

STUDENT ASSISTANCE FOUNDATION  
OF MONTANA

AND AFFILIATES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2013



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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Student Assistance Foundation of Montana and Affiliates (the Corporation), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

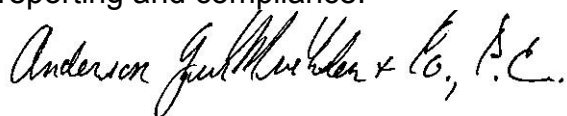
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 33 through 40 and the schedule of consolidated grant and public programs expense on page 41 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Helena, Montana  
September 12, 2013

CONSOLIDATED FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	<b>\$ 4,811,554</b>	\$ 3,697,965
Accounts receivable:		
Other client & miscellaneous receivables	<b>918,803</b>	1,012,631
Related parties	<b>29,099</b>	64,401
Interest receivable	<b>24,027</b>	113
Investments	<b>2,004,577</b>	2,002,918
Prepaid costs, net	<b>714,085</b>	813,749
Total current assets	<b><u>8,502,145</u></b>	<u>7,591,777</u>
 <b>PROPERTY AND EQUIPMENT, at cost</b>		
Land and building	<b>2,883,045</b>	2,883,045
Building improvements	<b>1,403,474</b>	1,265,849
Construction work in progress	-	437,663
Equipment and furniture	<b>4,741,703</b>	4,055,628
Leasehold improvements, net	<b>19,835</b>	-
	<b><u>9,048,057</u></b>	<u>8,642,185</u>
Less: accumulated depreciation	<b><u>5,224,157</u></b>	<u>4,793,406</u>
Total property and equipment	<b><u>3,823,900</u></b>	<u>3,848,779</u>
 <b>OTHER ASSETS</b>		
Educational loans receivable, net	<b><u>79,256</u></b>	<u>18,216</u>
Total other assets	<b><u>79,256</u></b>	<u>18,216</u>
 <b>OTHER RESTRICTED ASSETS</b>		
Endowment cash and cash equivalents	<b>530,422</b>	463,738
Endowment interest receivable	<b>541</b>	10
Total other restricted assets	<b><u>530,963</u></b>	<u>463,748</u>
Total assets	<b><u>\$ 12,936,264</u></b>	<u>\$ 11,922,520</u>

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

	<u>2013</u>	<u>2012</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,685,968	\$ 1,698,033
Funds held for loan servicing clients	2,068,322	1,982,425
Funds held for sponsored organization	13,573	-
Grant program liability	632,166	1,304,761
Compensated absence liability	1,081,176	1,037,417
Current obligation under capital lease	98,843	64,617
Refundable grant advance	31,080	32,934
Current maturities of notes payable	<u>207,745</u>	<u>197,161</u>
Total current liabilities	<u>5,818,873</u>	<u>6,317,348</u>
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	4,598,366	4,806,067
Obligation under capital lease	<u>120,328</u>	<u>23,649</u>
Total long-term liabilities	<u>4,718,694</u>	<u>4,829,716</u>
Total liabilities	<u>10,537,567</u>	<u>11,147,064</u>
NET ASSETS		
Unrestricted:		
Unrestricted, undesignated	1,864,000	262,253
Board-designated for endowment	<u>530,963</u>	<u>463,748</u>
Total unrestricted	2,394,963	726,001
Temporarily restricted	<u>3,734</u>	<u>49,455</u>
Total net assets	<u>2,398,697</u>	<u>775,456</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,936,264</u>	<u>\$ 11,922,520</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2013 and 2012

	2013	2012
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Management & servicing fee income	\$ 13,612,987	\$ 12,660,736
Interest on educational loans	2,966	2,083,623
Loan servicing income	4,274,202	2,805,161
Royalty income	2,541,630	-
Income from investments		
Investment income	3,790	4,631
Interest on endowment	1,156	1,755
Realized loss on loan transfer	-	(107,708)
Gain on purchase of student loans	2,233	-
Contributions & grants	74,076	36,706
Other income	471,263	482,781
	20,984,303	17,967,685
Net assets released from restrictions	432,661	358,935
Total unrestricted revenue and support	21,416,964	18,326,620
Program Operating Expenses:		
Loan servicing		
Salaries, payroll taxes and employee benefits	10,343,556	9,254,262
Contract sub-servicing fees	2,663,518	1,889,822
Professional services	631,621	567,217
Advertising	12,277	82,349
Marketing and outreach	1,966	1,500
Contract services and labor	338,230	483,157
Staff travel and training	122,885	197,037
Insurance	72,067	73,657
Office supplies and copier charges	31,018	55,682
Computer charges	825,359	659,763
Telecommunications and utilities	344,312	284,753
Mail, postage and courier	739,294	549,503
Printing	63,484	73,127
Dues, subscriptions and memberships	76,312	57,962
Recruitment and relocation	19,344	12,614
Automobile	1,306	3,454
Repairs, maintenance and service	57,343	51,366
Depreciation	526,647	480,240
Conversion costs	-	752,878

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



	<u>2013</u>	<u>2012</u>
Program Operating Expenses (Continued):		
Loan servicing (continued)		
Loan fees	6,250	412,275
Operating lease payments	115,384	18,126
Other costs	263,052	213,216
Interest	246,185	458,637
Servicing costs allocated between companies	<u>(340,591)</u>	<u>69,346</u>
Total loan servicing	17,160,819	16,701,943
Grants and public purpose program	<u>2,182,581</u>	<u>3,040,863</u>
Total program operating expenses	<u>19,343,400</u>	<u>19,742,806</u>
Fundraising expenses	<u>125,027</u>	<u>95,677</u>
General and administrative expenses:		
Salaries, payroll taxes and employee benefits	132,669	107,337
Board and officer	57,583	54,664
Professional services	25,000	-
Insurance	17,510	14,465
Income tax recapture	256	(66,660)
Other	<u>46,557</u>	<u>47,737</u>
Total general and administrative expenses	<u>279,575</u>	<u>157,543</u>
Total expenses	<u>19,748,002</u>	<u>19,996,026</u>
Increase (decrease) in unrestricted net assets	1,668,962	(1,669,406)
TEMPORARILY RESTRICTED NET ASSETS		
Revenue and support:		
Contributions	386,940	388,609
Net assets released from restrictions	<u>(432,661)</u>	<u>(358,935)</u>
Increase (decrease) in temporarily restricted net assets	<u>(45,721)</u>	<u>29,674</u>
Increase (decrease) in net assets	1,623,241	(1,639,732)
Net assets at the beginning of the year	<u>775,456</u>	<u>2,415,188</u>
Net assets at the end of the year	<u>\$ 2,398,697</u>	<u>\$ 775,456</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,623,241	\$ (1,639,732)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Purchase of educational loans	(74,442)	(18,216)
Repayments of educational loans	13,560	6,934,641
Non-cash adjustments to educational loans	(158)	(1,436,767)
Non-cash transfer of MSLF educational loans	-	188,682,271
Non-cash transfer of line of credit	-	(192,110,197)
Realized loss on MSLF loan transfer	-	107,708
Depreciation	668,353	561,220
Leasehold improvement amortization	9,677	-
Loss on disposal of fixed assets	8,173	-
Change in investment values	232	(189)
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables	128,599	(488,307)
Interest receivable	(23,914)	2,426,229
Prepaid costs	99,664	(474,629)
Increase (decrease) in current liabilities:		
Accounts and accrued expenses payable	(12,065)	(1,019,877)
Compensated absences	43,759	52,495
Refundable grant advance	(1,854)	(16,766)
Grants awarded	(672,595)	51,761
Funds held for servicing clients	99,470	(1,173,504)
Net cash flows from operating activities	1,909,700	438,141
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(400,135)	(694,662)
Leasehold improvements	(29,512)	-
Purchase of investments	(50,891)	(27,827)
Proceeds from sale of investments	49,000	25,000
Net cash flows from investing activities	(431,538)	(697,489)

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

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	<b>2,725,000</b>	-
Repayments on line of credit	<b>(2,725,000)</b>	(5,900,000)
Proceeds from issuance of notes/loans payable	-	4,650,000
Repayments on notes/loans payable	<b>(197,117)</b>	(2,105,069)
Repayments on lease obligations	<b>(100,772)</b>	(60,860)
Net cashflows from financing activities	<b><u>(297,889)</u></b>	<u>(3,415,929)</u>
Net change in cash and cash equivalents	<b>1,180,273</b>	(3,675,277)
Cash and cash equivalents, beginning of year	<b><u>4,161,703</u></b>	<u>7,836,980</u>
Cash and cash equivalents, end of year	<b><u>\$ 5,341,976</u></b>	<u>\$ 4,161,703</u>
Supplemental schedule of noncash investing and financing activities:		
Fixed assets acquired by capital lease	<b>\$ 231,677</b>	\$ -
Cash paid for interest	<b><u>\$ 268,764</u></b>	<u>\$ 508,975</u>
Cash and cash equivalents are reported on the consolidated statement to financial position as follows:		
Cash and cash equivalents, current	<b>\$ 4,811,554</b>	\$ 3,697,965
Endowment cash and cash equivalents	<b><u>530,422</u></b>	<u>463,738</u>
	<b><u>\$ 5,341,976</u></b>	<u>\$ 4,161,703</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013 and 2012

**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. SAF provided student loan servicing for up to 9 national clients during the year ended June 30, 2013 and up to 11 national clients during the year ended June 30, 2012. SAF provides financial support as well as a variety of counseling and information services to Montana students in post-secondary education. SAF has 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. Tru Student provided student loan servicing for up to 11 national clients during the year ended June 30, 2013 and up to 9 national clients during the year ended June 30, 2012.

On June 28, 2003, MSLF was created as a limited liability corporation with SAF as the sole member. The corporation is a bankruptcy remote company that was formed to acquire and originate student loans. Bankruptcy remote status provides that all debts, obligations and liabilities are solely that of the established company and neither the members, special members nor any managers are obligated for those activities including insolvency of the bankruptcy remote vehicle. Previously, the loan activity conducted by MSLF was for the specific purpose of an eventual sale to MHESAC with no obligation by MHESAC to acquire the loans until it was able to obtain financing for that specific purpose. During the year ended June 30, 2012, MSLF transferred the loan portfolio to Citicorp in a consensual relinquishment to satisfy its obligations. MHESAC subsequently acquired this portfolio through an unrelated transaction. See Notes 4 and 5. The accompanying consolidated financial statements include the accounts of MSLF. At June 30, 2013, MSLF is essentially an inactive company with no assets or liabilities. All significant intercompany transactions and accounts have been eliminated.

On December 17, 2009, 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. 1000 shares of stock were authorized with a par value of \$0.01 per share. 500 shares and 400 shares were issued and outstanding at June 30, 2013 and 2012, respectively. The corporation is a bankruptcy remote company that will perform student loan servicing functions for loans made under part B of Title IV of the Higher Education Act of 1965 for SAF along with other holders of such loans. Tru Student has entered into a memorandum of understanding with the Department of Education for the intention of becoming a federal contractor as a servicer of Direct Loans. Tru Student also services private student loans.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Organization and Principles of Consolidation (Continued):**

Bankruptcy remote status provides that all debts, obligations and liabilities are solely that of the established company and neither the members, special members nor any managers are obligated for those activities including insolvency of the bankruptcy remote vehicle. SAF owns 100% of the common stock issued by Tru Student at June 30, 2013. The accompanying consolidated financial statements include the accounts of Tru Student. All significant intercompany transactions and accounts have been eliminated.

**Basis of Presentation:**

The consolidated 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.

**Income Tax Status:**

SAF is a not-for-profit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3). Income derived from loan servicing performed for Tru Student FFELP and rehabilitation activity is considered unrelated business income and is subject to taxation. The Corporation recognized tax expense of \$50 for the year ended June 30, 2013 and tax expense recapture of (\$66,710) for the year ended June 30, 2012.

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). All income is considered related to the underlying purpose of providing support to MHESAC and is therefore considered exempt from taxation. During the year ended June 30, 2013, 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 is a nonpublic for-profit corporation and accounts 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. The Corporation recognized tax expense of \$206 for the year ended June 30, 2013 and \$50 for the year ended June 30, 2012. Deferred tax assets and liabilities caused by a difference between the tax basis of an asset or liability and its reported amount are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the new rate enactment date. Income tax credits are accounted for by the flow-through method, which recognizes the credits as reductions of income tax expense in the year utilized.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Tax Status (Continued):**

During the years ended June 30, 2013 and 2012, Tru Student reported an operating loss of \$1,396,196 and \$1,377,296, respectively, for financial reporting purposes. The enacted federal and state corporate tax rates at June 30, 2013 were 15-35% and 6.75%, respectively. The deferred income tax benefit of the unexpired cumulative net operating loss carry forward of \$3,485,603 for tax purposes is estimated to be \$758,119 based on current tax rates. A valuation allowance equal to the deferred income tax benefit has been established due to the uncertainty of assumptions on financial results during the start-up phase of this entity. Management will continue to monitor the impact of this potential benefit as the long term strategic planning develops more fully. 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, 2013 or June 30, 2012.

Generally, the returns of the Corporation and its affiliates are no longer subject to review by federal taxing authorities for years prior to the tax year ended June 30, 2010 and Montana taxing authorities for years prior to the tax year ended June 30, 2008.

**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 three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets are reported as follows:

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation or the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Corporation had temporarily restricted net assets of \$3,734 at June 30, 2013 and \$49,455 at June 30, 2012 (see Note 9).

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Classification of Net Assets (Continued):**

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation, but permit the use of all or part of the income earned on any related investment for general or specific purposes. The Corporation had no permanently restricted net assets at June 30, 2013 or 2012.

**Contributions:**

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

**Promises to Give:**

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. There were no unconditional promises to give at June 30, 2013 and 2012. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give outstanding at June 30, 2013. Payments received on conditional grants are reported as refundable grant advances until the conditions have been met (see Note 16).

**Marketing, Advertising and Outreach:**

The Corporation expenses public purpose program marketing, advertising and promotional costs as incurred. Advertising expense of \$20,009 and \$15,567 for the years ended June 30, 2013 and June 30, 2012, respectively, is included in Grants and public purpose program expense.

**Functional Allocation of Expenses:**

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

**Fundraising Expenses:**

Fundraising expenses represent the Corporation's public benefit program solicitation efforts.

**Cash and Cash Equivalents:**

Cash and cash equivalents, including restricted cash and endowment 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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable:**

Accounts receivable consist primarily of servicing and management fees due from MHESAC, loan servicing fees, and receivables from cost sharing arrangements with the Montana Guaranteed Student Loan Program (MGSLP) and Office of the Commissioner of Higher Education (OCHE). No allowance for uncollectible accounts was recorded for June 30, 2013 and June 30, 2012 for 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. Equipment under capital lease is capitalized at the net present value of future lease payments and depreciated over the life of the lease. Donated assets are recorded at fair value as of the date of donation and expensed or capitalized similar to purchased assets. Building and building improvements are depreciated using the straight-line method over estimated lives of 20 and 10 years, respectively.

Construction Work in Progress of \$437,663 reported at June 30, 2012, included cost of building improvements and telephony installation. The projects were completed in July, 2012.

On August 11, 2011, SAF executed a refinancing of the SAF Building with Valley Bank for a 20-Year Note of \$4,650,000 with an initial interest rate of 5.0%. SAF originally purchased the land and building at 2500 Broadway Street from MHESAC with an 18-Year MHESAC note executed on February 1, 2000 for \$2.9 million at a fixed rate of 8.22%. This MHESAC building note was satisfied in full on August 11, 2011 with a final payment of \$1,868,513 with some of the proceeds received from the refinancing.

Depreciation expense for the years ended June 30, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
Loan Servicing	\$ 478,253	\$ 500,254
Included in Affiliated Client Expenses	146,415	14,298
Included in Grants and Public Purpose Program Expenses	<u>43,685</u>	<u>46,668</u>
	<u>\$ 668,353</u>	<u>\$ 561,220</u>

Leasehold improvements of \$29,512 were completed on leased property in the year ended June 30, 2013. Amortization of these costs over the life of the lease resulted in expense for the year ended June 30, 2013 of \$9,677, leaving a balance of \$19,835 in leasehold improvements.



STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments:**

Investments consist of certificates of deposit, bonds, corporate issues, and land that is held for investment. These investments are carried at fair value. Interest and dividends subject to donor restrictions are reported as increases in temporarily restricted net assets. When the restrictions are met, they are reclassified to unrestricted net assets. Unless gains and losses on donor-restricted investments are specifically restricted by the donor, they are reported as increases or decreases in unrestricted net assets.

**Interest on Educational Loans:**

The United States Department of Education makes quarterly interest payments on subsidized Stafford and subsidized Consolidation loans until the borrower is required to begin repayment under the provisions of the Higher Education Act. For Stafford loans, repayment generally begins 6 to 9 months after the student completes his/her course of study, leaves school or fails to carry a minimum academic load. Repayment begins immediately upon full disbursement for Consolidation, PLUS and SLS loans disbursed prior to July 1, 2008. PLUS loan borrowers with loans disbursed on or after July 1, 2008 may choose to begin repayment 6 months after the student, for whom the parent borrowed the funds, ceases to be enrolled at least half-time. In addition, the United States Department of Education pays the interest for subsidized Stafford and subsidized Consolidation loans during the time a borrower is in an authorized deferment period. Authorized deferment periods are specific situations and statuses determined by the United States Department of Education.

**Special Allowance Payments:**

The United States Department of Education provides a special allowance or subsidy to lenders participating in the Federal Family Education Loan Program (FFELP) if the interest rate is below the guaranteed interest rate. Conversely, if the interest rate is above the guaranteed interest rate, the excess portion of the borrower payment is remitted to the Federal government. This allowance is paid on the average quarterly unpaid principal balance of student loans, based on an annual rate equal to the average rate of 91-day U.S. Treasury Bills, 3-month Commercial Paper Rates or One-Month LIBOR for that quarter increased by various rates, depending on loan origination date. If the average yield rate is lower than the interest rate paid by the borrower, then the excess portion of the borrower payment is rebated to the federal government. As of June 30, 2013 and 2012, rebates of \$704 and \$2,287,455, respectively, were netted in special allowance revenue on the financial statements.

Effective April 1, 2012, SAF has elected to have the special allowance payment on student loans (SAP) calculated based on the one-month LIBOR index rather than 90-day commercial paper index.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Based Repayment (IBR) Plan:**

During the year ended June 30, 2010, the Income Based Repayment (IBR) Plan was enacted as part of the College Cost Reduction and Access Act of 2007. IBR is a repayment plan option for borrowers with loans in the Direct Loan Program or FFELP. The IBR plan may result in additional subsidy payments by the federal government on behalf of borrowers and a potential discharge of remaining debt balances at the end of 25 years.

**Prepaid Costs:**

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

**Loan Measurement & Allowance for Uncollectible Loans:**

Loans held by the corporation are measured at the outstanding principal amount net of any allowance for credit losses or uncollectible amounts. Estimates for uncollectible amounts are based on outstanding principal amounts and portfolio default rates. (See Note 4 for details on Education Loan Receivable and Uncollectible Loans).

**NOTE 2. CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash deposits. SAF and Tru Student maintain 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, 2013, the carrying amount of those deposits was \$5,340,015 and the bank balance was \$5,851,113 with \$4,777,129 in excess of FDIC insured limits. At June 30, 2012, the carrying amount of those deposits was \$4,160,038 and the bank balance was \$4,793,938 with \$2,238,073 in excess of FDIC insured limits.

**NOTE 3. INVESTMENTS**

For the years ended June 30, 2013 and 2012 there is no significant difference between cost and fair value for certificate of deposits. The fair value of land held for investment was \$1,456,000 at June 30, 2013 and 2012, 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 real estate market valuation. Certificates of deposit are not subject to investment categorization requirements (see Note 15).

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 3. INVESTMENTS (CONTINUED)**

At June 30, 2013 and 2012, the Corporation had investments consisting of the following:

	<u>2013</u>	<u>2012</u>
Certificates of deposit	\$ 474,593	\$ 472,702
Corporate bonds	73,984	74,216
Land held for investment	<u>1,456,000</u>	<u>1,456,000</u>
Total Investments	<u>\$ 2,004,577</u>	<u>\$ 2,002,918</u>

Components of investment income include the following:

Interest and dividends	<u>\$ 4,946</u>	<u>\$ 6,386</u>
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**NOTE 4. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES**

The educational loans receivable are loan portfolios purchased from various banks and other financial institutions and originated or consolidated in the national market.

The educational loans receivable are classified as student/interim or repayment status. Student/interim status represents the period from the date the educational loan is made until a student is out of school, including the grace period and any authorized deferment periods, at which time repayment status commences.

Educational loans are summarized as follows:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Student/interim status	\$ 63,921	\$ 17,615
Repayment status	24,141	601
Less allowance for uncollectible loans	<u>(8,806)</u>	<u>-</u>
Total	<u>\$ 79,256</u>	<u>\$ 18,216</u>

All loans at June 30, 2013 and June 30, 2012 were Stafford loans.

In addition to the special allowance paid by the federal government on certain loans, payments of principal and interest are made by borrowers using the various rates and terms for loans outstanding. Interest on performing loans is accrued on the outstanding principal balance.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 4. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES**  
**(CONTINUED)**

Depending on factors specified in the Higher Education Act, educational loans have either fixed or variable interest rates to the borrower and various maximum repayment terms. Fixed interest rates on Consolidation loans are based upon the weighted average interest rates of the loans consolidated rounded up to the nearest one-eighth. Consolidation loans disbursed on or after November 13, 1997 have a maximum interest rate of 8.25%. Variable interest rates are based upon either the 91 day or one year constant maturity Treasury bill, subject to maximum interest rates ranging from 7.00% to 12.00%. All Stafford and PLUS loans disbursed on or after July 1, 1994 and before July 1, 2006 are variable rate and have maximum interest rates of 8.25% and 9.00%, respectively. Unsubsidized Stafford loans disbursed after July 1, 2006 have a fixed rate to the borrower of 6.80%. Subsidized Stafford loans disbursed after July 1, 2006 and before July 1, 2008 have a fixed rate to the borrower of 6.80%. Subsidized Stafford loans disbursed after June 30, 2008 and before July 1, 2012 have a decreasing rate each year between 6.00% and 3.40%, depending on the actual year disbursed. All Stafford loans disbursed after June 30, 2013 have a fixed rate of 6.80%. PLUS loans disbursed after July 1, 2006, have a fixed rate to the borrower of 8.50%. SLS, PLUS, and FISL loans have a maximum repayment term of 10 years. Stafford loans have maximum repayment terms of 10 or 25 years depending on the borrower's original disbursement date and cumulative balance. Consolidation loans have maximum repayment terms of 10 to 30 years depending on the original balance.

**Allowance for Uncollectible Loans:**

Under contracts with the Montana Guaranteed Student Loan Program (MGSLP) and United States Department of Education, the loan portfolio is guaranteed reimbursement of principal and accrued interest on defaulted educational loans for which the applicable due diligence procedures have been performed. The Corporation receives 100% reimbursement on loans disbursed prior to October 1, 1993. Loans disbursed from October 1, 1993 until June 30, 2006 are reimbursed at 98% and loans disbursed after June 30, 2006 are reimbursed at 97%. The Corporation recognizes an allowance for loan losses in an amount believed to be sufficient to absorb losses inherent in the loan portfolio. This provision is based on the current default rates of each segment of the portfolio funding source that is applied to the nonguaranteed portion of the loan portfolio balance.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 4. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES**  
**(CONTINUED)**

**Allowance for Uncollectible Loans (Continued):**

Defaulted loans are eligible for claims reimbursement after 270 days of delinquency. At this time, default prevention due diligence is conducted in an attempt to prevent the need for claim submission. The corporation files claim prior to the 360<sup>th</sup> day of delinquency, the deadline required by the guarantor.

For the year ended June 30, 2012, Student Assistance Foundation held a loan portfolio of \$18,216. As the current default rate on these loans was zero, no allowance for uncollectible educational loans was recorded as of June 30, 2012. For the year ended June 30, 2013 Student Assistance Foundation held a loan portfolio of \$88,062 with an average default rate of 10%, resulting in a provision for uncollectible educational loans of \$8,806 being recorded.

Following is a breakdown by loan guarantor rates of the current loan portfolios held at June 30, 2013 and June 30, 2012:

	<u>2013</u>	<u>2012</u>
100% Guaranteed	\$ 7,011	\$ 7,016
98% Guaranteed	11,373	11,200
97% Guaranteed	17,130	-
Uninsured	<u>52,548</u>	<u>-</u>
TOTAL PORTFOLIO	<u>\$ 88,062</u>	<u>\$ 18,216</u>

No changes were implemented in our accounting policies or methodologies during the year ended June 30, 2013.

**NOTE 5. LONG-TERM DEBT**

At June 30, 2013 and 2012, long term debt consisted of the following:

	<u>2013</u>	<u>2012</u>
Note payable to Valley Bank for building, bearing interest at the rate of 5.00% for first 60 payments payable in monthly installments of \$30,716 and a rate to be reset based on the five-year rate plus 2.5% for the remaining 180 payments in monthly installments of \$29,535; secured by real property.	\$ 4,392,018	\$ 4,537,356

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 5. LONG-TERM DEBT (CONTINUED)**

	<u>2013</u>	<u>2012</u>
Note payable to First Interstate Bank for land, bearing interest at the rate of 6.00% with payments of \$6,528 through March 2016 and a balloon payment for the remainder; secured by land.	<u>414,093</u>	<u>465,872</u>
Total notes payable	<u>4,806,111</u>	5,003,228
Less current maturities	<u>(207,745)</u>	<u>(197,161)</u>
Long-term notes payable	<u>\$ 4,598,366</u>	<u>\$ 4,806,067</u>

Future maturity requirements of long-term debt for the five years subsequent to June 30, 2013 and thereafter are as follows:

2014	\$	207,745
2015		218,908
2016		467,985
2017		184,082
2018		193,912
Thereafter		<u>3,533,479</u>
		<u>\$ 4,806,111</u>

**NOTE 6. CAPITAL LEASES**

At June 30, 2013, the Corporation held furniture and computer equipment under several capital leases containing purchase options under which the Corporation may purchase the furniture and equipment for \$1 for each of the four leases. Since the Corporation intends to exercise this option, the equipment and furniture and the related liabilities under the capital leases are recorded at acquisition at the present value of the future payments due under the lease. The discount rates used to determine the present value ranged from 4.00% to 8.25%. The related liability under capital lease at June 30, 2013 and 2012 was \$219,171 and \$88,266, respectively, and is due in monthly installments of \$12,632.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 6. CAPITAL LEASES (CONTINUED)**

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2013:

2014	\$ 107,482
2015	83,549
2016	<u>41,774</u>
Total minimum lease payments	232,805
Less the amount representing interest	(13,634)
Less current portion	<u>(98,843)</u>
Present value of net minimum lease payments, long-term	<u>\$ 120,328</u>

**NOTE 7. OPERATING LEASES**

The Corporation has operating leases for furniture and equipment with various providers as well as one operating lease for office space. Two leases at June 30, 2013 and four leases at June 30, 2012 were classified as operating leases. Total rent expense on such leases for the fiscal years ended June 30, 2013 and 2012 was \$116,045 and \$21,343, respectively.

As of June 30, 2013 future minimum lease payments under operating leases with a remaining term in excess of one year are as follows:

2014	\$ 115,471
2015	106,799
2016	5,952
2017	5,952
2018	1,984

**NOTE 8. ENDOWMENT**

Student Assistance Foundation has established the SAF Permanent Endowment to provide funds for grants and scholarships and funding for additional programs that will enhance access to post-secondary education for Montana students and citizens in the future. The endowment may include both donor-restricted endowment funds and funds generated by SAF from program revenues. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 8. ENDOWMENT (CONTINUED)**

During 2007, the State of Montana adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Accordingly, SAF classifies as permanently restricted net assets the original value of gifts donated to the endowment and accumulated earnings associated with a specific gift, if required by the donor.

In accordance with this policy, the Board made contributions of \$66,136 and \$277,240 in the years ended June 30, 2013 and June 30, 2012, respectively, and earnings of \$1,079 and \$1,616 were added during the years ended 2013 and 2012, respectively. SAF considers the following factors in making a determination to expend donor-restricted endowment funds:

- Preservation of the funds
- Investment policies adopted

To provide an ongoing source of support for SAF's public benefit activities, distributions from the Endowment Fund shall be used to support SAF's programs and educational grants directly benefiting students and shall not be used to support SAF's operating expenses. The Endowment Fund must grow to a minimum level before payout commences. Once the Endowment Fund reaches the minimum level, the Endowment Fund will annually distribute the fund's net income not to exceed 4% of the Endowment Fund's assets based on an average of the preceding three years.

At least annually, and more frequently if warranted, the Programs and Development Committee shall determine the asset allocation between equity, bonds and cash based on market outlook. The Programs and Development Committee will review the Endowment Fund's statements from the institution(s) holding the Endowment Fund assets. The committee will verify these statements monthly to confirm adherence to the proposed asset allocation and will re-balance the Endowment Fund as necessary.

The performance of the Programs and Development Committee strategy shall be measured against the S&P 500 index for stocks and measured against Lehman Brothers for bonds or other appropriate broad based equity or bond indices. Measurement shall be reviewed annually and measured over a 3-year period.



STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 8. ENDOWMENT (CONTINUED)**

The following describes the composition of net assets of the endowment as of June 30, 2013 and 2012, respectively, and the changes in endowment net assets for the years then ended:

	<u>Unrestricted</u>
Balance, July 1, 2011	\$ 184,892
Contributions	277,240
Investment interest	<u>1,616</u>
Balance, June 30, 2012	463,748
<b>Contributions</b>	<b>66,136</b>
<b>Investment interest</b>	<b><u>1,079</u></b>
<b>Balance, June 30, 2013</b>	<b><u>\$ 530,963</u></b>

**NOTE 9. NET ASSETS**

At June 30 net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Unrestricted:		
Undesignated	\$ <u>1,864,000</u>	\$ 262,253
Board designated for endowment	<u>530,963</u>	463,748
Total unrestricted	<u>2,394,963</u>	<u>726,001</u>
Temporarily Restricted:		
SEGP/KnowHow2Go/GOAL		
2025/HSBC	<u>3,734</u>	<u>49,455</u>
Total temporarily restricted	<u>3,734</u>	<u>49,455</u>
Total net assets	<u>\$ 2,398,697</u>	<u>\$ 775,456</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 9. NET ASSETS (CONTINUED)**

During the year ended June 30, 2013 and 2012, temporarily restricted net assets were released from restrictions as follows:

Expiration of donor restriction by expenditure for:	<u>2013</u>	<u>2012</u>
Circle of Success (Access Circle)	\$ 61,406	\$ 52,365
College Goal Montana	10,954	20,922
GOAL 2025	53,106	20,161
High School Business Challenge	8,875	2,250
Run Amuk	1,266	-
KnowHow2Go/MCAN	-	73,614
ETV Foster Care	<u>297,054</u>	<u>189,623</u>
Total temporarily restricted net assets released	<u>\$ 432,661</u>	<u>\$ 358,935</u>

**NOTE 10. 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. Contributions began into the 401(k) plan in June 2010. SAF incurred pension costs of \$414,818 in the year ended June 30, 2013 and \$401,587 in the year ended June 30, 2012. Tru Student adopted the SAF plan for Tru Student employees as well during the year ended June 30, 2011. Tru Student incurred pension costs of \$67,271 in the year ended June 30, 2013 and \$55,295 in the year ended June 30, 2012.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

**Management and Servicing Agreements:**

SAF has entered into management and servicing agreements with MHESAC. SAF provides portfolio servicing for a term equal to the life of each of MHESAC’s related financings. Management services will be provided to MHESAC for an 18-year term beginning February 1, 2000.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 11. 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, for the period prior to February 1, 2003, fifteen percent of these costs. The servicing contract is for the life of the outstanding bonds.

For each successive three-year period the mark-up percentage of such cost is mutually agreed upon by MHESAC and SAF, but in no event will it be less than five percent. For the three year period beginning July 1, 2012, MHESAC and SAF agreed to continue the mark-up percentage at fifteen percent along with an efficiency incentive to provide a cost savings sharing opportunity and a maximum based on a percentage of the weighted average principal balance.

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, 2013 and 2012, SAF billed MHESAC \$13,297,019 and \$12,756,583, respectively. At June 30, 2013 and 2012, the reconciliation for billed and actual costs resulted in a balance receivable from MHESAC of \$337,186 and \$21,103 respectively. These balances are included in 2013 and 2012 client receivables, respectively.

On August 1, 2003, SAF entered into a servicing agreement with MSLF to provide student loan portfolio servicing in accordance with procedures established by the Higher Education Act and Guarantee Program regulations for a term that will extend as long as any warehoused loans or other secured obligation remained outstanding, unless the agreement is otherwise terminated in accordance with the terms stated. There were no warehoused loans or secured obligations outstanding during the year ended June 30, 2013. The cost of these services is a monthly fee based on an amount equal to .065% of the average outstanding principal balance of all financed FFELP loans during the immediate preceding month for the period up to October 1, 2010. At that time, MSLF and SAF agreed to an amendment of the contract to reduce the servicing fee to .0495% per month. MSLF also paid rent for office space in the SAF building. SAF received \$26 and \$362,345 in servicing fees from MSLF during the years ended June 30, 2013 and 2012, respectively. There were no intercompany payables as of June 30, 2013 and 2012, respectively. All significant intercompany transactions and accounts have been eliminated.

SAF entered into servicing agreements with Tru Student. The cost of these services is a monthly fee based on the contractual agreements Tru Student has with their clients. During the years ended June 30, 2013 and 2012, SAF billed Tru Student \$1,483,273 and \$350,091 respectively. In addition, Tru Student paid rent for office space in the SAF building, administrative fees, IT service/equipment rental fees, allocated and indirect cost fees.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Management and Servicing Agreements (Continued):**

By contract all fees are payable in the succeeding month resulting in a balance receivable from Tru Student of \$291,172 and \$132,904 at June 30, 2013 and 2012, respectively. All significant intercompany transactions and accounts have been eliminated.

**Group Benefits Plan:**

SAF provides a medical and dental insurance coverage plan for its employees. Effective July 1, 2007, SAF opted for an insured plan to include medical and vision coverage with Allegiance, and dental and life insurance with Lincoln Financial. Tru Student adopted the SAF group benefit plan for its employees as well.

**Line of Credit:**

On December 10, 2010, SAF extended a bank line of credit with First Interstate Bank, originally secured on April 3, 2003 for operating purposes. The \$1,000,000 line is secured by a certificate of deposit. Interest on the line is charged at 5.0%. On June 30, 2013 and June 30, 2012 there was no balance outstanding on the line. The credit agreement expires on December 1, 2013.

On August 18, 2011, two lines of credit were established for Tru Student with Valley Bank. The lines of credit totaling \$1,750,000 were established with an interest rate of 5.2%. On June 30, 2013 and June 30, 2012 there was no balance outstanding. The credit agreement expires on November 30, 2013.

**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 requires PHEAA to maintain the remote system in accordance with Title IV of the Higher Education Act of 1965, as amended. A subsequent amendment to the original agreement on February 1, 2004 extends the term of the agreement for ten years from the date of the amendment with provisions for automatic one year renewal options. Fees for access and maintenance of the remote system vary depending on volume and services provided. PHEAA also acts as back-up third party servicer for certain loans based on an agreement originally dated November 9, 2011.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 12. 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 11. For fiscal year 2013, SAF had one of its nine 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:**

On September 1, 2011, SAF executed an agreement with Tru Student providing for a 5-year operating loan of \$2,250,000 to Tru Student with an interest rate of 5.00%. A resolution was passed by the Tru Student and SAF Board of Directors in July 2012, amending the note repayment schedule to extend the interest only payment option through December 2013 with interest and principal payments commencing in January 2014. By the Tru Student and SAF Board of Directors action in April 2013, the note repayment schedule was amended to delay all interest or principal payments through December 2014 with interest and principal payments commencing in January 2015. In addition, on September 1, 2011, SAF purchased an additional 100 shares of Tru Student common stock with a par value of \$0.01 per share resulting in a total of 400 shares of stock being issued and outstanding. The common stock purchase totaled \$500,000 and resulted in an increase of additional paid in capital of \$499,999. Tru Student satisfied the outstanding advance owed SAF at June 30, 2011 with the proceeds from this transaction. On May 15, 2013 SAF purchased an additional 100 shares of Tru Student common stock with a par value of \$0.01 per share resulting in a total of 500 shares of stock being issued and outstanding. The common stock purchase totaled \$500,000 and resulted in an increase of additional paid in capital of \$499,999.

In 2010 SAF entered into an agreement with Tru Student to provide servicing functions to Tru Student as described in Note 11. SAF also has agreements with Tru Student to provide administrative and IT services. During fiscal year 2013, SAF had two of its nine board members in common with Tru Student's five board members.

**Shared Cost Agreements:**

The Corporation has a sublease and shared cost agreement with MGSLP and OCHE, both agencies of the Board of Regents of Montana. The costs shared are primarily related to computer operations, personnel and building operations.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)**

**Shared Cost Agreements (Continued):**

The sublease and shared cost amounts and the related accounts receivable and accounts payable were as follows for the year ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Sublease and Shared Costs		
Payments from:		
MGSLP	\$ 366,268	\$ 374,484
OCHE	257,590	259,303
Accounts receivable:		
Payments due from:		
MGSLP	20,091	54,218
OCHE	9,008	10,183

Total net receivables/payables from these agreements, including the balance due from MHESAC disclosed in Note 11, was \$366,286 at June 30, 2013 and \$85,504 at June 30, 2012.

**NOTE 13. 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 14. MAJOR CUSTOMER**

Fees from MHESAC accounted for 65% and 76% of SAF's total revenues for the years ended June 30, 2013 and 2012, respectively. Accounts receivable relating to these revenues accounted for 10% and 1% of SAF's total receivables as of June 30, 2013 and June 30, 2012, respectively.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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;
- 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.

The following are the assets and liabilities measured on a recurring basis as of and for the year ended June 30, 2013 and 2012. There were no transfers between Levels 1 and 2 in 2013 or 2012.

<u>Financial Instrument</u>	<u>Fair and Carrying Value</u>	Significant Other Observable Inputs (Level 2)
<b>2013:</b>		
<u>Assets:</u>		
Land Held for Investment	<b>\$ 1,456,000</b>	<b>\$ 1,456,000</b>
2012:		
<u>Assets:</u>		
Land Held for Investments	1,456,000	1,456,000

The following valuation methods are used to determine the fair value of the above items on a recurring basis:

**Land Held for Investment:**

The fair value measurement used for land held for investment is a real estate market valuation (market approach).

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2013 and 2012

**NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

GAAP also requires disclosure of estimated fair values for other financial instruments recognized at amounts other than fair value and the methods used to determine those values:

	<u>2013</u>		<u>2012</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Interest receivable	\$ 24,568	\$ 24,568	\$ 123	\$ 123
Investments –				
certificates of deposit	548,577	548,577	546,918	546,918
Corporate issues	73,984	73,984	74,216	74,216
Educational loans				
receivable	<u>88,062</u>	<u>88,062</u>	<u>18,216</u>	<u>18,216</u>
Total financial assets	<u>\$ 735,191</u>	<u>\$ 735,191</u>	<u>\$ 639,473</u>	<u>\$ 639,473</u>

	<u>2013</u>		<u>2012</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial liabilities:				
Funds held for servicing				
client	\$ 2,068,322	\$ 2,068,322	\$ 1,982,425	\$ 1,982,425
Notes payable	4,806,111	4,806,111	5,003,228	5,003,228
Capital lease				
obligations	<u>219,171</u>	<u>219,171</u>	<u>88,266</u>	<u>88,266</u>
Total financial liabilities	<u>\$ 7,093,604</u>	<u>\$ 7,093,604</u>	<u>\$ 7,073,919</u>	<u>\$ 7,073,919</u>

The following is a description of the methods used to estimate the above fair values:

**Cash and Cash Equivalents:**

The carrying amount for cash and cash equivalents is considered to approximate fair value at June 30, 2013.

**Interest Receivable and Payable:**

The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2013, given their short-term nature. The fair value hierarchy used in this determination is the same as the underlying asset or liability.

**Investments – Certificates of Deposit and Corporate Issues:**

The carrying amount of certificates of deposit is considered to approximate fair value. The fair value of corporate issues (consisting of bonds and securities) is derived from a market approach and trading values of the instruments.



STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Educational Loans Receivable:**

The fair value was estimated by reference to sale information from the limited marketplace and by discounting the future cash flows using current rates of return required by investors in similar assets. A number of significant inputs into the models are internally derived and not observable to market participants.

**Obligations Under Capital Lease:**

Carrying value of the various leases is calculated as the net present value of the future payments as of the report date as more fully described in Note 6. Management considers fair value of these instruments to approximate carrying value.

**Funds Held for Servicing Client:**

Carrying value of these funds is the balance of cash received for principal and interest payments on educational loans receivable serviced under contract but not yet remitted to lender clients. Management considers fair value of these instruments to approximate carrying value.

**Notes Payable:**

At the date of inception, the rate for the real estate note payable was determined by averaging the corporate borrowing rate for comparable companies for notes of similar maturities. Other notes payable are carried at current balances due. Management considers fair value of these instruments to approximate cost.

**NOTE 16. REFUNDABLE GRANT ADVANCES**

During the year ended June 30, 2010, a grant of \$140,000 was received from the Lumina Foundation for the KnowHow2Go grant, which disbursed awards over a three year period. This grant was used to develop a sustainable statewide college access network in Montana, providing advocacy and policy efforts. The first award of \$42,400 was recognized in the year ended June 30, 2010, the second award of \$47,900 was recognized in the year ended June 30, 2011 and the remaining award of \$49,700 was recognized in the year ended June 30, 2012.

In November, 2011, a 1-Year grant of \$98,800 was received from the Lumina Foundation for the KnowHow2Go grant. Eight months of revenue totaling \$65,866 was recognized in the year ended June 30, 2012 with the remaining \$32,934 recorded as a refundable grant advance. The Lumina Foundation extended the KnowHow2Go grant through December 31, 2013. Revenue totaling \$7,400 was recognized in the year ended June 30, 2013 with the remaining \$25,534 recorded as a refundable grant advance.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2013 and 2012

**NOTE 16. REFUNDABLE GRANT ADVANCES (CONTINUED)**

In December, 2012, a 1-Year grant of \$15,000 was received from United Student Aid Funds, Incorporated to support the College Goal Montana Program. Revenue totaling \$9,454 was recognized in the year ended June 30, 2013 with the remaining \$5,546 recorded as a refundable grant advance.

**NOTE 17. SUBSEQUENT EVENTS**

**Group Benefits Plan:**

Effective July 1, 2013, SAF opted for dental and life insurance plans with Assurant. Tru Student adopted the Assurant plan for its employees as well.

**Additional Events:**

Management has evaluated subsequent events through September 12, 2013, the date which the financial statements were available for issue and did not identify any further events to disclose.

ACCOMPANYING INFORMATION

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STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION  
June 30, 2013 with Comparative Totals for 2012

ASSETS	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 4,391,598	\$ -	\$ 419,956
Accounts receivable:			
Student Assistance Foundation	-	-	23,016
Tru Student	2,569,529	-	-
Other client & miscellaneous receivables	780,274	-	138,529
Related parties	29,099	-	-
Interest receivable	24,027	-	-
Investments	3,256,354	-	-
Prepaid costs, net	<u>379,421</u>	-	<u>334,664</u>
Total current assets	<u>11,430,302</u>	<u>-</u>	<u>916,165</u>
<b>PROPERTY AND EQUIPMENT, at cost</b>			
Land and building	2,883,045	-	-
Building improvements	1,403,474	-	-
Construction work in progress	-	-	-
Equipment and furniture	4,741,123	-	580
Leasehold improvements, net	<u>19,835</u>	-	-
	9,047,477	-	580
Less: accumulated depreciation	<u>5,223,838</u>	-	<u>319</u>
Total property and equipment	<u>3,823,639</u>	<u>-</u>	<u>261</u>
<b>OTHER ASSETS</b>			
Educational loans receivable			
Student loans receivable	88,062	-	-
Less: allowance for uncollectible accounts	<u>8,806</u>	-	-
Total other assets	<u>79,256</u>	-	-
<b>OTHER RESTRICTED ASSETS</b>			
Endowment cash and cash equivalents	530,422	-	-
Endowment interest receivable	<u>541</u>	-	-
Total other restricted assets	<u>530,963</u>	-	-
<b>Total assets</b>	<b><u>\$ 15,864,160</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 916,426</u></b>

See Independent Auditor's Report on Accompanying Information.

Consolidating Adjustments	Consolidated	
	2013	2012
\$ -	\$ 4,811,554	\$ 3,697,965
(23,016)	-	-
(2,569,529)	-	-
-	918,803	1,012,631
-	29,099	64,401
-	24,027	113
(1,251,777)	2,004,577	2,002,918
-	714,085	813,749
(3,844,322)	8,502,145	7,591,777
-	2,883,045	2,883,045
-	1,403,474	1,265,849
-	-	437,663
-	4,741,703	4,055,628
-	19,835	-
-	9,048,057	8,642,185
-	5,224,157	4,793,406
-	3,823,900	3,848,779
-	88,062	18,216
-	8,806	-
-	79,256	18,216
-	530,422	463,738
-	541	10
-	530,963	463,748
\$ (3,844,322)	\$ 12,936,264	\$ 11,922,520

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)**  
**June 30, 2013 with Comparative Totals for 2012**

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
<b>CURRENT LIABILITIES</b>			
Other accounts payable and accrued expenses	\$ 1,590,918	\$ -	\$ 409,239
Funds held for loan servicing client	1,659,901	-	408,421
Funds held for sponsored organization	13,573	-	-
Accrued interest payable	-	-	28,356
Grant program liability	632,166	-	-
Compensated absence liability	999,379	-	81,797
Current obligation under capital lease	98,843	-	-
Current maturities of notes payable	207,745	-	-
Current refundable grant advance	31,080	-	-
Total current liabilities	<u>5,233,605</u>	<u>-</u>	<u>927,813</u>
<b>LONG-TERM LIABILITIES</b>			
Notes payable, net of current maturities	4,598,366	-	-
Loan Payable to parent corporation	-	-	2,250,000
Obligation under capital lease	120,328	-	-
Total long-term liabilities	<u>4,718,694</u>	<u>-</u>	<u>2,250,000</u>
Total liabilities	<u>9,952,299</u>	<u>-</u>	<u>3,177,813</u>
<b>NET ASSETS</b>			
Capital stock, common, \$.01 par	-	-	5
Additional paid-in-capital	-	-	1,251,772
Unrestricted:			
Undesignated, unrestricted	5,377,164	-	(3,513,164)
Board designated for endowment	530,963	-	-
Total unrestricted	5,908,127	-	(2,261,387)
Temporarily restricted	3,734	-	-
Total net assets	<u>5,911,861</u>	<u>-</u>	<u>(2,261,387)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 15,864,160</u>	<u>\$ -</u>	<u>\$ 916,426</u>

See Independent Auditor's Report on Accompanying Information.

Consolidating Adjustments	Consolidated	
	2013	2012
\$ (314,189)	\$ <b>1,685,968</b>	\$ 1,698,033
-	<b>2,068,322</b>	1,982,425
-	<b>13,573</b>	-
(28,356)	-	-
-	<b>632,166</b>	1,304,761
-	<b>1,081,176</b>	1,037,417
-	<b>98,843</b>	64,617
-	<b>207,745</b>	197,161
-	<b>31,080</b>	32,934
<u>(342,545)</u>	<u><b>5,818,873</b></u>	<u>6,317,348</u>
-	<b>4,598,366</b>	4,806,067
(2,250,000)	-	-
-	<b>120,328</b>	23,649
<u>(2,250,000)</u>	<u><b>4,718,694</b></u>	<u>4,829,716</u>
<u>(2,592,545)</u>	<u><b>10,537,567</b></u>	<u>11,147,064</u>
(5)	-	-
(1,251,772)	-	-
-	<b>1,864,000</b>	262,253
-	<b>530,963</b>	463,748
(1,251,777)	<b>2,394,963</b>	726,001
-	<b>3,734</b>	49,455
<u>(1,251,777)</u>	<u><b>2,398,697</b></u>	<u>775,456</u>
<u>\$ (3,844,322)</u>	<u><b>\$ 12,936,264</b></u>	<u>\$ 11,922,520</u>



**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES**  
For the Year Ended June 30, 2013 with Comparative Totals for 2012

	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
<b>UNRESTRICTED NET ASSETS</b>			
Revenue and Support:			
Management & servicing fee income	\$ 13,612,987	\$ -	\$ -
Interest on educational loans	2,966	-	-
Loan servicing income	3,293,414	-	2,464,087
Royalty income	2,541,630	-	-
Income from investments			
Investment Income	3,785	5	-
Interest on endowment	1,156	-	-
Loan interest income	112,346	-	-
Realized loss on loan transfer	-	-	-
Gain on purchase of student loans	2,233	-	-
Intercompany contract revenue	173,609	-	31,751
Contributions and grants	74,076	-	-
Other income	627,805	-	(27)
	<u>20,446,007</u>	<u>5</u>	<u>2,495,811</u>
Net assets released from restrictions	432,661	-	-
Total unrestricted revenue and support	<u>20,878,668</u>	<u>5</u>	<u>2,495,811</u>
Program Operating Expenses:			
Loan Servicing			
Salaries, payroll taxes and employee benefits	8,872,606	-	1,470,950
Contract sub-servicing fees	1,176,960	26	1,486,532
Professional services	540,525	-	91,096
Advertising	12,277	-	-
Marketing and outreach	1,966	-	-
Contract services and labor	88,994	-	249,236
Staff travel and training	96,916	-	25,969
Insurance	69,229	-	2,838
Office supplies and copier charges	28,416	-	2,602
Computer charges	571,222	-	254,137
Telecommunications and utilities	321,429	-	22,883
Mail, postage and courier	718,085	-	21,209
Printing	55,778	-	7,706
Dues, subscriptions and memberships	74,080	-	2,232
Recruitment and relocation	19,216	-	128
Automobile	1,175	-	131
Repairs, maintenance and service	45,240	-	12,103
Depreciation	486,285	-	40,362
Conversion costs	-	-	-
Loan fees	6,250	-	-
Operating lease payments	115,384	-	-
Other costs	255,189	-	41,073
Interest	235,460	-	123,071
Servicing costs allocated to MSLF	1,807	-	-
Servicing costs allocated to SAF	-	-	16,153
Servicing costs allocated to Tru Student	1,453,413	-	-
Total loan servicing	<u>15,247,902</u>	<u>26</u>	<u>3,870,411</u>
Grants and public purpose program	2,182,581	-	-
Total program operating expenses	<u>17,430,483</u>	<u>26</u>	<u>3,870,411</u>

See Independent Auditor's Report on Accompanying Information.

Consolidated		
Consolidating Adjustments	2013	2012
\$ -	<b>\$ 13,612,987</b>	\$ 12,660,736
-	<b>2,966</b>	2,083,623
(1,483,299)	<b>4,274,202</b>	2,805,161
-	<b>2,541,630</b>	-
-	<b>3,790</b>	4,631
-	<b>1,156</b>	1,755
(112,346)	-	-
-	-	(107,708)
-	<b>2,233</b>	-
(205,360)	-	-
-	<b>74,076</b>	36,706
(156,515)	<b>471,263</b>	482,781
(1,957,520)	<b>20,984,303</b>	17,967,685
-	<b>432,661</b>	358,935
(1,957,520)	<b>21,416,964</b>	18,326,620
-	<b>10,343,556</b>	9,254,262
-	<b>2,663,518</b>	1,889,822
-	<b>631,621</b>	567,217
-	<b>12,277</b>	82,349
-	<b>1,966</b>	1,500
-	<b>338,230</b>	483,157
-	<b>122,885</b>	197,037
-	<b>72,067</b>	73,657
-	<b>31,018</b>	55,682
-	<b>825,359</b>	659,763
-	<b>344,312</b>	284,753
-	<b>739,294</b>	549,503
-	<b>63,484</b>	73,127
-	<b>76,312</b>	57,962
-	<b>19,344</b>	12,614
-	<b>1,306</b>	3,454
-	<b>57,343</b>	51,366
-	<b>526,647</b>	480,240
-	-	752,878
-	<b>6,250</b>	412,275
-	<b>115,384</b>	18,126
(33,210)	<b>263,052</b>	213,216
(112,346)	<b>246,185</b>	458,637
(26)	<b>1,781</b>	(108,532)
(31,751)	<b>(15,598)</b>	10,850
(1,780,187)	<b>(326,774)</b>	167,028
(1,957,520)	<b>17,160,819</b>	16,701,943
-	<b>2,182,581</b>	3,040,863
(1,957,520)	<b>19,343,400</b>	19,742,806

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES (CONTINUED)**  
For the Year Ended June 30, 2013 with Comparative Totals for 2012

	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
Fundraising Expenses	<u>125,027</u>	<u>-</u>	<u>-</u>
General and Administrative Expenses:			
Salaries, payroll taxes and employee benefits	132,669	-	-
Board and officer	40,193	-	17,390
Professional services	25,000	-	-
Insurance	17,510	-	-
Income taxes	50	-	206
Other	<u>42,557</u>	<u>-</u>	<u>4,000</u>
Total general and administrative expenses	<u>257,979</u>	<u>-</u>	<u>21,596</u>
 Total expenses	<u>17,813,489</u>	<u>26</u>	<u>3,892,007</u>
Increase (decrease) in unrestricted net assets	<u>3,065,179</u>	<u>(21)</u>	<u>(1,396,196)</u>
 TEMPORARILY RESTRICTED NET ASSETS			
Revenue and Support:			
Contributions	386,940	-	-
Net assets released from restrictions	<u>(432,661)</u>	<u>-</u>	<u>-</u>
 Increase in temporarily restricted net assets	<u>(45,721)</u>	<u>-</u>	<u>-</u>
 Increase(decrease) in net assets	3,019,458	(21)	(1,396,196)
Net assets at the beginning of the year	<u>2,892,403</u>	<u>21</u>	<u>(1,365,191)</u>
Common stock issued	-	-	1
Contributed capital	<u>-</u>	<u>-</u>	<u>499,999</u>
Net assets at the end of the year	<u>\$ 5,911,861</u>	<u>\$ -</u>	<u>\$ (2,261,387)</u>

See Independent Auditor's Report on Accompanying Information

Consolidated		
Consolidating Adjustments	2013	2012
-	<u>125,027</u>	<u>95,677</u>
-	132,669	107,337
-	57,583	54,664
-	25,000	-
-	17,510	14,465
-	256	(66,660)
-	<u>46,557</u>	<u>47,737</u>
-	<u>279,575</u>	<u>157,543</u>
(1,957,520)	<u>19,748,002</u>	<u>19,996,026</u>
-	<u>1,668,962</u>	<u>(1,669,406)</u>
-	386,940	388,609
-	<u>(432,661)</u>	<u>(358,935)</u>
-	<u>(45,721)</u>	<u>29,674</u>
-	1,623,241	(1,639,732)
(751,777)	<u>775,456</u>	<u>2,415,188</u>
(1)	-	-
(499,999)	-	-
<u>\$ (1,251,777)</u>	<u>\$ 2,398,697</u>	<u>\$ 775,456</u>

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES**  
**SCHEDULE OF CONSOLIDATED GRANT AND PUBLIC PROGRAMS EXPENSE**  
For the Years Ended June 30, 2013 with Comparative Totals for 2012

	<u>2013</u>	<u>2012</u>
<b>Operating &amp; overhead expenses</b>		
Program administration	\$ 455,427	\$ 416,110
<b>Campus outreach</b>		
Outreach staff & offices	552,850	714,085
<b>Outreach program</b>		
College Goal Montana	42,204	65,668
Foster Care Program	353,199	229,871
Montana College Access/KnowHow2Go	42,151	100,121
<b>Grants awarded</b>		
Access grants	525,000	1,250,761
Youth Serve Montana	50,000	-
Graduation Matters	50,000	50,000
Matella	-	6,000
Montana Education & Savings Account Match	-	50,000
Salish Kootenai college	-	9,000
Webwriters	-	4,297
<b>Scholarships</b>		
Circle of Success	62,000	63,000
Bozeman School Foundation	10,000	10,000
High School Business Challenge	10,000	2,250
Jobs for Montana Graduates	1,000	-
Miscellaneous Scholarships	1,000	3,250
Missoula Education Foundation Scholarships	-	10,000
MPSEOC Scholarship	-	1,000
Grand Street Theater	-	5,000
<b>Sponsorships</b>		
CR Anderson Association of Students	1,600	1,500
Exploration Works	1,600	1,000
Grand Street Theatre	-	2,000
Helena Education Foundation	5,000	12,500
Helena Family YMCA	2,500	2,500
Helena Symphony	7,000	5,000
Jobs for Montana Graduates Conference	-	2,500
Miscellaneous Sponsorships	6,800	8,950
Montana Chamber of Commerce	1,250	-
Montana Financial Education Coalition	2,000	-
MPSEOC Sponsorship	-	12,000
Student Advisory Board	-	2,500
	<u>\$ 2,182,581</u>	<u>\$ 3,040,863</u>

See Independent Auditor's Report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Student Assistance Foundation of Montana and Affiliates (the Corporation) (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Helena, Montana  
September 12, 2013