Tab 18

Overview of Recent Audit Reports

Coordinating Board for Higher Education
June 14, 2023

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. CliftonLarsonAllen, LLP (CLA) – Through a contract awarded by the Office of Administration, CLA audits the Missouri Student Loan Program's annual comparative financial statements. An independent audit is required by the United States Department of Education (USDE) of all guaranty agencies; the department must submit a copy of its audited financial statements to the USDE each year.

CURRENT STATUS

<u>State Auditor</u>

The SAO finished the 2022 CAFR. There were no findings against DHEWD.

<u>CLA</u>

DHEWD received the final report for FY 2021. There is one finding in the report, but it does not require any remediation or action on behalf of the Department.

NEXT STEPS

<u>State Auditor</u>

Later this summer, the SAO will begin the next CAFR.

<u>CLA</u>

CLA will begin the 2022 financial statement audit. This will be the final audit of the loan program.

RECOMMENDATION

Information item only.

ATTACHMENTS

- Attachment A: FY2021 Student Loan Program Audit Report

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT STUDENT LOAN PROGRAM

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2021 AND 2020

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
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STUDENT LOAN PROGRAM
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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 years ending June 30, 2021 and 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, 2021 and 2020, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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.

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 May 5, 2023, 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
May 5, 2023

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, 2021 and 2020. 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:

	2021	2020	2019
Current Assets	$ 9,226,129	$ 16,330,413	$ 17,709,218
Capital Assets	1,092,203	722,852	899,384
Total Assets	10,318,332	17,053,265	18,608,602
Current	356,631	375,134	475,082
Noncurrent Liabilities	-	-	-
Total Liabilities	356,631	375,134	475,082
Net Position			
Invested in Capital Assets	1,092,203	722,852	899,384
Restricted for student financial aid related activities	8,869,498	16,036,700	17,234,136
Total Net Position	$ 9,961,701	$ 16,759,552	$ 18,133,520

Comparative Analysis of Fiscal Years 2021 and 2020

Net position decreased from $16,759,549 to $9,961,701 during 2021, a decrease of $6,797,851. The decrease is primarily due to a reduction in the operating share of collections funds transferred 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 $18,503 in 2021. The decrease is primarily due to a reduction in the default aversion allowance due to declining sales.

Comparative Analysis of Fiscal Years 2020 and 2019

Net position decreased from $18,133,520 to $16,759,552 during 2020, a decrease of $1,373,968. The decrease is primarily due to a reduction in the operating share of collections funds transferred 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.

Statement of Activities

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

	2021	2020	2019
Revenues:			
Loan Program Revenues	$ (2,359,296)	$ 18,511,955	$ 14,187,054
Other	90	104	37
Total Revenues	(2,359,206)	18,512,059	14,187,091
Expenditures:			
Loan Guarantee Operations	4,438,645	19,886,027	11,060,495
State Based Aid Programs	-	-	23,350,000
Other Financial Aid Activities	-	-	545,526
Default Prevention	-	-	-
Total Expenditures	4,438,645	19,886,027	34,956,021
Change in Net Position	(6,797,851)	(1,373,968)	(20,768,930)
Net Position – Beginning of Year	16,759,552	18,133,520	38,902,450
Net Position – End of Year	$ 9,961,701	$ 16,759,552	$ 18,133,520

Fund Financial Analysis

Governmental Fund

The Balance Sheet included assets of $10,318,332, liabilities of $356,631 and a fund balance of $9,961,701 as of June 30, 2021. Total assets decreased by $6,797,851 and total liabilities decreased by $18,503.

The decrease in assets is in part due to MDHEWD operating funds transfer owed from SFY2021 collections. The decrease in assets is also due to the requirement to return all involuntary collections and set interest rates to zero, per Dear Colleague Letter GEN-21-03 outlined below.

The decrease in liabilities is due to reduced expenses for Fiscal Year 2021. 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 $9,961,701 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 2021 shows revenues of ($2,359,296), expenditures of $4,438,645, and a net decrease in fund balance of ($6,797,851). The ending fund balance for 2021 was $9,961,701. The decrease was because of reduced collections.

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, 2021, the fiduciary fund's net position was $20,982,025, a $7,016,990 increase from the prior year net position. The increase was due to an increase in loan claims during 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, 2021 consisted of $736,431,231 in outstanding guarantees and $172,509,799 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.

Per Dear Colleague Letter GEN-21-03, guarantors were directed to halt collection of defaulted student loans and set interest rates to 0% through at least September 30, 2021 due to the COVID-19 National Emergency. The change was retroactive to March 13, 2020, requiring refunds of all involuntary payments and accrued interest. August 6, 2021, the Biden Administration extended the collection pause and 0% interest rate until January 31, 2022. On December 22, 2021, the Department extended the payment and collections pause for federally held student loans through May 1, 2022. In February 2022, the Treasury Offset Program (TOP) suspension was extended until November 2022. Subsequently, the Biden Administration issued a Federal Register Notice February 18, 2022, extending the COVID-19 National Emergency until March 1, 2023. The collection pause and 0% interest rate has since been extended twice until December 31, 2022.

During the collection pause, the USDE is allowing guarantors to reimburse their Operating Fund for estimated lost revenue from the Federal Fund. It is very important to maintain balances in the Federal Fund to enable us to continue to pay claims to lenders, pay default aversion fees and reimburse the Federal Government as necessary. The USDE has stated they will not reimburse the Federal Fund to replace what is transferred for lost revenue at this time. They will assist guarantors in prepaying for claims, if it becomes necessary. It is also important to maintain funds in the Operating Fund to pay administrative costs associated with processing and servicing the loans guaranteed by the MSLP. Any loans defaulting during the collection pause are to be assigned to the USDE through a special mandatory assignment, reducing our outstanding defaulted student loan portfolio.

Capital Assets and Other Obligations

Capital Assets

The MSLP's investment in capital assets for its governmental activities as of June 30, 2021 amounted to $1,092,203 (net of accumulated depreciation). This total represents a $369,351 increase in capital assets from 2020. The investment in capital assets includes equipment and updated software.

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, 2021, the MSLP's total other obligations decreased by $6,661 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 2021, the actual charges to appropriations (expenditures) were $7,607,580 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, 2021
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)

	Governmental Activities	
	2021	2020 (As Restated)
ASSETS		
Current Assets:		
Cash and Investments	$ 9,077,812	$ 7,590,372
Receivables:		
Federal:		
Account Maintenance Fee	138,132	155,073
Other Federal Receivables	10,165	236,399
Due from Other Funds	-	8,348,553
Other	20	15
Total Current Assets	9,226,129	16,330,412
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	1,092,203	722,852
Total Noncurrent Assets	1,092,203	722,852
Total Assets	10,318,332	17,053,264
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	1,034	13,377
Accrued Payroll and Related Benefits	33,529	44,885
Compensated Absences Payable	34,723	41,384
Default Aversion Rebate Allowance	-	166,000
Due to Other Funds	287,345	28,069
Total Current Liabilities	356,631	293,715
Total Liabilities	356,631	293,715
Net Position:		
Invested in Capital Assets, Net of Related Debt	1,092,203	722,852
Restricted for:		
Restricted, Student Financial Aid Related Activities	8,869,498	16,036,697
Total Net Position	$ 9,961,701	$ 16,759,549

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, 2021

	Expenses	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs:			
Governmental Activities:			
Loan Guarantee Operations	4,438,645	$ (2,359,296)	$ (6,797,941)
Total Governmental Activities	$ 4,438,645	$ (2,359,296)	(6,797,941)
GENERAL REVENUES			
Miscellaneous			93
Total General Revenues			93
CHANGE IN NET POSITION			(6,797,848)
Net Position - Beginning of Year			16,759,549
NET POSITION - END OF YEAR			$ 9,961,701

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 (As Restated)	Net (Expense) Revenue and Changes in Net Position
Functions/Programs:			
Governmental Activities:			
Loan Guarantee Operations	$ 19,886,027	$ 18,511,955	$ (1,374,072)
Total Governmental Activities	$ 19,886,027	$ 18,511,955	(1,374,072)
GENERAL REVENUES			
Miscellaneous			101
Total General Revenues			101
CHANGE IN NET POSITION (As Restated)			(1,373,971)
Net Position - Beginning of Year			18,133,520
NET POSITION - END OF YEAR (AS RESTATED)			$ 16,759,549

See accompanying Notes to Basic Financial Statements.

MISSOURI DEPARTMENT OF HIGHER EDUCATION AND WORKFORCE DEVELOPMENT
STUDENT LOAN PROGRAM
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Fund (Agency Operating)
ASSETS	
Cash and Investments	$ 9,077,812
Receivables:	
Federal:	
Account Maintenance Fee	138,132
Other Federal Receivables	10,165
Other Receivables	18
Total Assets	$ 9,226,127
LIABILITIES AND FUND BALANCES	
Current Liabilities:	
Accounts Payable	$ 1,033
Accrued Payroll and Benefits	33,529
Due to Other Funds	287,345
Total Liabilities	321,907
Fund Balances	
Restricted for:	
Default Prevention	
Student Financial Aid Related Activities	8,904,220
Total Fund Balances	8,904,220
Total Liabilities and Fund Balances	$ 9,226,127

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, 2021

Total Fund Balances - Total Governmental Funds	$ 8,904,220
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.	1,092,203
Compensated absences are not recognized as liabilities in the governmental funds when the amounts are normally expected to be liquidated with expendable available resources.	(34,722)
Total Net Position - Governmental Activities	$ 9,961,701

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) (As Restated)
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		8,348,553
Total Assets	$	16,330,410
LIABILITIES AND FUND BALANCES		
Current Liabilities:		
Accounts Payable	$	13,377
Accrued Payroll and Benefits		44,885
Due to Other Funds		28,069
Total Liabilities		86,331
Fund Balances		
Restricted for:		
Default Prevention		
Student Financial Aid Related Activities		16,244,079
Total Fund Balances		16,244,079
Total Liabilities and Fund Balances	$	16,330,410

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 (As Restated)	$ 16,244,079
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	$ 16,759,549

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, 2021

	General Fund (Agency Operating)
REVENUES	
Account Maintenance Fee	$ 581,066
Default Aversion Fees	345,658
Guaranty Agency Retention of Collections	(3,490,110)
Teacher Loan Forgiveness	158,748
Interest Income	45,342
Other	93
Total Revenues	(2,359,203)
EXPENDITURES	
Loan Guarantee Operations	4,450,733
Default Aversion Rebate Expense	54,973
Capital Outlay	474,950
Total Expenditures	4,980,656
NET CHANGE IN FUND BALANCES	(7,339,859)
Fund Balance - July 1, 2020	16,244,079
FUND BALANCE - JUNE 30, 2021	$ 8,904,220

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, 2021

Net Change in Fund Balances - Total Governmental Funds		$ (7,339,859)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Depreciation Expense	$ (105,599)	
Capital Outlays	474,950	369,351
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		6,661
Loan Servicer Conversion Fees		
Other Loan Servicer Fees		
Default Aversion Rebate Allowance		165,999
Change in Net Position of Governmental Activities		$ (6,797,848)

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, 2020

	General Fund (Agency Operating) (As Restated)
REVENUES	
Account Maintenance Fee	$ 649,773
Default Aversion Fees	271,839
Guaranty Agency Retention of Collections	15,328,231
Tax Refund/Closed School Reimbursements	933,425
Teacher Loan Forgiveness	1,115,510
Interest Income	213,177
Other	102
Total Revenues	18,512,057
EXPENDITURES	
Loan Guarantee Operations	9,469,515
State Based Aid Programs	10,000,000
Default Aversion Rebate Expense	328,717
Capital Outlay	20,635
Total Expenditures	19,818,867
NET CHANGE IN FUND BALANCES (AS RESTATED)	(1,306,810)
Fund Balance - July 1, 2019	17,550,889
FUND BALANCE - JUNE 30, 2020	$ 16,244,079

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 (As Restated)		$ (1,306,810)
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		$ (1,373,971)

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, 2021

	Private-Purpose Trust Fund (Federal Fund)
ASSETS	
Current Assets:	
Cash and Investments	$ 18,135,300
Due from Federal Government-Reinsurance	2,498,563
Due from Other Funds	345,894
Loan Recoveries Receivable	2,268
Total Current Assets	20,982,025
Total Assets	20,982,025
NET POSITION	
Held in trust for USDE lender claims and default aversion fees	20,982,025
Total Net Position	$ 20,982,025

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) (As Restated)
ASSETS	
Current Assets:	
Cash and Investments	$ 21,994,723
Due from Federal Government-Reinsurance	281,012
Due from Other Funds	28,069
Loan Recoveries Receivable	9,784
Total Current Assets	22,313,588
Total Assets	22,313,588
LIABILITIES	
Current Liabilities:	
Due to Other Funds	8,348,553
Total Current Liabilities	8,348,553
Total Liabilities	8,348,553
NET POSITION	
Held in trust for USDE lender claims and default aversion fees	13,965,035
Total Net Position	$ 13,965,035

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, 2021

	Private-Purpose Trust Fund (Federal Fund)
ADDITIONS	
Federal Reinsurance	$ (441,816)
Loan Recoveries	17,292,910
Interest Income	103,505
Default Aversion Rebate	54,973
Other Income	99
Total Additions	17,009,671
DEDUCTIONS	
Loan Claims	13,218,552
Guaranty Agency Retention of Collections	(3,571,529)
Default Aversion Fees	345,658
Total Deductions	9,992,681
CHANGE IN NET POSITION	7,016,990
Net Position - July 1, 2020	13,965,035
NET POSITION - JUNE 30, 2021	$ 20,982,025

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) (As Restated)
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	33,224,148
Guaranty Agency Retention of Collections	22,928,299
Default Aversion Fees	271,839
Miscellaneous Expense	299
Total Deductions	56,424,585
CHANGE IN NET POSITION	(5,445,240)
Net Position - July 1, 2019	19,410,275
NET POSITION - JUNE 30, 2020	$ 13,965,035

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)

Fund Financial Statements (Continued) –

Government Funds (Continued) –

Guaranty Agency Operating Fund, Referred to as the Agency Operating Fund (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, 2021 and 2020, the OPO of nondefaulted student loans was $736,431,231 and $898,562,137, 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 as follows:

	2021	2020
Outstanding Loans (Original Principal Balance)	$ 736,431,231	$ 898,562,137
Minimum Requirement	1,841,078	2,246,405
Reserve Per Department of Education Guidelines	4,832,669	6,364,968

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 June 30, 2021 and September 30, 2020, the percentage of proceeds for consolidation recoveries was 48.18% and 25.61%, 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:

	2021				
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Accrued Compensated Absences	$ 41,384	$ -	$ 6,661	$ 34,723	$ 34,723

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

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.

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 $54,973 and $328,717 for 2021 and 2020, 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, 2021 and 2020 the allowance for default aversion rebate was $0 and $166,000, respectively.

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.

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 are summarized as follows:

	At Fair Value	
	2021	2020
Governmental Funds		
Deposited with the State Treasurer	$ 9,077,812	$ 7,590,372
Fiduciary Funds		
Deposited with the State Treasurer	18,135,300	21,994,723
Total	$ 27,213,112	$ 29,585,095

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 consisted of:

	2021	2020
Interest Income	$ 148,847	$ 594,145

NOTE 3 CAPITAL ASSETS

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

	2021				
	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Equipment and Furniture	$ 2,301,641	$ 474,950	$ 36,100	$ -	$ 2,740,491
Less: Accumulated Depreciation	1,578,789	105,599	36,100	-	1,648,288
Total	$ 722,852	$ 369,351	$ -	$ -	$ 1,092,203

	2020				
	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Equipment and Furniture	$ 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

NOTE 4 DUE TO OTHER FUNDS/DUE FROM OTHER FUNDS

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

Receivable Fund	Payable Fund	Purpose	2021	2020
FSLRF	AOF	Operating Share of Collections	$ 232,476	
AOF	FSLRF	Operating Share of Collections		$ 8,348,553
FSLRF	AOF	Default Aversion Fees	54,770	28,069
FSLRF	AOF	48 Hour Rule	99	-
			$ 287,345	$ 8,376,622

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, 2021 and 2020 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% of their annual pay. MDHEWD's required contribution rate for the years ended June 30, 2021 and 2020, was 23.51% and 22.68%, 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, 2020 and 2019, 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, 2020 and 2019. At June 30, 2020 and 2019, the State's proportion was 83.30% and 83.13%, 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, 2021.

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 six 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:

	2021	2020
Stafford – Subsidized	$ 163,501,494	$ 185,385,603
Stafford – Unsubsidized	136,450,125	154,080,892
PLUS/SLS	8,408,885	10,781,743
Consolidations	606,345,472	681,516,390
Total	$ 914,705,976	$ 1,031,764,628

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, 2021 and 2020, $11.13 and $11.31 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, 2021 and 2020 were $13,218,552 and $17,217,978, 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, 2021 and 2020, were $13,143,248 and $36,424,722, 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, 2021 and 2020, the MSLP paid $2,385,551 and $7,682,220, 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, 2021 and 2020, 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, 2021 is calculated as follows:

Amount of Guaranteed Student Loans in Repayment	$ 735,833,686
Less: Minimum Federal Government Share – 75%	(551,875,265)
Total	$ 183,958,421

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, 2018 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.

Per Dear Colleague Letter GEN-21-03, guarantors were directed to halt collection of defaulted student loans and set interest rates to 0% through April 30, 2022. The payment pause and 0% interest directive was recently extended to August 31, 2022. It is possible that date will be extended again. Without involuntary collections, the Operating and Federal Funds will decline more quickly.

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

The Missouri General Assembly has implemented a cost of living increase to wages by 2 percent beginning January 1, 2022, and 5.5 percent beginning March 1, 2022 for all state team members, as well as an increased base competitive wage of no less than $15 per hour. These salary increases will affect our Operating Fund going forward.

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.

NOTE 13 PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for the year ended June 30, 2020 have been restated to correct an error in recording the operating share of collections paid by the federal fund to the general fund. As a result of this error, the following changes were made to the Governmental and Federal Funds for the year ending June 30, 2020:

	Governmental Fund	
	Change In Net Position	Change in Fund Balance
Balance, as previsouly presented	$ 6,226,098	$ 6,293,259
Prior-period adjustment	(7,600,069)	(7,600,069)
Balance, as restated	(1,373,971)	(1,306,810)

	Governmental Fund	
	Net Position	Fund Balance
Balance, as previsouly presented	$ 23,636,766	$ 23,844,148
Prior-period adjustment	(7,600,069)	(7,600,069)
Balance, as restated	16,036,697	16,244,079

	Federal Fund	
	Net Position	Change In Net Position
Balance, as previsouly presented	6,364,966	$ (13,045,309)
Prior-period adjustment	7,600,069	7,600,069
Balance, as restated	13,965,035	(5,445,240)

NOTE 14 SUBSEQUENT EVENTS

On March 30, 2021, the U.S. Department of Education (Department) announced a pause on federal student loan interest and principal collections on all defaulted loans in the FFEL Program that are managed by Guarantor Agencies. Due to the ongoing pause, the MDHEWD decided to close the student loan program and sell outstanding receivables to a third-party loan servicer. Effective October 1, 2022, the MDHEWD sold their loan portfolio and closed the loan program.

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, 2021

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget-Positive (Negative)
Expenditures:				
Student Loan Program:				
Personal Service	$ 634,796	$ 634,796	$ 769,223	$ 134,427
Expense and Equipment	2,479,240	2,479,240	881,047	(1,598,193)
Payment of Fees for Collection of Defaulted Loans	8,000,000	8,000,000	2,251,834	(5,748,166)
Payment of Penalties to Federal Government Associated with Late Deposit of Default Collections	500,000	500,000	99	(499,901)
Default Prevention Activities	640,000	640,000	-	(640,000)
Information Technology Consolidation:				
Personal Service	199,432	149,574	-	(149,574)
Expense and Equipment	1	184,625	322,624	137,999
Total Expenditures	$ 12,453,469	$ 12,588,235	$ 4,224,827	$ (8,363,408)
Transfers From (To) Other Funds				
Federal Student Loan Reserve Fund	1,000,000	1,000,000	-	(1,000,000)
Total Transfers From (To) Other Funds	$ 1,000,000	$ 1,000,000	$ -	$ (1,000,000)

RECONCILIATION OF BUDGET BASIS TO GAAP BASIS

Total Expenditures on a Budget Basis	$ 4,224,827
Expenditures Increase (Decrease) Due To:	
Change in Accounts Payable	12,343
Change in Accrued Payroll and Benefits	11,356
Employee Fringe Benefits not Appropriated for MSLP	6,661
Default Aversion Fee Rebate Expense not Appropriated for MSLP	166,000
Discount not Appropriated	559,469
Transfer to Student Financial Aid	-
Total Expenditures on GAAP Basis	$ 4,980,656

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, 2020

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with 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	342,799	(297,201)
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	$ 8,717,265	$ (3,713,860)
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	$ 8,717,265
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	$ 19,818,867
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.

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, 2021

	General (Major) Fund (Agency Operating)
REVENUE	
Account Maintenance Fee	$ 581,066
Default Aversion Fees	345,658
Guaranty Agency Retention of Collections	(3,490,110)
Teacher Loan Forgiveness	158,748
Interest Income	45,342
Other	93
Total Revenues	(2,359,203)
EXPENDITURES	
Personal Service	586,692
Employee Fringe Benefits	342,313
Professional Development	35,370
Guaranty Servicing	2,196,861
Default Aversion Rebate Expense	54,973
Discount Loan Recoveries	559,469
Other Professional Services	854,978
Travel	1,220
Supplies	25,970
Communications Services and Support	11,852
Equipment Expense	323,090
Equipment Repair and Maintenance	(12,318)
48 Hour Transfer	99
Miscellaneous	87
Total Expenditures	4,980,656
NET CHANGE IN FUND BALANCE	(7,339,859)
Fund Balance, July 1, 2020	16,244,079
FUND BALANCE - JUNE 30, 2021	$ 8,904,220

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	15,328,231
Tax Refund/Closed School Reimbursements	933,425
Teacher Loan Forgiveness	1,115,510
Interest Income	213,177
Other	102
Total Revenues	18,512,057
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	512
Total Expenditures	19,818,867
NET CHANGE IN FUND BALANCE	(1,306,810)
Fund Balance, July 1, 2019	17,550,889
FUND BALANCE - JUNE 30, 2020	$ 16,244,079

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*

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

Report on 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) 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2021-01 that we consider to be a material weakness.

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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Missouri Department of Higher Education and Workforce Development Student Loan Program's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Missouri Department of Higher Education and Workforce Development Student Loan Program's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Missouri Department of Higher Education and Workforce Development Student Loan Program's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

CliftonLarsonAllen LLP

St. Louis, Missouri
May 5, 2023

2021-001	Prior period adjustments
Type of Finding or Specific Requirement	Material Weakness in Internal Controls Over Financial Reporting
Criteria, Condition and Context	Governmental Auditing Standards requires Missouri Department of Higher Education and Workforce Development Student Loan Program to establish proper internal controls over financial reporting. During the audit, it was determined that prior period due to and from balances between Governmental and Federal Funds were not property adjusted for payments made the two funds in 2021. As a result, a material misstatement was identified that required correction to prior period balances. As a result, the prior year financial statements were required to be restated.
Cause	Missouri Department of Higher Education and Workforce Development Student Loan Program's, internal controls over financial reporting were not designed to ensure independent review and approval of balance sheet accounts.
Effect	Prior period financial statements were misstated that required restatement to prior period balances for both the Governmental and Fiduciary Funds.
Recommendation	CLA recommends Missouri Department of Higher Education and Workforce Development Student Loan Program', identify when federal programs are available and track federal expenditures to ensure revenue is recognized in the same period eligible expenditures are incurred.
Repeat Finding	No
Views of Responsible Officials	There is no disagreement with the audit finding.