

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.



**STUDENT ASSISTANCE
FOUNDATION OF MONTANA**

FINANCIAL REPORT

JUNE 30, 2019

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	I and 2
MANAGEMENT'S FINANCIAL ANALYSIS	3 through 7
FINANCIAL STATEMENTS	
Statement of Financial Position.....	8 and 9
Statement of Activities.....	10
Statement of Functional Expenses.....	11 and 12
Statement of Cash Flows	13
Notes to Financial Statements.....	14 through 28

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Student Assistance Foundation
of Montana
Helena, Montana

We have audited the accompanying financial statements of Student Assistance Foundation of Montana (the Corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion 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. 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Management's financial analysis on pages 3 through 7, which is the responsibility of management, includes information of a nonaccounting nature and has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 11, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Helena, Montana
September 6, 2019

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS

Year Ended June 30, 2019 with Comparative Consolidated Totals for June 30, 2018

This section of the Student Assistance Foundation of Montana (SAF or the Corporation) annual financial report presents our discussion and analysis of the Corporation's financial performance during the years ended June 30, 2019 and 2018. Please read the following in conjunction with the Corporation's financial statements and accompanying notes.

Overview

SAF was incorporated as a Montana not-for profit organization in July 1999 to provide support services in the form of student loan servicing and management to Montana Higher Education Student Assistance Corporation (MHESAC) and to provide education, outreach and grants to the citizens of Montana in their pursuit of post-secondary education. Initially, SAF serviced loans for MHESAC only, a participant in the Federal Family Education Loan Program (FFELP). However, SAF continued to grow and add multiple clients as well as add new business lines including loan origination, consolidation loan services, private loan servicing, loan warehousing, default prevention services and rehabilitated FFELP loan servicing. This growth necessitated the creation of Tru Student, Inc., a for-profit corporation, which was created in 2009 to provide the same services for clients that were for-profit entities and therefore allowed SAF to stay in compliance with tax governance regarding not-for-profits.

In 2010, the FFELP program was irrevocably changed and from that point on, all federal student loans were originated by the federal government, forsaking the public-private partnership that had previously been the bedrock of the national student loan program. In 2016, after pursuing various strategies, it was decided to close down the SAF and Tru Student loan servicing operations due to the increasing difficulty to make this business line economically feasible given the diminishing portfolios of clients. As a result of this decision, SAF and Tru Student began the process of converting loan portfolios to other servicers. This process was completed in December 2016. As a result, Tru Student was no longer necessary and was therefore legally dissolved in June 2018. The following financial statements therefore are for the single entity of SAF for the fiscal year ending in 2019 but consolidated with Tru Student for the comparative year ending in 2018.

Operational Results

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total Revenue	\$ 3,883,056	\$ 4,640,631
Less Expenses:		
Program Operating Expense	3,363,661	4,309,152
Fundraising Expense	-	85
General and Administrative Expense	<u>329,180</u>	<u>483,490</u>
Change in Net Assets	<u>\$ 190,215</u>	<u>\$ (152,096)</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2019 with Comparative Consolidated Totals for June 30, 2018

Operational Results (Continued)

During the year there was significant impact to the change in net assets from investment activity. As required by generally accepted accounting principles, SAF records not only the actual investment income earned and received but also the gains and losses from changes in market value on the investments relative to the original acquisition cost. The income from the investments is recorded as follows for FY19:

Interest and investment income received	\$ 237,274
Investment market value change	457,835
Income reallocated to deferred revenue escrow account	(337,126)
Investment advisor fees	(15,803)
Internal investment management expense	<u>(7,374)</u>
Net Investment Income	<u>\$ 334,806</u>

In order to see more clearly the result of operations exclusive of investment activity and the one-time impact on the sale of the land, we would need to reduce the change in net assets by the \$334,806 in net investment income and add back the \$269,361 for the loss on the sale of land resulting in net change in assets from operations only of \$124,770.

The cash flow statement shows a net decrease in cash and cash equivalents of over \$14 million due to the shift in corporate strategy from holding cash and cash equivalents to a new investment strategy involving equities and fixed income instruments. As a result, all cash not expected to be used within the next fiscal cycle was invested according to the investment policy. To put these results into context, it is important to read the financial statements and footnotes following this report.

Change in Primary Business Line

The Student Aid and Fiscal Responsibility Act, which was included in the health care reconciliation bill that was signed into law on March 30, 2010, effectively eliminated FFELP, the program in which MHESAC and most of SAF and Tru Student's other clients participated and represented a fundamental change to the public-private partnership that had formed the bedrock of the national student loan program up to this point. This was a huge disruption to the SAF business model. Student loan servicing is a business that relies on large volumes of borrowers on the system to support the infrastructure necessary to provide the service that complies with all regulatory requirements and also provides a fair return to the company for its investment. As the FFELP program was eliminated and with several of our other clients moving to larger servicing platforms, SAF became aware that it could no longer be effective as a student loan servicer. The outcome of the exercise was that SAF and Tru Student would eliminate student loan servicing as a business line. As a result of this decision, the year that ended June 30, 2019, is the second full year that SAF did not service student loans.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2019 with Comparative Consolidated Totals for June 30, 2018

Change in Primary Business Line (Continued)

The final loans were deconverted from SAF's servicing system in December 2016. SAF spent the rest of fiscal year 2017 taking care of the tax reporting requirements for borrowers, responding to borrower inquiries regarding the change in servicers, and working with the Department of Education, the guarantee agencies and multiple state regulatory agencies to bring an orderly close to the student loan servicing line of business.

Shift in Public Purpose Programs Governance and Funding

Beginning July 1, 2016, MHESAC took on the oversight and funding for the outreach, grant and scholarship activity previously delivered by SAF and has rebranded those programs as Reach Higher Montana (RHM). Fiscal year 2019 represents the third complete year that SAF staffed and managed the RHM programs for MHESAC through a services contract with MHESAC. SAF provides these services to RHM at cost plus a 5% mark-up. This new contract represents a business line for SAF during both years of the comparative statements presented and contributed a positive \$54,378 to the SAF change in net assets for the FY19.

Revenue Generating Activities

Although the loan servicing arm of SAF was eliminated in FY17 and Tru Student was dissolved in FY18, SAF still has significant activity to manage. SAF remains the contractual manager of MHESAC with responsibility for administering MHESAC's loan portfolio and bonds outstanding. SAF is also the master servicer of MHESAC's loan portfolio with responsibility for monitoring, measuring and reviewing the servicing that has been placed with Aspire Resources, Inc. as the sub-servicer.

There are a couple of other sources of revenue for SAF. SAF has received and will continue to receive royalty revenue for its lease of servicing rights to another student loan servicer of its direct servicing allocation received in 2012. Royalty revenue totaled \$134,729 in FY19. During the year, SAF entered into a contract to provide accounting services to another small not-for-profit organization. This new contract provided an additional \$2,250 in revenue.

Staffing Levels and Expertise

On July 1, 2018, SAF had a staff of 29 employees equal to 28.6 full-time equivalents (FTE). By the end of the fiscal year, at June 30, 2019, the company had 26 employees equal to 25.6 FTE which management considers to be the core staff required at this time. Any further changes to staff will be determined as both SAF and MHESAC, our managed client, continue to develop their businesses and programs.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2019 with Comparative Consolidated Totals for June 30, 2018

Staffing Levels and Expertise (Continued)

Of the staff that remain at June 30, 2019, fifteen staff are involved in the business operation which includes management and administration of MHESAC and the MHESAC Indenture; oversight of Aspire, the student loan sub-servicer; system maintenance and security; facilities maintenance; strategic planning; accounting; personnel support; and general business maintenance. It also includes staff that are in place to support new SAF business initiatives as they are developed.

An additional staff of eleven is being used to administer Reach Higher Montana and deliver the public purpose programs that are now under the guidance and direction of MHESAC.

Liquidity and Capital Resources

Regarding its business relationship with MHESAC, SAF has entered into an escrow agreement to assure that there will be funds sufficient to meet the costs of servicing and managing the MHESAC trust in the future when the cash generated by the loan portfolio is no longer sufficient to pay its expenses. At June 30, 2019, the balance of the escrow account was \$9,476,267. Due to legal restrictions about the timing and limited allowable use for this account, SAF regards this cash as a restricted asset and also reflects an offsetting liability on its balance sheet as deferred income. This escrow account will continue to grow each year until approximately 2024, which is when it is projected it will be necessary to subsidize the MHESAC servicing and management expense.

During FY18, SAF entered into a buy-sell agreement on the vacant land that it held as an investment. The sale did not close until May 2019 and the selling price reflected an additional price decrease due to geological challenges discovered by the purchaser during the escrow period. As a result, a loss of \$269,361 has been recorded in FY19. The lower selling price reflects the sale of the parcel as a whole, rather than individual lots.

During the year, the SAF investment committee, made up of board members and staff, issued a Request for Proposal for investment advisory services. The committee selected an investment advisor and then proceeded to put an investment strategy in place to seek a more robust return on available assets. As a result of this exercise, SAF has invested three different pools of cash during the year into equities and fixed income investments, depending on the stated goals of each pool. The first pool of funds is a short-term operations pool that is intended to be invested in secure, fixed income investments. The purpose of the pool is for investment in future business efforts as SAF continues its strategic planning process and positioning for new activity. The second pool of funds is a long-term investment pool that is set aside as Board directed funds. These funds are considered to be long-term in nature and are therefore invested more heavily in equities as well as some portion of fixed income instruments.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2019 with Comparative Consolidated Totals for June 30, 2018

Liquidity and Capital Resources (Continued)

The third pool of funds is the long-term pool that is designated by the escrow agreement between SAF and MHESAC. It is anticipated that these funds will not be drawn on until 2024 and are therefore invested for a longer term in higher yielding assets such as equities as well as a balancing investment in fixed income instruments.

In addition to the investments described above, SAF holds cash in the escrow of \$221,917, the Board-restricted account of \$449,196, and SAF operating cash of \$760,798. Management believes that the cash, the new investment position and the revenue from the various contracts it has, puts SAF in a very positive operational position for future use of these funds consistent with its not-for-profit mission and ongoing operations.

Dissolution of Subsidiary

During the previous year, SAF as the sole owner of Tru Student, made the decision to dissolve that corporation since it no longer had any clients or a viable business line. Since the creation of Tru Student in 2010, SAF had capitalized its subsidiary through a series of stock purchases and loans that were subsequently converted to stock. In total, SAF invested \$4,601,777 in Tru Student. SAF management previously adjusted the investment that was reflected on the SAF books from cost basis to fair value. The fair value was determined by a review of the assets held within Tru Student, primarily cash.

Tru Student was dissolved June 27, 2018. Immediately following the beginning of FY19, all Tru Student accounts were closed and SAF was in receipt of the cash remaining.

FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With Comparative Consolidated Totals as of June 30, 2018)

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 760,798	\$ 3,866,453
Cash held for other obligations	449,196	4,362,377
Accounts receivable	33,754	82,812
Interest receivable	26,152	-
Investment in land - available for sale	-	1,075,000
Investments	3,078,994	-
Prepaid costs, net	68,795	79,445
Total current assets	4,417,689	9,466,087
 PROPERTY AND EQUIPMENT, at cost		
Equipment and furniture	1,251,139	1,304,273
Leasehold improvements, net	10,014	8,215
	1,261,153	1,312,488
Less: accumulated depreciation	1,203,730	1,259,071
Total property and equipment	57,423	53,417
 OTHER ASSETS		
Investments held for other obligations	5,065,064	-
Total other assets	5,065,064	-
 OTHER RESTRICTED ASSETS		
Escrow cash/cash equivalents	221,917	7,377,253
Escrow interest receivable	23,938	2,407
Escrow investments	9,230,412	-
Total other restricted assets	9,476,267	7,379,660
 TOTAL ASSETS	\$ 19,016,443	\$ 16,899,164

The Notes to Financial Statements are an integral part of this statement.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENT OF FINANCIAL POSITION (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals as of June 30, 2018)

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 186,122	\$ 439,667
Funds held in trust	161,828	-
Compensated absence liability	319,973	397,799
Total current liabilities	667,923	837,466
LONG-TERM LIABILITIES		
Deferred income	9,476,267	7,379,660
Total long-term liabilities	9,476,267	7,379,660
Total liabilities	10,144,190	8,217,126
NET ASSETS		
Without donor restrictions		
Undesignated	3,491,188	4,319,661
Board-designated reserve for other obligations	5,381,065	4,362,377
Total net assets	8,872,253	8,682,038
TOTAL LIABILITIES AND NET ASSETS	\$ 19,016,443	\$ 16,899,164

The Notes to Financial Statements are an integral part of this statement.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and Support:		
Management & servicing fee income	\$ 4,296,827	\$ 4,931,762
Deferred per escrow agreement	<u>(1,759,481)</u>	<u>(1,702,175)</u>
Net management and servicing fee income	2,537,346	3,229,587
Programs delivery and support income	1,141,954	1,320,898
Royalty income	134,729	220,536
Income from investments		
Investment income, net	334,806	12,647
Write-down of non-operating investment	-	(381,000)
Loss on sale of non-operating investment	(269,361)	-
Gain on sale of property and equipment	-	68,656
Other income	<u>3,582</u>	<u>169,307</u>
Total revenue and support without donor restrictions	<u>3,883,056</u>	<u>4,640,631</u>
Expenses:		
Program Operating Expenses:		
Servicing and Management for MHESAC	2,276,085	2,903,487
Delivery and support of RHM	1,087,576	1,257,266
Other services	-	120,074
Tru Student	<u>-</u>	<u>28,325</u>
Total program operating expenses	<u>3,363,661</u>	<u>4,309,152</u>
Supporting services expense		
Fundraising expenses	-	85
Management and general expenses	<u>329,180</u>	<u>483,490</u>
Total supporting services expenses	<u>329,180</u>	<u>483,575</u>
Total expenses	<u>3,692,841</u>	<u>4,792,727</u>
Change in net assets	190,215	(152,096)
Net assets at the beginning of the year	<u>8,682,038</u>	<u>8,834,134</u>
Net assets at the end of the year	<u>\$ 8,872,253</u>	<u>\$ 8,682,038</u>

The Notes to Financial Statements are an integral part of this statement.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Program Services			Supporting Services	Total
	Servicing and Management for MHESAC	Delivery and Support of RHM	Total Programs	Management and General	
Salaries, payroll taxes and employee benefits	\$ 1,362,895	\$ 996,164	\$ 2,359,059	\$ 227,089	\$ 2,586,148
Automobile	568	588	1,156	105	1,261
Board and officer	-	-	-	13,468	13,468
Computer charges	64,024	17,342	81,366	17,616	98,982
Contract services and labor	6,991	178	7,169	200	7,369
Contract sub-servicing fees	572,618	-	572,618	-	572,618
Depreciation	8,980	9,301	18,281	1,667	19,948
Dues, subscriptions and memberships	7,139	2,366	9,505	1,064	10,569
Income tax expense	-	-	-	50	50
Insurance	31,505	32,631	64,136	26,466	90,602
Mail, postage and courier	542	551	1,093	100	1,193
Office supplies and copier charges	3,142	1,234	4,376	580	4,956
Other costs	6,229	1,613	7,842	1,122	8,964
Printing	35	22	57	8	65
Professional services	73,854	1,661	75,515	9,336	84,851
Rent	93,562	16,214	109,776	17,403	127,179
Repairs, maintenance and service	1,598	264	1,862	297	2,159
Staff travel and training	5,849	1,486	7,335	602	7,937
Telecommunications and utilities	36,554	5,961	42,515	6,892	49,407
Trustee fees	-	-	-	5,115	5,115
Total expenses by function included in the expense section on the statement of activities	<u>\$ 2,276,085</u>	<u>\$ 1,087,576</u>	<u>\$ 3,363,661</u>	<u>\$ 329,180</u>	<u>\$ 3,692,841</u>

The Notes to Financial Statements are an integral part of this statement.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

	Program Services					Supporting Services		
	Servicing and Management for MHESAC	Delivery and Support of RHM	Other Services	Tru Student	Total Programs	Management and General	Fundraising	Total
Salaries, payroll taxes and employee benefits	\$ 1,731,277	\$ 1,128,276	\$ 69,258	\$ 22,387	\$ 2,951,198	\$ 281,052	\$ -	\$ 3,232,250
Automobile	691	709	22	-	1,422	128	-	1,550
Board and officer	-	-	-	-	-	15,835	-	15,835
Computer charges	84,381	17,627	7,076	-	109,084	23,499	-	132,583
Contract services and labor	23,973	2,850	651	1,680	29,154	3,698	-	32,852
Contract sub-servicing fees	649,736	-	26,254	-	675,990	-	-	675,990
Depreciation	22,814	23,421	740	-	46,975	4,231	-	51,206
Dues, subscriptions and memberships	4,889	1,335	182	-	6,406	630	-	7,036
Fundraising expense	-	-	-	-	-	-	85	85
Income tax expense	-	-	-	-	-	1,343	-	1,343
Insurance	55,676	36,334	1,147	-	93,157	10,038	-	103,195
Mail, postage and courier	887	848	33	30	1,798	155	-	1,953
Office supplies and copier charges	2,808	2,402	75	-	5,285	440	-	5,725
Operating lease payments	1,357	129	75	-	1,561	423	-	1,984
Other costs	4,742	2,415	173	307	7,637	749	-	8,386
Printing	240	101	-	-	341	37	-	378
Professional services	106,559	5,852	974	3,921	117,306	101,827	-	219,133
Rent	107,898	17,682	3,506	-	129,086	19,933	-	149,019
Repairs, maintenance and service	5,124	729	166	-	6,019	946	-	6,965
Staff travel and training	15,074	4,603	601	-	20,278	1,805	-	22,083
Telecommunications and utilities	85,361	11,953	4,141	-	101,455	16,721	-	118,176
Trustee fees	-	-	5,000	-	5,000	-	-	5,000
Total expenses by function included in the expense section on the statement of activities	<u>\$ 2,903,487</u>	<u>\$ 1,257,266</u>	<u>\$ 120,074</u>	<u>\$ 28,325</u>	<u>\$ 4,309,152</u>	<u>\$ 483,490</u>	<u>\$ 85</u>	<u>\$ 4,792,727</u>

The Notes to Financial Statements are an integral part of this statement.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 190,215	\$ (152,096)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	19,948	51,206
Leasehold improvement amortization	5,225	234
Net gain on disposal of property and equipment	-	(68,656)
Change in investment values	(197,959)	381,000
Loss on sale of non-operating investment	269,361	-
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Accounts receivables	49,058	54,323
Interest receivable	(47,683)	(828)
Prepaid costs	10,650	11,973
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(253,545)	143,927
Compensated absences	(77,826)	(13,019)
Deferred client income	2,096,607	1,727,665
Funds held in trust	161,828	(144,220)
Net cash flows from operating activities	2,225,879	1,991,509
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(22,155)	(30,469)
Sale of property and equipment	-	70,000
Cash paid for leasehold improvements	(7,024)	(8,449)
Purchase of investments	(17,176,511)	-
Proceeds from sale of investments	805,639	72,933
Net cash flows from investing activities	(16,400,051)	104,015
Net change in cash and cash equivalents	(14,174,172)	2,095,524
Cash and cash equivalents, beginning of year	15,606,083	13,510,559
Cash and cash equivalents, end of year	\$ 1,431,911	\$ 15,606,083
Cash and cash equivalents are reported on the statement of financial position as follows:		
Cash and cash equivalents, current	\$ 760,798	\$ 3,866,453
Cash held for other obligations	449,196	4,362,377
Escrow cash/cash equivalents	221,917	7,377,253
	\$ 1,431,911	\$ 15,606,083

The Notes to Financial Statements are an integral part of this statement.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

Student Assistance Foundation (herein referred to as SAF or the Corporation) is a Montana not-for-profit corporation incorporated in July of 1999 to provide education finance services to Montana students and support services for student financial aid industry participants. SAF was formed as part of a major restructuring plan adopted by the Montana Higher Education Student Assistance Corporation (MHESAC) Board of Directors in response to changes in the student loan industry and in an effort to expand financial aid benefits available to Montana students. As part of this plan, on February 1, 2000, the employees and operating assets of MHESAC were transferred to SAF, and MHESAC contracted with SAF for student loan servicing and management functions. As part of the restructuring of business activity adopted by the SAF Board on June 30, 2016, SAF began the process of exiting the business of providing student loan servicing. This process culminated with the deconversion of the last loan servicing client in December 2016. SAF remains the Master Servicer of MHESAC's student loan portfolio and has subcontracted the day-to-day servicing responsibility with Aspire Resources, Inc. SAF continues to manage the MHESAC business via the management contract in place.

On July 1, 2016, SAF and MHESAC entered into another arrangement where MHESAC would take over the oversight and strategic direction for the public purpose benefit programs previously delivered by SAF. SAF continues to provide the staffing and day to day operation of these programs now under a contract with MHESAC. The programs have been rebranded as Reach Higher Montana (RHM) by MHESAC.

SAF had two affiliates: Montana Student Loan Funding, LLC (MSLF), a limited liability corporation with SAF as the sole member and Tru Student, Inc. (Tru Student), a wholly owned subsidiary.

On June 28, 2003, MSLF was created as a limited liability corporation with SAF as the sole member. The corporation was a bankruptcy remote company that was formed to acquire and originate student loans. MSLF was essentially an inactive company with no assets, liabilities, or activity since June 30, 2012. The dissolution of MSLF was authorized by the board on June 20, 2018.

On December 17, 2009, Tru Student, Inc. (Tru Student) was created as a for-profit corporation and was subsequently merged with TS Merger Corporation on June 11, 2010, but retained the Tru Student, Inc. name. One thousand shares of stock were authorized with a par value of \$0.01 per share. Five hundred shares were issued and outstanding at June 30, 2018, with no outstanding shares at June 30, 2019.

Tru Student functioned as a bankruptcy remote company that performed student loan servicing functions for student loans and some activities related to consumer loans. During the year ended June 30, 2017, Tru Student terminated all servicing contracts, deconverted its serviced loan portfolio and exited loan servicing and related consumer loan activity.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization and Principles of Consolidation (Continued)

In 2018, Tru Student was essentially a dormant company and was dissolved through the Montana Secretary of State on June 27, 2018. The remaining assets were liquidated leaving a cash balance of \$334,506 less a \$10 bank charge, which was transferred to SAF in July 2018.

SAF owned 100% of the common stock issued by Tru Student. The accompanying comparative financial statements include the consolidated accounts and activity of Tru Student in 2018.

Basis of Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board (FASB).

Management's Financial Analysis is not required supplemental information under FASB standards. SAF has chosen to present this information and it precedes the financial statements.

Income Tax Status

SAF is a not-for-profit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3). The Corporation recognized tax due of \$50 for the year ended June 30, 2019, and \$100 due for the year ended June 30, 2018.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. Included in this bill was a provision that specified that amounts incurred for certain qualified transportation benefits, including qualified parking, are now not deductible, even by not-for-profits. SAF leases office space that includes access to a parking lot. Based on guidance issued by the IRS, SAF is under the threshold to incur unrelated business income tax for parking.

MSLF is a Limited Liability Company and is a single member disregarded entity that was created to support the activities of MHESAC, a tax-exempt entity under Internal Revenue Code Section 501(c)(3). During the years ended June 30, 2019 and 2018, MSLF was a dormant company with no activity. Accordingly, no provision for income taxes for this activity is necessary in the accompanying financial statements.

Tru Student was a nonpublic for-profit corporation and accounted for income taxes in accordance with GAAP which requires a tax liability to be recorded for any income tax owed for continuing operations or other taxable activity and disclosure of the significant components of income tax expense. Tru Student recognized tax expense of \$1,243 for the year ended June 30, 2018. Tru Student was dissolved June 27, 2018. Accordingly, no provision for income taxes for year ended June 30, 2019, is necessary in the accompanying financial statements.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued)

Tru Student reported an operating loss of \$35,752 at June 30, 2018. For 2018, Tru Student had a deferred tax benefit resulting from unexpired cumulative net operating loss carryforwards. A valuation allowance equal to the deferred income tax benefit had been established due to the uncertainty of assumptions on financial results during the start-up phase of this entity. The net impact of the deferred income tax benefit and related valuation allowance results in no balances being reported in the accompanying financial statements for this activity.

There are no other significant deferred tax assets or liabilities as of June 30, 2019 or 2018.

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Classification of Net Assets

The Corporation reports information regarding its financial position and activities according to two classes: net assets without donor restrictions and net assets with donor restrictions. The net assets are reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of SAF's management and the board of directors.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of SAF or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. The Corporation had no net assets with donor restrictions at June 30, 2019 and 2018.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents, including restricted cash and cash equivalents and escrow cash and cash equivalents, includes all checking, money market accounts and highly liquid securities with a maturity of three months or less at the date of the purchase.

Functional Allocation of Expenses

The costs of the Corporation's various programs and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy on a square footage basis; equipment depreciation and indirect expenses on a full-time equivalent basis; and salaries, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort by departments. Time and effort is based on a combination of time sheet project direct reporting when practical and a percentage estimate that is preassigned to each department and reviewed during forecasting for each business activity including administration.

Accounts Receivable

Accounts receivable consist primarily of servicing royalty receivables at June 30, 2019, and at June 30, 2018, also includes a receivable from MHESAC. No allowance for uncollectible accounts was recorded for June 30, 2019, and June 30, 2018, for royalty income or servicing fee related receivables as management believes that substantially all accounts are collectible.

Property and Equipment

Equipment is capitalized at cost and depreciated using the straight-line method over estimated lives of 3 to 5 years. Assets acquired with a purchase price less than \$1,000 are expensed in the year purchased. Depreciation expense is \$19,948 and \$51,206 for the years ended June 30, 2019, and 2018 respectively.

Leasehold improvements of \$8,449 were completed on leased property in the year ended June 30, 2018 and of \$7,024 in the year ended June 30, 2019. Amortization of these costs over the life of the lease resulted in expense of \$5,225 and \$234 for years ended June 30, 2019 and June 30, 2018, respectively, leaving a balance of \$10,014 and \$8,215 in leasehold improvements each year.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2019
 (With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investment purchases are recorded at cost. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses less external and direct internal investment expenses. Investment return on escrow investments is deferred in accordance with the escrow agreement.

Prepaid Costs

Expenses which are considered to have future benefits are recorded as prepaid assets. Prepaid costs are amortized over the periods benefited.

NOTE 2. LIQUIDITY AND AVAILABILITY

The following financial assets are expected to be available to support the organization in the year ending June 30, 2020:

Cash and cash equivalents	\$ 760,798
Accounts receivable	33,754
Investments	3,078,994
Interest receivable	26,152
Cash held for other obligations	449,196
Investments held for other obligations	<u>5,065,064</u>
	<u>\$ 9,413,958</u>

The cash and investments held for other obligations are board designated. The board can release these funds for current year liquidity as other obligations are defined including future business efforts identified through strategic planning. Of the total assets for the organization, 99% are financial assets. Of the financial assets, 50% are available to fund the current year operations.

As part of SAF's liquidity management plan, it has a policy to structure its assets to be available to meet the cash needs for general expenditures, liabilities, and other obligations as they come due. SAF invests cash in excess of daily requirements in a money-market sweep account.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 2. LIQUIDITY AND AVAILABILITY (CONTINUED)

An investment policy was developed and an investment committee formed. The committee has contracted with an investment advisor to invest excess funds to meet the current financial needs of the corporation and plan for future endeavors. Excess cash beyond current needs is in investments including U.S. Government obligations, corporate bonds, equity stocks, exchange traded funds, equity funds, and real estate investment trusts.

The majority of SAF's operating funds are received in advance from its primary client, MHESAC, for services to be provided monthly. Management and loan servicing is reimbursed on a cost plus 15% basis except for servicing fees, which are reimbursed at cost. Program delivery and administration is reimbursed on a cost plus 5% basis. This arrangement allows SAF to meet the majority of its operating expenses with current inflow of cash and reduce the use of funds accumulated from prior years.

SAF routinely forecasts 12 months in advance and monitors its liquidity quarterly as it completes each quarterly update of the rolling forecast.

NOTE 3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash deposits. SAF maintains cash deposits at three financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts and noninterest-bearing accounts.

At June 30, 2019, the carrying amount of those deposits was \$1,287,632 and the bank balance was \$1,290,933 with \$769,960 in excess of FDIC insured limits. At June 30, 2018, the carrying amount of those deposits was \$15,605,783 and the bank balance was \$15,625,661 with \$14,875,661 in excess of FDIC insured limits.

NOTE 4. FAIR VALUE MEASUREMENTS

The Corporation follows the guidance established for measuring fair value under GAAP and related disclosure requirements. Fair value is defined by GAAP as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal or most advantageous market for the specific asset or liability.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurement assumes the highest and best use of the asset by market participants and requires valuation techniques that maximize use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy prioritizes valuation input into three broad levels.

- Level 1 – Quoted prices in active markets for identical assets or liabilities to which the organization has access at the measurement date.
- Level 2 – Significant observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or inputs other than quoted prices that are observable or can be corroborated by observable market data. This level input must be observable for substantially the full term of the assets or liabilities;
- Level 3 – Significant unobservable inputs for situations in which there is little, if any, market activity.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the methodologies used at June 30, 2019, and there were no transfers between levels.

Common stocks and real estate investment trusts: Valued at the closing price on the active market in which the individual securities are traded.

Mutual and exchange-traded funds: Valued at the daily closing price as reported by the fund. Mutual funds held by SAF are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.

Corporate and government obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing values on current yields of comparable securities of issuers with similar credit ratings.

A significant portion of our investment assets are classified within Level 1 because they are comprised of equity stocks, exchange traded and equity funds, and real estate investment trusts with readily determinable fair values based on daily market transactions. SAF invests in U.S. government obligations and corporate bonds that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

The only investment held at the end of 2018 was Investment in land-available for sale with a fair value of \$1,075,000 at June 30, 2018, with a related cost of \$1,005,198. The fair value measurement used for this valuation was Level 2 – significant other observable input in the form of a buy-sell agreement at June 30, 2018. The land was sold in 2019. Net proceeds were \$805,639, resulting in a realized loss of \$269,361.

Investments are made by investment managers whose performance is monitored by SAF and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, SAF and the investment committee believe that the investment policy and guidelines are prudent for the long-term welfare of the organization.

At June 30, 2019, the Corporation had investments consisting of the following:

	Fair value measurements at report date using		
<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
Short-term investments			
U.S. Government obligations	\$ 1,041,992	\$ -	\$ 1,041,992
Corporate bonds	580,562	-	580,562
Equity stocks	596,528	596,528	-
Exchange traded funds	701,560	701,560	-
Equity funds	139,844	139,844	-
Real estate investment trusts	<u>18,508</u>	<u>18,508</u>	-
	3,078,994	1,456,440	<u>1,622,554</u>
Investments held for other obligations			
U.S. Government obligations	885,845	-	885,845
Corporate bonds	429,509	-	429,509
Equity stocks	2,696,874	2,696,874	-
Exchange traded funds	587,549	587,549	-
Equity funds	387,489	387,489	-
Real estate investment trusts	<u>77,798</u>	<u>77,798</u>	-
	5,065,064	3,749,710	<u>1,315,354</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair value measurements at report date using		
<u>Total</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	
Escrow investments			
U.S. Government obligations	1,443,140	-	1,443,140
Corporate bonds	777,068	-	777,068
Equity stocks	5,066,024	5,066,024	-
Exchange traded funds	1,084,725	1,084,725	-
Equity funds	708,470	708,470	-
Real estate investment trusts	<u>150,985</u>	<u>150,985</u>	-
	<u>9,230,412</u>	<u>7,010,204</u>	<u>2,220,208</u>
Total Investments	<u>\$17,374,470</u>	<u>\$12,216,354</u>	<u>\$5,158,116</u>

Components of investment income include the following:

	<u>2019</u>	<u>2018</u>
Interest and investment income	\$ 237,274	\$ 14,247
Investment market value change	457,835	-
Investment expenses	(23,177)	(1,600)
Investment income on escrow to deferred revenue, net	<u>(337,126)</u>	<u>-</u>
Investment income, net	334,806	12,647
Write-down of non-operating investment	-	(381,100)
Loss on sale of non-operating investments	<u>(269,361)</u>	<u>-</u>
Income from investments	<u>\$ 65,445</u>	<u>\$ (368,353)</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 5. OPERATING LEASE

At June 30, 2019, the Corporation had one lease for office space that is classified as an operating lease. At June 30, 2018, the Corporation had two leases classified as operating leases for office space. Total rent expense on such leases for the fiscal years ended June 30, 2019 and 2018, was \$125,184 and \$145,112, respectively.

As of June 30, 2019, the future minimum lease payment under an operating lease with an initial or remaining term in excess of one year is as follows:

2020	\$ 125,184
2021	114,752

NOTE 6. RETIREMENT PLAN

Effective February 1, 2000, the MHESAC 403(b) Tax Sheltered Investment Program was amended and renamed the Student Assistance Foundation of Montana 403(b) Tax Sheltered Investment Program. In June 2010, the Student Assistance Foundation of Montana 401(k) Plan was adopted and the 403(b) plan “frozen” with no additional contributions allowed to that plan. As with the 403(b) plan, the 401(k) plan is a defined contribution pension plan and covers all employees working at least 20 hours per week. Employees may contribute to the 401(k) plan immediately upon employment. After a six-month waiting period, the Corporation matches each participant’s contribution up to six percent of the participant’s salary. Prior to January 1, 2018 the match was five percent.

SAF incurred pension costs of \$116,537 in the year ended June 30, 2019, and \$132,240 in the year ended June 30, 2018. Tru Student adopted the SAF 401(k) plan for Tru Student employees at inception. Tru Student incurred pension costs of \$1,171 in the year ended June 30, 2018.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Management and Servicing Agreements

SAF has entered into management and servicing agreements with MHESAC. SAF provides portfolio master servicing for a term equal to the life of each of MHESAC’s related financings. As part of the restructuring of business activity adopted by the SAF Board on July 1, 2016, SAF has exited the business of providing the day to day student loan servicing and has subcontracted MHESAC servicing with Aspire Resources, Inc. SAF continues to manage the MHESAC business via the management contract in place.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Servicing Agreements (Continued)

The cost of these services is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreements plus fifteen percent of these costs subject to certain minimums and maximums at different periods over the life of the contract.

By contract, the fees are payable in advance for each month. Therefore, an estimate is made of anticipated cost levels and SAF bills MHESAC on that basis with a final adjustment to the advance billing based on actual expenses incurred.

During the years ended June 30, 2019 and 2018, SAF billed MHESAC \$4,324,775 and \$4,931,762, respectively. At June 30, 2019 and 2018, the reconciliation for billed and actual management and servicing fees resulted in a balance payable to MHESAC and a balance receivable from MHESAC of \$52,712 and \$9,151, respectively. These balances are included in 2019 and 2018 client payables and receivables, respectively.

Escrow Agreement

SAF has entered into an escrow agreement with MHESAC in order to assure there will be sufficient funds to pay future monthly management and servicing fees. An escrow account was established for the purpose of receiving and holding escrow property. Wells Fargo Bank was originally appointed as the escrow agent and was authorized and directed to hold and invest the escrow property. All interest and other earnings on the escrow property were deposited in the escrow account. During the fiscal year that ended June 30, 2019, Wells Fargo Bank chose to discontinue serving as Escrow agent given the decision to move escrow property into an independent investment account and gave notice to terminate the escrow agreement effective February 2019. First Security Bank of Helena was appointed as the new escrow agent and is authorized and directed to hold and forward escrow property to be invested in an independent investment account.

Deposits made monthly into the escrow account represent the amount, if any, by which the monthly billing to MHESAC (at 60 basis points annually of the outstanding student loan portfolio) exceeds the actual allocated costs of SAF in performing its duties and obligations under the contracts for management and master servicing.

In September 2016, an initial deposit from MHESAC of \$4,976,034 was made into the escrow account. The deposit was a calculated amount based on cash flow projections from the MHESAC Indenture. The amount represents an initial balance that, when added to expected increases to the escrow in the coming years, will ensure sufficient funds to pay for servicing and management in future years when the MHESAC portfolio has amortized to the point where it no longer produces sufficient cash to cover its servicing and management obligations.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreement (Continued)

Additions to the SAF escrow are from amounts collected from MHESAC in excess of the monthly management and servicing fees based on the allocated costs plus 15%.

Following is a summary of the change in the SAF escrow at June 30:

	<u>2019</u>	<u>2018</u>
Interest and investment income	\$ 130,366	\$ 25,490
Investment market value change	215,870	-
Investment expenses	<u>(9,111)</u>	<u>-</u>
Investment income, net	337,125	25,490
Escrow, beginning balance	7,379,660	5,651,995
Addition to escrow in excess of monthly management and servicing fees	<u>1,759,482</u>	<u>1,702,175</u>
Escrow, fair value ending balance	<u>\$ 9,476,267</u>	<u>\$ 7,379,660</u>

A summary of the escrow balance between the principal excess management and servicing fees added plus net investment income over the life of the agreement at June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Escrow balance – principal	\$ 9,106,867	\$ 7,347,385
Investment income, net	<u>369,400</u>	<u>32,275</u>
Escrow, fair value total	<u>\$ 9,476,267</u>	<u>\$ 7,379,660</u>

During the years ended June 30, 2019 and 2018, there was an offsetting deferred income amount with a fair value balance of \$9,476,267 and \$7,379,660, respectively. The escrow funds will be used to supplement the cash available from the MHESAC Indenture in future years when a shortfall is expected between the cash available from the Indenture and the actual costs of providing master servicer and management services per the contracts between SAF and MHESAC.

Management and Support Agreement

On July 1, 2016, SAF entered into a management and support agreement with MHESAC for the MHESAC public purpose initiatives that have been branded as Reach Higher Montana. SAF will provide management services for MHESAC'S Reach Higher Montana Initiative and will arrange and perform the delivery of the programs under the initiative.

The cost of these services to deliver the programs is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreement plus a mark-up of five percent of these costs.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Support Agreement (Continued)

During the year ended June 30, 2019, SAF billed MHESAC \$266,896 for management services and \$865,448 for program delivery. During the year ended June 30, 2018, SAF billed MHESAC \$289,402 for management services and \$989,485 for program delivery of the Reach Higher Montana initiatives. At June 30, 2019 and 2018 the reconciliation for billed and actual management and program delivery resulted in a net balance receivable from MHESAC of \$31,475 and \$42,012, respectively.

Group Benefits Plan

SAF provides a medical and dental insurance coverage plan for its employees. Effective July 1, 2018, SAF opted for level pay plan of medical coverage with Cigna. Effective July 1, 2016, SAF chose dental, vision, and life insurance plans with Guardian.

Unemployment

SAF is a reimbursable employer and reimburses the Montana Unemployment Insurance Division for terminated staff who qualify for unemployment benefits. Terminated staff who qualify for unemployment may be eligible for up to 28 weeks of benefits. The look back period for benefits is one year. During the year ended June 30, 2019, SAF incurred \$5,270 in unemployment benefit charges and had an estimated payable at June 30, 2019, of \$9,486 related to probable additional unemployment benefits. During the year ended June 30, 2018, SAF incurred \$53,725 in unemployment benefit charges with no remaining estimated payable related to probable additional unemployment benefits.

Remote Services Agreement

On February 1, 2001, SAF entered into an agreement with the Pennsylvania Higher Education Assistance Agency (PHEAA) for remote system access for the effective computer processing of loans serviced by SAF. The agreement required PHEAA to maintain the remote system in accordance with Title IV of the Higher Education Act of 1965, as amended. Subsequent amendments to the original agreement on February 1, 2004, extend the term of the agreement through January 31, 2015. As part of that agreement PHEAA provided access to the information on the system though SAF no longer actively used the report system for student loan servicing activity. This limited access allowed SAF use of the system for various clean up functions after the deconversions of SAF student loan clients. Fees for access and maintenance of the remote system were fixed since there was no active servicing being performed. Effective June 2018, SAF no longer has access to the remote PHEAA Compass system. However, PHEAA continues to act as back-up third party servicer for certain loans based on an agreement originally dated November 9, 2011 and renewed in July 2017.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 8. RELATED PARTY TRANSACTIONS

SAF Relationship with MHESAC

On February 1, 2000, SAF entered into an agreement with MHESAC to provide management and servicing functions to MHESAC as described in Note 7. Additionally, on July 1, 2016, SAF entered into an agreement with MHESAC to provide staffing and operational services to Reach Higher Montana, a division of MHESAC. During fiscal year 2019, SAF had two of its five board members in common with MHESAC's seven board members.

Effective February 1, 2000, MHESAC transferred, for fair value, all of its operations and non-financial assets, including personnel, all furniture and equipment, as well as its interest in the office building and land, to SAF.

SAF Relationship with Tru Student

Since the formation of Tru Student in 2010 through June 30, 2017, SAF capitalized its subsidiary through a series of stock purchases, loans and conversion of loans to stock. In total, Tru Student was capitalized in a total amount of \$4,601,777 by SAF. During the fiscal year that ended June 30, 2017, the operations of Tru Student were substantially discontinued and was essentially a dormant company.

As a result, SAF decided to write down its investment in Tru Student to the amount that was realizable from its investments, essentially the remaining cash less known liabilities. On April 30, 2017, SAF recognized a \$4,262,615 loss in their investment in Tru Student and an additional \$4,666 loss during the fiscal year 2018. This inter-company activity is eliminated in the consolidated financial statements.

The organization was officially dissolved by the Montana Secretary of State in June 2018.

Shared Cost Agreements

The Corporation had a sublease and shared cost agreement with Montana Guaranteed Student Loan Program (MGSLP) and Office of the Commissioner of Higher Education (OCHE), both agencies of the Board of Regents of Montana. The costs shared are primarily related to computer operations, personnel, and building operations. On June 30, 2017, at the closing of the sale of the building, SAF assigned the leases to the new building owner. The new owner assumed all rights and obligations pursuant to the leases. SAF continued shared cost agreements with MGSLP for computer operations through January 2018 at which time these agreements ended.

The shared cost amounts were as follows for the year ended June 30, 2018:

Shared Costs	
Payments from:	
MGSLP	\$ 96,162
OCHE	10,582

STUDENT ASSISTANCE FOUNDATION OF MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019
(With Comparative Consolidated Totals for the Year Ended June 30, 2018)

NOTE 9. RISK MANAGEMENT

SAF faces a number of risks of loss, including a) damage to and loss of property, b) employee torts, c) professional liability, i.e. errors and omissions, and d) workers' compensation. A variety of methods are used to provide insurance for these risks. Commercial policies transferring all risks of loss except for relatively small deductible amounts are purchased for property damage, employee torts, and professional liabilities. SAF participates in a state-wide workers' compensation plan.

NOTE 10. MAJOR CUSTOMER

Fees from MHESAC accounted for 95% and 98% of SAF's total revenues for years ended June 30, 2019 and 2018, respectively. There was \$17,549 payable to and \$64,781 receivable from MHESAC outstanding at June 30, 2019 and 2018, respectively.

NOTE 11. SUBSEQUENT EVENTS

The final steps in the dissolution of MSLF are in process at June 30, 2019, and will be completed in fiscal year 2020.

SAF is undergoing a process to explore renaming and rebranding the company in fiscal year 2020.

Management has evaluated subsequent events through September 6, 2019, the date which the financial statements were available for issue and did not identify any further events to disclose.