STUDENT ASSISTANCE FOUNDATION OF MONTANA

FINANCIAL REPORT

JUNE 30, 2020

C O N T E N T S

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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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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, 2020, 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 6, 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.

Anderson ZurMuehlen & Co., P.C.

Helena, Montana
September 11, 2020

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, 2020 and 2019. 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 eliminate 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.

Operational Results

	June 30, 2020	June 30, 2019
Total Revenue	**$ 3,974,644**	$ 3,883,056
Less Expenses:		
Program Operating Expense	**3,326,903**	3,363,661
General and Administrative Expense	**316,058**	329,180
Change in Net Assets	**$ 331,683**	$ 190,215

Operational Results (Continued)

During the year a significant amount of the change in net assets was generated through 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 FY20:

Interest and investment income received	$ 537,541
Realized gain/(loss) on sale of investment	(185,020)
Investment market value change	114,511
Income reallocated to deferred revenue escrow account	(120,198)
Investment advisor fees	(87,673)
Net Investment Income	$ 259,161

In order to see more clearly the result of operations exclusive of investment activity we would need to reduce the change in net assets by the $259,161 in net investment income resulting in net change in assets from operations only of $72,812.

The cash flow statement shows a net increase in cash and cash equivalents of just under $1 million. This is due to the length of time cash is held by our financial advisors before investment in either equities or fixed income instruments. The equities market was very erratic during the last four months of the year and as a result, reinvestment of investment proceeds or investment of new infusions of cash were held a little longer while deciding and timing our strategy for deploying the cash into a particular investment. To put these results into context, it is important to read the financial statements and footnotes following this analysis.

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. Income derived from management and master servicer responsibilities totaled $2,356,776. Additionally, SAF provides all of the staffing and administrative support for MHESAC's public benefit arm, Reach Higher Montana (RHM). SAF earned $1,174,090 for supporting RHM.

There are some other sources of revenue for SAF. SAF received royalty revenue for its lease of federal direct loan servicing rights to another student loan servicer through March 2020. Royalty revenue totaled $108,066 in FY20. That contract was not renewed by the servicer and royalty revenue ceased April 2020. SAF provided project management services to other organizations for which SAF received $67,289 in income during the year. SAF provides accounting services to another small not-for-profit organization.

Revenue Generating Activities (Continued)

This contract provided an additional $3,000 in revenue. Finally, there was a small amount of non-recurring miscellaneous income in the amount of $6,262.

Staffing Levels and Expertise

On July 1, 2019, SAF had a staff of 26 employees equal to 25.6 full-time equivalents (FTE). By the end of the fiscal year, at June 30, 2020, the company had 27 employees equal to 26.6 FTE which management considers to be the core staff required at this time. After a planned retirement of one person in July 2020, any further changes to staff will be determined as both SAF and MHESAC, our managed client, continue to develop their businesses and programs.

Of the staff that remain at June 30, 2020, 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 twelve was 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 MHESAC's loan portfolio is no longer sufficient to pay its expenses. At June 30, 2020, the balance of the escrow account was $11,028,344. 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.

In FY19, 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 proceeded to put an investment strategy in place to seek a more robust return on available assets. As a result of this exercise, SAF invested three different pools of cash in FY19 into equities and fixed income investments, depending on the stated goals of each pool. The investment activity continued throughout FY20. 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.

Liquidity and Capital Resources (Continued)

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.

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 $839,681, the Board-restricted account of $373,315, and SAF operating cash of $1,071,850. Management believes that the cash, the 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.

Impact of COVID-19 Pandemic

Beginning in February 2020 and continuing through the end of the fiscal year, SAF was forced to deal with the Covid-19 pandemic as were most companies throughout the country. Due to the strength of the SAF revenue contracts and the nature of the business, SAF's revenue lines were not impacted. Additionally, SAF was able to transition staff to work from home arrangements even before the statewide quarantine order was put in place for non-essential workers. Because of these two things, SAF was able to continue all business functions remotely but also timely and completely. It was not necessary to reduce staff either permanently or through temporary furlough. Due to the minimal impact on the business of SAF, management, supported by the board of directors, declined to apply for any of the stimulus funds made available by the CARES act for businesses that were significantly impacted by the pandemic.

The various investment pools that SAF has were more directly impacted by the economic reaction to the pandemic. Two of the investment pools, the escrow account and the board-directed investment account are both long-term in nature. As such, they are both invested heavily in equities which reacted to the downturn and subsequent recovery of the stock markets. From the peak of the equities market in February to the low point reached in March, the escrow account and the board directed account decreased in value by approximately 23%. Since that low point to the end of the year, they increased by 22%. At the end of the year, both accounts were still down 6% from their peak value. The short-term investment account which is more heavily invested in fixed term investments saw much less dramatic swings in value. From the peak in March to the low later that month, the account lost almost 10% in value. However, from the low point to the end of the year the account gained almost 12% in value, ending the year at a higher value than the mid-year peak.

F I N A N C I A L   S T A T E M E N T S

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,071,850**	$ 905,077
Accounts receivable	**207,332**	33,754
Interest receivable	**25,793**	26,152
Investments	**3,124,111**	3,078,994
Prepaid costs, net	**111,938**	68,795
Total current assets	**4,541,024**	4,112,772
PROPERTY AND EQUIPMENT, at cost		
Equipment and furniture	**1,095,570**	1,251,139
Leasehold improvements, net	**4,790**	10,014
	1,100,360	1,261,153
Less: accumulated depreciation	**1,014,323**	1,203,730
Total property and equipment	**86,037**	57,423
OTHER ASSETS		
Cash and cash equivalents held for other obligations	**373,315**	304,917
Investments held for other obligations	**5,054,307**	5,065,064
Total other assets	**5,427,622**	5,369,981
OTHER RESTRICTED ASSETS		
Escrow cash and cash equivalents	**839,681**	77,638
Escrow interest and funds receivable	**172,950**	168,217
Escrow investments	**10,015,713**	9,230,412
Total other restricted assets	**11,028,344**	9,476,267
TOTAL ASSETS	**$ 21,083,027**	$ 19,016,443

The Notes to Financial Statements are an integral part of these statements.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
June 30, 2020 and 2019

	2020	2019
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 345,415**	$ 186,122
Funds held in trust	**147,344**	161,828
Compensated absence liability	**357,998**	319,973
Total current liabilities	**850,757**	667,923
LONG-TERM LIABILITIES		
Deferred income	**11,028,334**	9,476,267
Total long-term liabilities	**11,028,334**	9,476,267
Total liabilities	**11,879,091**	10,144,190
NET ASSETS		
Without donor restrictions		
Undesignated	**3,764,791**	3,491,188
Board-designated reserve for other obligations	**5,439,145**	5,381,065
Total net assets	**9,203,936**	8,872,253
TOTAL LIABILITIES AND NET ASSETS	**$ 21,083,027**	$ 19,016,443

The Notes to Financial Statements are an integral part of these statements.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2020 and 2019

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support:		
Management & servicing fee income	**$ 3,788,645**	$ 4,296,827
Deferred per escrow agreement	**(1,431,869)**	(1,759,481)
Net management and servicing fee income	**2,356,776**	2,537,346
Programs delivery and support income	**1,174,090**	1,141,954
Royalty income	**108,066**	134,729
Income from investments		
Investment income, net	**259,161**	334,806
Loss on sale of non-operating investment	**-**	(269,361)
Other income	**76,551**	3,582
Total revenue and support without donor restrictions	**3,974,644**	3,883,056
Expenses:		
Program operating expenses:		
Servicing and management for MHESAC	**2,116,157**	2,276,085
Delivery and support of RHM	**1,118,181**	1,087,576
Other services	**92,565**	-
Total program operating expenses	**3,326,903**	3,363,661
Supporting services expense		
Management and general expenses	**316,058**	329,180
Total supporting services expenses	**316,058**	329,180
Total expenses	**3,642,961**	3,692,841
Change in net assets	**331,683**	190,215
Net assets at the beginning of the year	**8,872,253**	8,682,038
Net assets at the end of the year	**$ 9,203,936**	$ 8,872,253

The Notes to Financial Statements are an integral part of these statements.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020

	Program Operating				Supporting Services	
	Servicing and Management for MHESAC	Delivery and Support of RHM	Other Services	Total Program Operating	Management and General	Total
Salaries, payroll taxes and employee benefits	$ 1,270,774	$ 1,024,869	$ 85,895	$ 2,381,538	$ 207,639	**$ 2,589,177**
Automobile	1,034	1,125	-	2,159	196	**2,355**
Board and officer	-	-	-	-	10,291	**10,291**
Computer charges	60,772	17,818	570	79,160	15,698	**94,858**
Contract services and labor	4,877	-	-	4,877	-	**4,877**
Contract sub-servicing fees	522,028	-	5,900	527,928	-	**527,928**
Depreciation	9,058	9,862	-	18,920	1,716	**20,636**
Dues, subscriptions and memberships	5,291	1,014	-	6,305	716	**7,021**
Insurance	30,774	33,504	-	64,278	24,039	**88,317**
Mail, postage and courier	682	743	-	1,425	129	**1,554**
Office supplies and copier charges	4,885	908	-	5,793	919	**6,712**
Other costs	5,786	1,232	-	7,018	1,008	**8,026**
Printing	241	108	-	349	37	**386**
Professional services	63,210	1,699	-	64,909	27,630	**92,539**
Rent	92,967	17,085	-	110,052	17,587	**127,639**
Staff travel and training	9,608	2,077	200	11,885	1,788	**13,673**
Telecommunications and utilities	34,170	6,137	-	40,307	6,375	**46,682**
Trustee fees	-	-	-	-	290	**290**
Total expenses by function included in the expense section on the statement of activities	$ 2,116,157	$ 1,118,181	$ 92,565	$ 3,326,903	$ 316,058	**$ 3,642,961**

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 Operating			Supporting Services	
	Servicing and Management for MHESAC	Delivery and Support of RHM	Total Program Operating	Management and General	Total
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	$ 2,276,085	$ 1,087,576	$ 3,363,661	$ 329,180	**$ 3,692,841**

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ 331,683**	$ 190,215
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	**20,636**	19,948
Leasehold improvement amortization	**5,224**	5,225
Change in investment values	**625,339**	(197,959)
Loss on sale of non-operating investment	**-**	269,361
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Accounts receivables	**(173,578)**	49,058
Funds due to escrow investments	**(2,915)**	(144,279)
Interest receivable	**(1,459)**	(47,683)
Prepaid costs	**(43,143)**	10,650
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	**159,293**	(253,545)
Compensated absences	**38,025**	(77,826)
Deferred client income	**1,552,067**	2,096,607
Funds held in trust	**(14,484)**	161,828
Net cash flows from operating activities	**2,496,688**	2,081,600
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	**(54,474)**	(22,155)
Cash paid for leasehold improvements	**-**	(7,024)
Purchase of investments	**(1,445,000)**	(17,176,511)
Proceeds from sale of investments	**-**	805,639
Net cash flows from investing activities	**(1,499,474)**	(16,400,051)
Net change in cash and cash equivalents	**997,214**	(14,318,451)
Cash and cash equivalents, beginning of year	**1,287,632**	15,606,083
Cash and cash equivalents, end of year	**$ 2,284,846**	$ 1,287,632
Cash and cash equivalents are reported on the statement of financial position as follows:		
Cash and cash equivalents, current	**$ 1,071,850**	$ 905,077
Cash held for other obligations	**373,315**	304,917
Escrow cash/cash equivalents	**839,681**	77,638
	$ 2,284,846	$ 1,287,632

The Notes to Financial Statements are an integral part of these statements.

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 an affiliate during the year. Montana Student Loan Funding, LLC (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, and it was dissolved through the Montana Secretary of State on September 18, 2019.

SAF underwent a process to explore renaming and rebranding the company in the fiscal year that ended June 30, 2020. To that end, SAF filed a dba with the State of Montana for Workmosis in February 2020. In the future, all operating revenue not directly related to support of MHESAC or RHM will be conducted under the name Workmosis. Due to the pandemic, SAF has not yet rolled out its marketing plan for Workmosis and expects that to happen in fiscal year 2021.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $0 for the year ended June 30, 2020, and $50 due for the year ended June 30, 2019.

There are no other significant deferred tax assets or liabilities as of June 30, 2020 or 2019.

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, whereby 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, 2020 and 2019.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consists primarily of payment due to the Corporation from its previous loan servicing system provider related to an error to borrower accounts created by a coding problem in the system. The cash received will then be paid to the impacted borrowers and clients that SAF used to service. Payables have also been recorded to reflect the amounts that will be paid to those parties. There are also receivables from MHESAC and project services clients at June 30, 2020. No allowance for uncollectible accounts was recorded for June 30, 2020, and June 30, 2019, 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 $20,636 and $19,948 for the years ended June 30, 2020, and 2019 respectively.

Leasehold improvements of $15,472 were made on leased property. Amortization of these costs over the life of the lease resulted in expense of $5,224 and $5,225 for years ended June 30, 2020 and June 30, 2019, respectively, leaving a balance of $4,790 and $10,014 in leasehold improvements each year.

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.

Revenue and Revenue Recognition

Revenue for contracts related to management and servicing fees along with programs delivery and support are recognized on a monthly basis as expenses are incurred. The revenue varies over time due to the cost-plus nature of the contracts. Performance obligations, which mainly revolve around day-to-day management, are satisfied on an ongoing basis. These contracts are described further in Note 7 Commitments and Contingencies.

Royalty income was variable over time and was based on the monthly borrower count. The royalty contract ended March 31, 2020. Project services revenue and financial services revenue is recognized as services are provided on a monthly basis.

New Accounting Standard

The Company adopted the following Accounting Standards Update (ASU) in fiscal year 2020:

> ASU 2014-09, *Revenue from Contracts with Customers (Topic 606) including the subsequent revisions (collectively referred to as Topic 606)*. These accounting standards supersede or replace nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. There is minimal change to presentation in these financial statements. Any changes have been applied retrospectively to all periods presented, with no effect on net assets.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications do not affect prior year net income and net assets as reported in the prior year financial statements.

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 and 2019:

	2020	2019
Cash and cash equivalents	$ 1,071,850	$ 760,798
Accounts receivable	207,332	33,754
Investments	3,124,111	3,078,994
Interest receivable	25,793	26,152
Cash held for other obligations	373,315	449,196
Investments held for other obligations	5,054,307	5,065,064
	$ 9,856,708	$ 9,413,958

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 Corporation, 99% are financial assets. Of the financial assets, 47% 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.

In 2018, 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, 2020, the carrying amount of those deposits was $2,284,846 and the bank balance was $2,284,771 with $1,779,787 in excess of FDIC insured limits. 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.

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.

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, 2020, and there were no transfers between levels.

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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.

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

At June 30, 2020, the Corporation had investments consisting of the following:

		Fair value measurements at report date using	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Short-term investments			
U.S. Government obligations	**$ 760,937**	$ -	$ 760,937
Corporate bonds	**822,719**	-	822,719
Equity stocks	**636,505**	636,505	-
Exchange traded funds	**739,708**	739,708	-
Equity funds	**155,715**	155,715	-
Real estate investment trusts	**8,527**	8,527	-
	3,124,111	1,540,455	1,583,656
Investments held for other obligations			
U.S. Government obligations	**490,897**	-	490,897
Corporate bonds	**540,503**	-	540,503
Equity stocks	**2,949,670**	2,949,670	-
Exchange traded funds	**622,584**	622,584	-
Equity funds	**410,862**	410,862	-
Real estate investment trusts	**39,791**	39,791	-
	5,054,307	4,022,907	1,031,400
Escrow investments			
U.S. Government obligations	**941,044**	-	941,044
Corporate bonds	**1,080,267**	-	1,080,267
Equity stocks	**5,861,650**	5,861,650	-
Exchange traded funds	**1,260,437**	1,260,437	-
Equity funds	**793,444**	793,444	-
Real estate investment trusts	**78,871**	78,871	-
	10,015,713	7,994,402	2,021,311
Total Investments	**$18,194,131**	$ 13,557,764	$4,636,367

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

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

		Fair value measurements at report date using	
	Total	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	**18,508**	18,508	-
	3,078,994	1,456,440	1,622,554
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	**77,798**	77,798	-
	5,065,064	3,749,710	1,315,354
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	**150,985**	150,985	-
	9,230,412	7,010,204	2,220,208
Total Investments	**$17,374,470**	$12,216,354	$5,158,116

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

Components of investment income include the following:

	2020	2019
Interest and investment income	**$ 537,541**	$ 237,274
Realized gain (loss) on sale of investments	**(185,020)**	-
Unrealized market value change of investments	**114,511**	457,835
Investment expenses	**(87,673)**	(23,177)
Investment income on escrow to deferred revenue, net	**(120,198)**	(337,126)
Investment income, net	**259,161**	334,806
Net loss from investment of sale of land	**-**	(269,361)
Income from investments	**$ 259,161**	$ 65,445

The realized gain (loss) on sale of investments represents the difference between the carrying amount at the beginning of the reporting period, or the transaction price if purchased in the current period, and its settlement price. At June 30, 2020, the realized loss was $185,020. The unrealized market value change calculates the difference between the carrying amount at the beginning of the period, or the transactions price if purchased in the current period, and it's carrying amount at the end of the reporting period. At June 30, 2020, the unrealized market value change was $114,511.

In the year that ended June 30, 2019, SAF owned land that it sold during that year. The land was carried at a fair value of $1,075,000 at June 30, 2018. 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.

NOTE 5. OPERATING LEASE

The Corporation had one lease for office space that is classified as an operating lease. Total rent expense on such leases for the fiscal years ended June 30, 2020 and 2019, was $125,184 and $125,184, respectively.

As of June 30, 2020, the future minimum lease payment under an operating lease with an initial or remaining term in excess of one year is as follows:

2021	$ 114,752

NOTE 6. RETIREMENT PLAN

The Corporation maintains a retirement vehicle for employees, the Student Assistance Foundation of Montana 401(k) 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.

SAF incurred pension costs of $113,498 in the year ended June 30, 2020, and $116,537 in the year ended June 30, 2019.

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.

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, 2020 and 2019, SAF billed MHESAC $3,789,577 and $4,324,775, respectively. At June 30, 2020 and 2019, the reconciliation for billed and actual management and servicing fees resulted in a balance receivable from MHESAC and a balance payable to MHESAC of $1,085 and $52,712, respectively. These balances are included in 2020 and 2019 client receivables and payables, respectively.

NOTE 7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. Ascent Bank (formerly known as 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.

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:

	2020	2019
Interest and investment income	**$ 291,748**	$ 130,366
Realized gain (loss) on sale of investments	**(149,479)**	-
Unrealized market value change of investments	**28,649**	215,870
Investment expenses	**(50,720)**	(9,111)
Investment income, net	**120,198**	337,125
Escrow, beginning balance	**9,476,267**	7,379,660
Bank fee deposited in advance	**10**	-
Addition to escrow in excess of monthly management and servicing fees	**1,431,869**	1,759,482
Escrow, fair value ending balance	**$ 11,028,344**	$ 9,476,267

NOTE 7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreement (Continued)

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:

	2020	2019
Escrow balance – principal	**$ 10,538,735**	$ 9,106,867
Investment income, net plus bank fee	**489,609**	369,400
Escrow, fair value total	**$ 11,028,344**	$ 9,476,267

During the years ended June 30, 2020 and 2019, there was an offsetting deferred income amount with a fair value balance of $11,028,334 and $9,476,267, respectively.

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.

During the year ended June 30, 2020, SAF billed MHESAC $295,560 for management services and $877,321 for program delivery. During the year ended June 30, 2019, SAF billed MHESAC $266,896 for management services and $865,448 for program delivery of the Reach Higher Montana initiatives. At June 30, 2020 and 2019, the reconciliation for billed and actual management and program delivery resulted in a net balance receivable from MHESAC of $635 and $31,475, respectively.

Group Benefits Plan

SAF provides medical, dental, vision and life insurance coverage 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, 2020, SAF incurred $7,711 in unemployment benefit charges. 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.

NOTE 7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

There was a system error discovered that has been under discussion since 2016. SAF recently came to terms with PHEAA for reimbursement to borrowers and clients for errors made that increased loan balances. The receivable for this payment from PHEAA and payable for subsequent payments to borrowers and clients is also described in Note 1 Summary of Significant Accounting Policies.

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.

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 2020, 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 operations and non-financial assets, including personnel, furniture and equipment, as well as its interest in an office building and land, to SAF.

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 90% and 95% of SAF's total revenues for years ended June 30, 2020 and 2019, respectively. There was $4,375 receivable from MHESAC and $17,549 payable to MHESAC outstanding at June 30, 2020 and 2019, respectively.

NOTE 11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 11, 2020, the date which the financial statements were available for issue and did not identify any further events to disclose.

The COVID-19 outbreak in the United States has caused minimal business disruption to SAF. While any disruption is expected to be temporary, there is uncertainty around the duration of the disruption. SAF does not expect this matter to negatively impact its operating results; however, any future financial impact and duration cannot be reasonably estimated at this time.

Subsequent to year-end, the global financial system experienced substantial volatility related to the COVID-19 pandemic. These economic events have had an impact on investment portfolios. Because of the uncertainty of future market conditions, management is uncertain what impact there will be in the future fair value of the investment portfolios.