &
WORKFORCE DEVELOPMENT

February 17, 2021

CliftonLarsonAllen LLP
600 Washington Ave, Suite 1800
St. Louis, MO 63101

This representation letter is provided in connection with your audit of the financial statements of the Missouri Department of Higher Education and Workforce Development (MHEWD), which comprise the respective financial position of the governmental activities as of June 30, 2020 and 2019, and the respective changes in financial position for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of February 17, 2021, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2020, and the following representations as they apply to the financial statements as of and for the year ended June 30, 2019, which were audited by other auditors.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 19, 2020, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We acknowledge and have fulfilled our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

5. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. All events occurring subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

7. We have not identified or been notified of any uncorrected financial statement misstatements.

8. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

9. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.

10. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.

11. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.

12. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

Information Provided

1. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

e. Access to all audit or relevant monitoring reports, if any, received from funding sources.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

   a. Management;

   b. Employees who have significant roles in internal control; or

   c. Others when the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.

6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or waste or abuse whose effects should be considered when preparing financial statements.

7. We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

10. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.

11. We have a process to track the status of audit findings and recommendations.

12. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

13. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to MHEWD, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

14. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

15. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

16. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

17. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.

18. The financial statements properly classify all funds and activities.

19. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

20. Investments are properly valued.

21. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

22. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

23. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.

24. Capital assets are properly capitalized, reported, and, if applicable, depreciated.

25. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

26. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature: Zora Wall Title: Deputy Commissioner

Signature: Marla Rohtrow Title: Director Missouri Student Loan Program

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Management
Missouri Higher Education and Workforce Development Student Loan Program
St. Louis, Missouri

In planning and performing our audit of the of the governmental activities, the major fund, and the aggregate remaining fund information financial statements of the Missouri Higher Education and Workforce Development Student Loan Program as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. This letter does not affect our report on the financial statements dated February 17, 2021, nor our internal control communication to those charged with governance dated February 17, 2021.

- When performing substantive audit procedures it was noted that the organization did not have independent review and approval of balance sheet reconciliations including accounts related to significant estimates, such as the default rebate aversion allowance. We suggest that management implement annual controls to formalize the annual close and reconciliation process. Further, we suggest monthly management review reconciliations between the monthly financial statements and the form 2000 from the third party service provider to ensure all transactions are recorded appropriately.

- During the audit it was identified that approximately $12,605 of expenditures were recorded in the incorrect period. We suggest management review all non-payroll disbursements, over a predetermined threshold, two months after the fiscal year to determine if the expenditures are recorded in the proper period.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, Board of Directors, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
February 17, 2021

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Board of Directors and Management of
Missouri Department of Higher Education & Workforce Development
Jefferson City, Missouri

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Missouri Department of Higher Education & Workforce Development as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. 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.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
February 17, 2021