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

anderson ZURMUEHLEN

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2014

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 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, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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, 2014 and 2013, 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 Matter
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 32 through 35 and the schedule of consolidated grant and public programs expense on page 36 are presented for purposes of additional analysis of the consolidated financial statements and grant and public programs rather than to present the financial position, results of operations and cash flows of the individual entities, 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 11, 2014, 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.

Anderson ZurMuehlen & Co., P.C.

Helena, Montana
September 11, 2014

CONSOLIDATED FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 6,134,372**	$ 4,811,554
Accounts receivable:		
Client & other receivables	**1,693,630**	918,803
Related parties	**27,608**	29,099
Interest receivable	**18,225**	24,027
Investments	**2,005,807**	2,004,577
Prepaid costs, net	**401,336**	714,085
Total current assets	**10,280,978**	8,502,145
PROPERTY AND EQUIPMENT, at cost		
Land and building	**2,883,045**	2,883,045
Building improvements	**1,387,496**	1,403,474
Equipment and furniture	**4,494,109**	4,741,703
Leasehold improvements, net	**9,917**	19,835
	8,774,567	9,048,057
Less: accumulated depreciation	**5,620,420**	5,224,157
Total property and equipment	**3,154,147**	3,823,900
OTHER ASSETS		
Educational loans receivable, net	**79,449**	79,256
Total other assets	**79,449**	79,256
OTHER RESTRICTED ASSETS		
Endowment cash and cash equivalents	**332,990**	530,422
Contributions receivable	**22,514**	-
Endowment interest receivable	**9**	541
Total other restricted assets	**355,513**	530,963
Total assets	**$ 13,870,087**	$ 12,936,264

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
June 30, 2014 and 2013

	2014	2013
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 1,960,330**	$ 1,685,968
Funds held for loan servicing clients	**4,860,837**	2,068,322
Funds held for sponsored organization	**22,225**	13,573
Grant program liability	**62,001**	632,166
Compensated absence liability	**821,923**	1,081,176
Current obligation under capital lease	**79,177**	98,843
Refundable grant advance	**-**	31,080
Current maturities of notes payable	**218,886**	207,745
Total current liabilities	**8,025,379**	5,818,873
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	**4,379,835**	4,598,366
Obligation under capital lease, net of current maturities	**41,151**	120,328
Total long-term liabilities	**4,420,986**	4,718,694
Total liabilities	**12,446,365**	10,537,567
NET ASSETS		
Unrestricted:		
Unrestricted, undesignated	**1,066,308**	1,864,000
Board-designated for endowment	**332,999**	530,963
Total unrestricted	**1,399,307**	2,394,963
Temporarily restricted	**1,901**	3,734
Permanently restricted	**22,514**	-
Total net assets	**1,423,722**	2,398,697
TOTAL LIABILITIES AND NET ASSETS	**$ 13,870,087**	$ 12,936,264

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013

	2014	2013
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Management & servicing fee income	**$ 12,850,735**	$ 13,612,987
Interest on educational loans	**(5,517)**	2,966
Loan servicing income	**5,426,045**	4,274,202
Royalty income	**413,465**	2,541,630
Income from investments		
Investment income	**3,139**	3,790
Interest on endowment	**274**	1,156
Gain on purchase of student loans	**-**	2,233
Contributions & grants	**78,551**	74,076
Other income	**442,416**	471,263
	19,209,108	20,984,303
Net assets released from restrictions	**356,168**	432,661
Total unrestricted revenue and support	**19,565,276**	21,416,964
Program Operating Expenses:		
Loan servicing		
Salaries, payroll taxes and employee benefits	**10,021,057**	10,343,556
Contract sub-servicing fees	**3,669,244**	2,663,518
Professional services	**458,742**	631,621
Advertising	**4,052**	12,277
Marketing and outreach	**1,280**	1,966
Contract services and labor	**571,870**	338,230
Staff travel and training	**105,373**	122,885
Insurance	**62,048**	72,067
Office supplies and copier charges	**21,372**	31,018
Computer charges	**771,351**	825,359
Telecommunications and utilities	**347,806**	344,312
Mail, postage and courier	**666,317**	739,294
Printing	**37,985**	63,484
Dues, subscriptions and memberships	**70,083**	76,312
Recruitment and relocation	**50,620**	19,344
Automobile	**1,304**	1,306
Repairs, maintenance and service	**45,525**	57,343
Depreciation	**464,994**	526,647
Loan fees	**5,000**	6,250
Operating lease payments	**118,081**	115,384

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
For the Years Ended June 30, 2014 and 2013

	2014	2013
Program Operating Expenses (Continued):		
Loan servicing (continued)		
Other costs	**241,030**	263,052
Interest	**252,475**	246,185
Servicing costs allocated between companies	**(123,893)**	(340,591)
Total loan servicing	**17,863,716**	17,160,819
Grants and public purpose program	**1,707,250**	2,182,581
Total program operating expenses	**19,570,966**	19,343,400
Fundraising expenses	**187,092**	125,027
General and administrative expenses:		
Salaries, payroll taxes and employee benefits	**169,038**	132,669
Board and officer	**45,445**	57,583
Professional services	**-**	25,000
Insurance	**19,327**	17,510
Income tax expense	**101,184**	256
Other	**44,228**	46,557
Total general and administrative expenses	**379,222**	279,575
Total expenses	**20,137,280**	19,748,002
Change in unrestricted net assets	**(572,004)**	1,668,962
Extraordinary loss on subsidiary assets written off	**(423,652)**	-
Change in unrestricted net assets, after extraordinary loss	**(995,656)**	1,668,962
TEMPORARILY RESTRICTED NET ASSETS		
Revenue and support:		
Contributions	**354,335**	386,940
Net assets released from restrictions	**(356,168)**	(432,661)
Change in temporarily restricted net assets	**(1,833)**	(45,721)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions received	**22,514**	-
Change in permanently restricted net assets	**22,514**	-
Change in net assets	**(974,975)**	1,623,241
Net assets at the beginning of the year	**2,398,697**	775,456
Net assets at the end of the year	**$ 1,423,722**	$ 2,398,697

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ (974,975)**	$ 1,623,241
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Purchase of educational loans	**-**	(74,442)
Repayments of educational loans	**33**	13,560
Contributions receivable	**(22,514)**	-
Non-cash adjustments to educational loans	**(226)**	(158)
Depreciation	**680,369**	668,353
Leasehold improvement amortization	**9,918**	9,677
Net loss on disposal of fixed assets	**22,000**	8,173
Change in investment values	**(43)**	232
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables	**(770,802)**	128,599
Interest receivable	**5,802**	(23,914)
Prepaid costs	**312,749**	99,664
Increase (decrease) in current liabilities:		
Accounts and accrued expenses	**(225,639)**	(12,065)
Compensated absences	**(259,253)**	43,759
Refundable grant advance	**(31,080)**	(1,854)
Grants awarded	**(570,165)**	(672,595)
Funds held for servicing clients	**2,801,167**	99,470
Net cash flows from operating activities	**977,341**	1,909,700
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	**(44,534)**	(400,135)
Leasehold improvements	**-**	(29,512)
Purchase of investments	**(26,187)**	(50,891)
Proceeds from sale of investments	**25,000**	49,000
Net cash flows from investing activities	**(45,721)**	(431,538)

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	**1,150,000**	2,725,000
Repayments on line of credit	**(650,000)**	(2,725,000)
Repayments on notes/loans payable	**(207,391)**	(197,117)
Repayments on lease obligations	**(98,843)**	(100,772)
Net cash flows from financing activities	**193,766**	(297,889)
Net change in cash and cash equivalents	**1,125,386**	1,180,273
Cash and cash equivalents, beginning of year	**5,341,976**	4,161,703
Cash and cash equivalents, end of year	**$ 6,467,362**	$ 5,341,976
Supplemental schedule of noncash investing and financing activities:		
Fixed assets acquired by capital lease	**$ -**	$ 231,677
Cash paid for interest	**$ 265,551**	$ 268,764
Cash and cash equivalents are reported on the consolidated statement to financial position as follows:		
Cash and cash equivalents, current	**$ 6,134,372**	$ 4,811,554
Endowment cash and cash equivalents	**332,990**	530,422
	$ 6,467,362	$ 5,341,976

The Notes to Consolidated 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. SAF provided student loan servicing for up to 6 national clients during the year ended June 30, 2014 and up to 9 national clients during the year ended June 30, 2013. 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 years ended June 30, 2014 and June 30, 2013.

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. At June 30, 2014, MSLF is essentially an inactive company with no assets or liabilities.

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 were issued and outstanding at June 30, 2014 and June 30, 2013. The corporation is a bankruptcy remote company that performs student loan servicing functions for private student loans.

In 2012, Tru Student entered into a memorandum of understanding with the Department of Education with the intention of becoming a federal contractor as a servicer of Direct Loans. In December 2013, House Joint Resolution 59 became public law and eliminated the opportunity in this line of business for Tru Student. As a result, development costs associated with Direct Loan servicing were either written off or repurposed. This resulted in an extraordinary loss of $423,652 for the write off of equipment and software that could not be repurposed to other areas of the business.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization and Principles of Consolidation (Continued):
SAF owns 100% of the common stock issued by Tru Student at June 30, 2014. 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 $99,844 for the year ended June 30, 2014 and $50 for the year ended June 30, 2013.

MSLF is a Limited Liability Company and is a single member disregarded entity that was created to support the activities of MHESAC, a tax-exempt entity under Internal Revenue Code Section 501(c)(3). During the years ended June 30, 2014 and 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 $1,340 for the year ended June 30, 2014 and $206 for the year ended June 30, 2013. 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.

During the years ended June 30, 2014 and 2013, Tru Student reported an operating loss of $1,023,106 and $1,396,196, respectively, for financial reporting purposes. In addition, during the year ended June 30, 2014 reported a $423,652 extraordinary loss. The enacted federal and state corporate tax rates at June 30, 2014 were 15-35% and 6.75%, respectively. The deferred income tax benefit of the unexpired cumulative net operating loss carry forward of $4,930,521 for federal tax purposes and $1,446,758 for state tax purposes is estimated to be $1,071,983 based on current tax rates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued):
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, 2014 or June 30, 2013.

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, 2011 and Montana taxing authorities for years prior to the tax year ended June 30, 2009.

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 $1,901 at June 30, 2014 and $3,734 at June 30, 2013 (see Note 9).

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 $22,514 and $-0- permanently restricted net assets at June 30, 2014 and 2013, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $22,514 (net of $2,486 discount) and $-0- unconditional promises to give at June 30, 2014 and 2013, respectively. 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, 2014. Payments received on conditional grants are reported as refundable grant advances until the conditions have been met (see Note 16).

Contributions Receivable:
Contributions receivable represent unconditional promises to give by donors. Unconditional promises to give, net of discount to present value (at a rate of 1.91%) are due to be collected as follows:

Gross amounts due in:	2014	2013
One year	$ -	$ -
One to five years	25,000	-
Less discount to present value	(2,486)	-
Total Contributions Receivable	$ 22,514	-

The remaining discount will be recognized as contribution income in fiscal years 2015 through 2021 as it is amortized using an effective yield over the duration of the pledged contribution period. The entire contribution receivable is due from one individual. In addition, the Corporation has been informed of the intention for a future bequest of undetermined value that has not been included in the financial statements as it is not considered an unconditional promise.

Marketing, Advertising and Outreach:
The Corporation expenses public purpose program marketing, advertising and promotional costs as incurred. Advertising expense of $38,172 and $20,009 for the years ended June 30, 2014 and June 30, 2013, respectively, is included in Grants and public purpose program expense. Loan servicing expense included $5,332 and $14,243 of marketing and advertising costs in 2014 and 2013, respectively.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2014 and June 30, 2013 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.

Depreciation expense for the years ended June 30, 2014 and 2013 follows:

	2014	2013
Loan Servicing	**$ 421,644**	$ 478,253
Included in Affiliated Client Expenses	**209,018**	146,415
Included in Grants and Public Purpose Program Expenses	**49,706**	43,685
	$ 680,368	$ 668,353

Leasehold improvements of $29,512 were completed on leased property in the year ended June 30, 2013. Amortization expense of $9,918 and $9,677 for years ended June 30, 2014 and June 30, 2013, respectively, left a balance of $9,917 in leasehold improvements to be amortized in the year ending June 30, 2015.

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 type and 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, 2014 and 2013, rebates of $808 and $704, respectively, were netted in special allowance revenue on the financial statements.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Effective January 1, 2013, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 for interest-bearing accounts and non-interest-bearing accounts. Prior to that date, FDIC insurance on non-interest-bearing accounts was unlimited for the periods covered in this report.

At June 30, 2014, the carrying amount of those deposits was $6,941,262 and the bank balance was $6,666,262 with $5,722,698 in excess of FDIC insured limits. 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.

NOTE 3. INVESTMENTS

For the years ended June 30, 2014 and 2013 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, 2014 and 2013, 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).

At June 30, 2014 and 2013, the Corporation had investments consisting of the following:

	2014	2013
Certificates of deposit	**$ 475,779**	$ 474,593
Corporate bonds	**74,028**	73,984
Land held for investment	**1,456,000**	1,456,000
Total Investments	**$ 2,005,807**	$ 2,004,577

NOTE 3. INVESTMENTS (CONTINUED)

Components of investment income include the following:

	2014	2013
Interest and dividends	**$ 3,413**	$ 4,946

NOTE 4. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES

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:

	June 30, 2014	June 30, 2013
Student/interim status	**$ 87,648**	$ 63,921
Repayment status	**629**	24,141
Less allowance for uncollectible loans	**(8,828)**	(8,806)
Total	**$ 79,449**	$ 79,256

All loans at June 30, 2014 and June 30, 2013 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.

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%. Fixed interest rates range from 3.4% to 8.5% depending on the actual year disbursed and the loan type.

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.

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

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.

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 360th day of delinquency, the deadline required by the guarantor.

For the year ended June 30, 2014, Student Assistance Foundation held a loan portfolio of $88,277 with an average default rate of 10%, resulting in a provision for uncollectible educational loans of $8,828 being recorded. 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, 2014 and June 30, 2013:

	2014	2013
100% Guaranteed	**$ 7,020**	$ 7,011
98% Guaranteed	**11,595**	11,373
97% Guaranteed	**17,114**	17,130
Uninsured	**52,548**	52,548
Total portfolio	**$ 88,277**	$ 88,062

No changes were implemented in accounting policies or methodologies during the years ended June 30, 2014 and 2013.

NOTE 5. LONG-TERM DEBT

At June 30, 2014 and 2013, long term debt consisted of the following:

	2014	2013
Note payable to Valley Bank for building, bearing interest at the rate of 5.00% for first 60 payments payable in monthly installments of $30,716 and a rate to be reset based on the five-year rate plus 2.5% for the remaining 180 payments in installments necessary to satisfy the loan by its scheduled maturity; secured by real property.	**$ 4,239,602**	$ 4,392,018
Note payable to First Interstate Bank for land, bearing interest at the rate of 6.00% with payments of $6,528 through March 2016 and a balloon payment for the remainder; secured by land.	**359,119**	414,093
Total notes payable	**4,598,721**	4,806,111
Less current maturities	**(218,886)**	(207,745)
Long-term notes payable	**$ 4,379,835**	$ 4,598,366

Future maturity requirements of long-term debt for the five years subsequent to June 30, 2014 and thereafter are as follows:

2015	$ 218,886
2016	468,343
2017	184,082
2018	193,912
2019	202,638
Thereafter	3,330,860
	$ 4,598,721

NOTE 6. CAPITAL LEASES

At June 30, 2014, 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, 2014 and 2013 was $120,328 and $219,171, respectively, and is due in monthly installments of $6,962.

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, 2014:

2015	$ 83,548
2016	41,775
Total minimum lease payments	125,323
Less the amount representing interest	(4,995)
Less current portion	(79,177)
Present value of net minimum lease payments, long-term	$ 41,151

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, 2014 and two leases at June 30, 2013 were classified as operating leases. Total rent expense on such leases for the fiscal years ended June 30, 2014 and 2013 was $119,137 and $116,045, respectively.

As of June 30, 2014 future minimum lease payments under operating leases with an initial or remaining term in excess of one year are as follows:

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.

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 $50,000 and $66,136 in the years ended June 30, 2014 and June 30, 2013, respectively, and earnings of $260 and $1,079 were added during the years ended 2014 and 2013, respectively. By Board action, $448,000 was temporarily released to fund Access Grants during the year ended June 30, 2014. The Board directed the Endowment Fund would be reimbursed for this temporary distribution as follows:

2014	$200,000
2015	$125,000
2016	$123,000
	$448,000

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.

NOTE 8. ENDOWMENT (CONTINUED)

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.

The Corporation classifies as permanently restricted net assets any donor-restricted funds in accordance with the direction of the donor gift instrument. During the year ended June 30, 2014, an endowment with donor imposed restrictions was established (see Note 1 – Contributions Receivable for additional information).

The following describes the composition of net assets of the endowment as of June 30, 2014 and 2013, respectively, and the changes in endowment net assets for the years then ended:

	Unrestricted	Permanently Restricted	Total
Balance, July 1, 2012	$ 463,748	$ -	$ 463,748
Contributions	66,136	-	66,136
Investment interest	1,079	-	1,079
Balance, June 30, 2013	530,963	-	530,963
Temporary distribution	(448,000)	-	(448,000)
Fees paid	(224)	-	(224)
Temporary distribution repayment	200,000	-	200,000
Contributions	50,000	22,514	72,514
Investment interest	260	-	260
Balance, June 30, 2014	$ 332,999	$ 22,514	$ 355,513

NOTE 9. NET ASSETS

At June 30 net assets consist of the following:

	2014	2013
Unrestricted:		
Undesignated	**$ 1,066,308**	$ 1,864,000
Board designated for endowment	**332,999**	530,963
Total unrestricted	**1,399,307**	2,394,963
Temporarily Restricted:		
Special Events Grant Program (SEGP)	**1,901**	3,734
Total temporarily restricted	**1,901**	3,734
Permanently Restricted		
Donor-restricted endowment funds	**22,514**	-
Total permanently restricted	**22,514**	-
Total net assets	**$ 1,423,722**	$ 2,398,697

During the year ended June 30, 2014 and 2013, temporarily restricted net assets were released from restrictions as follows:

Expiration of donor restriction by expenditure for:	2014	2013
Circle of Success (Access Circle)	**$ 39,340**	$ 61,406
College Goal Montana	**20,546**	10,954
FES Grant	**34,211**	-
GOAL 2025	**25,534**	53,106
High School Business Challenge	**6,750**	8,875
Run Amuk	**4,332**	1,266
Disaster Preparedness	**1,431**	-
ETV Foster Care	**224,024**	297,054
Total temporarily restricted net assets released	**$ 356,168**	$ 432,661

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.

NOTE 10. RETIREMENT PLAN (CONTINUED)

After a six-month waiting period, the Corporation matches each participant's contribution up to six percent of the participant's salary. Effective July 1, 2014, the contribution rate changed to be up to five percent of the participant's salary. Contributions began into the 401(k) plan in June 2010. SAF incurred pension costs of $440,254 in the year ended June 30, 2014 and $414,818 in the year ended June 30, 2013. Tru Student adopted the SAF plan for Tru Student employees as well during the year ended June 30, 2012. Tru Student incurred pension costs of $69,442 in the year ended June 30, 2014 and $67,271 in the year ended June 30, 2013.

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.

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, 2014 and 2013, SAF billed MHESAC $13,373,924 and $13,297,019, respectively. At June 30, 2014 and 2013, the reconciliation for billed and actual costs resulted in a balance payable to MHESAC and a balance receivable from MHESAC of $187,775 and $337,186 respectively. These balances are included in 2014 and 2013 client payables and receivables, respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Servicing Agreements (Continued):
SAF has 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, 2014 and 2013, SAF billed Tru Student $2,687,192 and $1,483,273 respectively. At June 30, 2014 and 2013, the reconciliation for billed and actual costs resulted in a balance payable to SAF of $616,515 and $197,049, respectively. Tru Student also paid rent for office space in the SAF building, administrative fees, IT service/equipment rental fees, allocated, indirect cost fee and common paymaster expenses. At June 30, 2014 and 2013, the reconciliation for billed and actual costs resulted in a balance payable to SAF of $41,799 and $94,123 respectively.

SAF paid Tru Student client relation fees, contract fees and common paymaster expenses. At June 30, 2014 and 2013, the reconciliation for billed and actual costs resulted in a balance payable to Tru Student of $17,112 and $23,016 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 opted for a dental and life insurance with Assurant on July 1, 2013. 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, 2014 and 2013, there was no balance outstanding on the line. The credit agreement expires on December 1, 2014.

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, 2014 and June 30, 2013 there was a $500,000 and $0 balance outstanding, respectively, included in accounts payable and accrued expenses on the consolidated statement of financial position. The credit agreement expires on November 30, 2014.

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.

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Remote Services Agreement (Continued):
Subsequent amendments to the original agreement on February 1, 2004 extend the term of the agreement through January 31, 2015, with a provision for automatic one year renewal unless either party provides a written notice of intent to terminate the agreement at least 180 days prior to the scheduled termination date. 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.

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 2014, SAF had one of its eight 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. By the Tru Student and SAF Board of Directors action in October 2013, an additional $600,000 was added to principal operating loan. 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.

NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)

SAF Relationship with Tru Student (Continued):
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 2014, SAF had one of its eight 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.

The sublease and shared cost amounts and the related accounts receivable and accounts payable were as follows for the year ended June 30, 2014 and 2013:

	2014	2013
Sublease and Shared Costs		
Payments from:		
MGSLP	**$ 285,304**	$ 366,268
OCHE	**258,422**	257,590
Accounts receivable:		
Payments due from:		
MGSLP	**19,130**	20,091
OCHE	**8,478**	9,008

Total net receivables/payables from these agreements, including the balance due from MHESAC, was $27,608 at June 30, 2014 and $366,286 at June 30, 2013.

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 69% and 65% of SAF's total revenues for the years ended June 30, 2014 and 2013, respectively. Accounts receivable relating to these revenues accounted for 10% of SAF's total receivables as of June 30, 2013. There was no receivable for MHESAC outstanding at June 30, 2014.

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, 2014 and 2013. There were no transfers between Levels 1 and 2 in 2014 or 2013.

Financial Instrument	Fair and Carrying Value	Significant Other Observable Inputs (Level 2)
2014:		
Assets:		
Land Held for Investment	**$ 1,456,000**	**$ 1,456,000**
2013:		
Assets:		
Land Held for Investment	1,456,000	1,456,000

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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).

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:

	2014		2013	
Financial assets:	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Interest receivable	**$ 18,234**	**$ 18,234**	$ 24,568	$ 24,568
Contributions receivable	**22,514**	**22,514**	-	-
Investments – certificates of deposit	**475,779**	**475,779**	548,577	548,577
Corporate issues	**74,028**	**74,028**	73,984	73,984
Educational loans receivable	**88,277**	**88,277**	88,062	88,062
Total financial assets	**$ 678,832**	**$ 678,832**	$ 735,191	$ 735,191
Financial liabilities:				
Funds held for servicing client	**$ 4,860,837**	**$ 4,860,837**	$ 2,068,322	$ 2,068,322
Notes payable	**4,598,721**	**4,598,721**	4,806,111	4,806,111
Capital lease obligations	**120,328**	**120,328**	219,171	219,171
Total financial liabilities	**$ 9,579,886**	**$ 9,579,886**	$ 7,093,604	$ 7,093,604

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, 2014.

Interest Receivable and Payable:
The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2014, given their short-term nature. The fair value hierarchy used in this determination is the same as the underlying asset or liability.

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

Educational Loans Receivable:
The fair value was estimated 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. Management considers fair value of these instruments to approximate carrying value.

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

In November, 2011, a one-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 $25,534 recorded as a refundable grant advance. The remaining revenue totaling $25,534 was recognized in the year ended June 30, 2014.

NOTE 16. REFUNDABLE GRANT ADVANCES (CONTINUED)

In December, 2012, a one-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. Revenue totaling $5,546 was recognized in the year end June 30, 2014. In November, 2013 a one-year grant of $15,000 was received from United Student Aid Funds, Incorporated to support the College Goal Montana Program. Revenue totaling $15,000 was recognized in the year ended June 30, 2014.

NOTE 17. OTHER GRANT ACTIVITY

In November, 2013 SAF was the recipient of a financial literacy grant of $844,195 to provide services for the Family Economic Security (FES)-TANF Financial Services program. In January, 2014 SAF entered into a contract beginning January 1, 2014 and ending June 30, 2015. This contract is renewable for three additional one-year terms not to extend beyond June 30, 2017. This grant will be used to deliver financial literacy education to eligible low-income high school students in six regions throughout the State. Revenue totaling $34,211 was recognized in the year ended June 30, 2014.

In June, 2014 SAF entered into a Memorandum of Agreement with The Office of the Commissioner of Higher Education (OCHE) by which grant funds will be disbursed for the College Access Challenge Grant (CACG) Financial Literacy Education Program. SAF will be the recipient of $200,000 to be used to increase early awareness of postsecondary education. This agreement will be in effect from June, 2014 through June, 2015. No revenue was recognized in the year ended June 30, 2014.

NOTE 18. SUBSEQUENT EVENTS

On August 13, 2014, the SAF Board of Directors voted to invest additional funds into Tru Student in the amount of $2,850,000. The activity will be recorded as additional paid in capital for Tru Student. Tru Student will use the funds to satisfy its loan obligation discussed in Note 12 above. In addition, the SAF Board of Directors voted to forgive the accumulated interest related to this loan owed by Tru Student. This inter-company activity is eliminated in the consolidated financial statements.

Additional Events:
Management has evaluated subsequent events through September 11, 2014, the date which the financial statements were available for issue and did not identify any further events to disclose.

ACCOMPANYING INFORMATION

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2014 with Comparative Totals for 2013

ASSETS	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated 2014	Consolidated 2013
CURRENT ASSETS					
Cash and cash equivalents	$ 4,044,081	$ 2,090,291	$ -	**$ 6,134,372**	$ 4,811,554
Accounts receivable:					
Student Assistance Foundation	-	17,112	(17,112)	**-**	-
Tru Student	3,667,171	-	(3,667,171)	**-**	-
Client & other receivables	1,111,179	582,451	-	**1,693,630**	918,803
Related parties	27,608	-	-	**27,608**	29,099
Interest receivable	18,225	-	-	**18,225**	24,027
Investments	3,257,584	-	(1,251,777)	**2,005,807**	2,004,577
Prepaid costs, net	390,495	10,841	-	**401,336**	714,085
Total current assets	12,516,343	2,700,695	(4,936,060)	**10,280,978**	8,502,145
PROPERTY AND EQUIPMENT, at cost					
Land and building	2,883,045	-	-	**2,883,045**	2,883,045
Building improvements	1,387,496	-	-	**1,387,496**	1,403,474
Equipment and furniture	4,493,529	580	-	**4,494,109**	4,741,703
Leasehold improvements, net	9,917	-	-	**9,917**	19,835
	8,773,987	580	-	**8,774,567**	9,048,057
Less: accumulated depreciation	5,619,985	435	-	**5,620,420**	5,224,157
Total property and equipment	3,154,002	145	-	**3,154,147**	3,823,900
OTHER ASSETS					
Educational loans receivable					
Student loans receivable	88,277	-	-	**88,277**	88,062
Less: uncollectible accounts allowance	8,828	-	-	**8,828**	8,806
Total other assets	79,449	-	-	**79,449**	79,256
OTHER RESTRICTED ASSETS					
Endowment cash and cash equivalents	332,990	-	-	**332,990**	530,422
Contributions receivable	22,514	-	-	**22,514**	-
Endowment interest receivable	9	-	-	**9**	541
Total other restricted assets	355,513	-	-	**355,513**	530,963
Total assets	$ 16,105,307	$ 2,700,840	$ (4,936,060)	**$ 13,870,087**	$ 12,936,264

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
June 30, 2014 with Comparative Totals for 2013

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated 2014	Consolidated 2013
CURRENT LIABILITIES					
Other accounts payable and accrued expenses	$ 1,299,894	$ 1,335,863	$ (675,427)	**$ 1,960,330**	$ 1,685,968
Funds held for loan servicing client	2,871,856	1,988,981	-	**4,860,837**	2,068,322
Funds held for sponsored organization	22,225	-	-	**22,225**	13,573
Accrued interest payable	-	158,856	(158,856)	**-**	-
Grant program liability	62,001	-	-	**62,001**	632,166
Compensated absence liability	746,637	75,286	-	**821,923**	1,081,176
Current obligation under capital lease	79,177	-	-	**79,177**	98,843
Current maturities of notes payable	218,886	-	-	**218,886**	207,745
Current refundable grant advance	-	-	-	**-**	31,080
Total current liabilities	5,300,676	3,558,986	(834,283)	**8,025,379**	5,818,873
LONG-TERM LIABILITIES					
Notes payable, net of current maturities	4,379,835	-	-	**4,379,835**	4,598,366
Loan Payable to parent corporation	-	2,850,000	(2,850,000)	**-**	-
Obligation under capital lease, net of current maturities	41,151	-	-	**41,151**	120,328
Total long-term liabilities	4,420,986	2,850,000	(2,850,000)	**4,420,986**	4,718,694
Total liabilities	9,721,662	6,408,986	(3,684,283)	**12,446,365**	10,537,567
NET ASSETS					
Capital stock, common, $.01 par	-	5	(5)	**-**	-
Additional paid-in-capital	-	1,251,772	(1,251,772)	**-**	-
Unrestricted:					
Undesignated, unrestricted	6,026,231	(4,959,923)	-	**1,066,308**	1,864,000
Board designated for endowment	332,999	-	-	**332,999**	530,963
Total unrestricted	6,359,230	(3,708,146)	(1,251,777)	**1,399,307**	2,394,963
Temporarily restricted	1,901	-	-	**1,901**	3,734
Permanently restricted	22,514	-	-	**22,514**	-
Total net assets	6,383,645	(3,708,146)	(1,251,777)	**1,423,722**	2,398,697
TOTAL LIABILITIES AND NET ASSETS	$ 16,105,307	$ 2,700,840	$ (4,936,060)	**$ 13,870,087**	$ 12,936,264

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended June 30, 2014 with Comparative Totals for 2013

	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated 2014	Consolidated 2013
UNRESTRICTED NET ASSETS					
Revenue and Support:					
Management & servicing fee income	$ 12,850,735	$ -	$ -	**$ 12,850,735**	$ 13,612,987
Interest on educational loans	(5,517)	-	-	**(5,517)**	2,966
Loan servicing income	3,855,634	4,257,602	(2,687,191)	**5,426,045**	4,274,202
Royalty income	413,465	-	-	**413,465**	2,541,630
Income from investments					
Investment Income	3,139	-	-	**3,139**	3,790
Interest on endowment	274	-	-	**274**	1,156
Loan interest income	130,500	-	(130,500)	**-**	-
Gain on purchase of student loans	-	-	-	**-**	2,233
Intercompany contract revenue	215,547	124,432	(339,979)	**-**	-
Contributions and grants	78,551	-	-	**78,551**	74,076
Other income	630,924	-	(188,508)	**442,416**	471,263
	18,173,252	4,382,034	(3,346,178)	**19,209,108**	20,984,303
Net assets released from restrictions	356,168	-	-	**356,168**	432,661
Total unrestricted revenue and support	18,529,420	4,382,034	(3,346,178)	**19,565,276**	21,416,964
Program Operating Expenses:					
Loan Servicing					
Salaries, payroll taxes and employee benefits	8,513,764	1,507,293	-	**10,021,057**	10,343,556
Contract sub-servicing fees	937,532	2,731,712	-	**3,669,244**	2,663,518
Professional services	381,651	77,091	-	**458,742**	631,621
Advertising	4,052	-	-	**4,052**	12,277
Marketing and outreach	1,280	-	-	**1,280**	1,966
Contract services and labor	185,570	386,300	-	**571,870**	338,230
Staff travel and training	93,784	11,589	-	**105,373**	122,885
Insurance	58,949	3,099	-	**62,048**	72,067
Office supplies and copier charges	19,436	1,936	-	**21,372**	31,018
Computer charges	540,880	230,471	-	**771,351**	825,359
Telecommunications and utilities	321,419	26,387	-	**347,806**	344,312
Mail, postage and courier	644,962	21,355	-	**666,317**	739,294
Printing	35,911	2,074	-	**37,985**	63,484
Dues, subscriptions and memberships	66,783	3,300	-	**70,083**	76,312
Recruitment and relocation	13,709	36,911	-	**50,620**	19,344
Automobile	1,157	147	-	**1,304**	1,306
Repairs, maintenance and service	33,598	11,927	-	**45,525**	57,343
Depreciation	423,732	41,262	-	**464,994**	526,647
Loan fees	5,000	-	-	**5,000**	6,250
Operating lease payments	118,081	-	-	**118,081**	115,384
Other costs	235,086	39,154	(33,210)	**241,030**	263,052
Interest	214,802	150,173	(112,500)	**252,475**	246,185
Servicing costs allocated to MSLF	-	-	-	**-**	1,781
Servicing costs allocated to SAF	-	108,693	(124,432)	**(15,739)**	(15,598)
Servicing costs allocated to Tru Student	2,967,882	-	(3,076,036)	**(108,154)**	(326,774)
Total loan servicing	15,819,020	5,390,874	(3,346,178)	**17,863,716**	17,160,819
Grants and public purpose program	1,707,250	-	-	**1,707,250**	2,182,581
Total program operating expenses	17,526,270	5,390,874	(3,346,178)	**19,570,966**	19,343,400

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended June 30, 2014 with Comparative Totals for 2013

	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated 2014	Consolidated 2013
Fundraising Expenses	187,092	-	-	**187,092**	125,027
General and Administrative Expenses:					
Salaries, payroll taxes and employee benefits	169,038	-	-	**169,038**	132,669
Board and officer	32,518	12,927	-	**45,445**	57,583
Professional services	-	-	-	**-**	25,000
Insurance	19,327	-	-	**19,327**	17,510
Income taxes	99,844	1,340	-	**101,184**	256
Other	44,228	-	-	**44,228**	46,557
Total general and administrative expenses	364,955	14,267	-	**379,222**	279,575
Total expenses	18,078,317	5,405,141	(3,346,178)	**20,137,280**	19,748,002
Change in unrestricted net assets before extraordinary loss	451,103	(1,023,107)	-	**(572,004)**	1,668,962
Extraordinary loss on subsidary assets written off	-	(423,652)	-	**(423,652)**	-
Change in unrestricted net assets after extraordinary loss	451,103	(1,446,759)	-	**(995,656)**	1,668,962
TEMPORARILY RESTRICTED NET ASSETS					
Revenue and Support:					
Contributions	354,335	-	-	**354,335**	386,940
Net assets released from restrictions	(356,168)	-	-	**(356,168)**	(432,661)
Change in temporarily restricted net assets	(1,833)	-	-	**(1,833)**	(45,721)
PERMANENTLY RESTRICTED NET ASSETS					
Contributions received	22,514	-	-	**22,514**	-
Change in permanently restricted net assets	22,514	-	-	**22,514**	-
Change in net assets	471,784	(1,446,759)	-	**(974,975)**	1,623,241
Net assets at the beginning of the year	5,911,861	(2,261,387)	(1,251,777)	**2,398,697**	775,456
Net assets at the end of the year	$ 6,383,645	$ (3,708,146)	$ (1,251,777)	**$ 1,423,722**	$ 2,398,697

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
SCHEDULE OF CONSOLIDATED GRANT AND PUBLIC PROGRAMS EXPENSE
For the Years Ended June 30, 2014 with Comparative Totals for 2013

	2014	2013
Operating & overhead expenses		
Program administration	**$ 459,556**	$ 455,427
Campus outreach		
Outreach staff & offices	**563,600**	552,850
Outreach program		
College Goal Montana	**63,887**	42,204
FES Grant	**43,997**	-
Foster Care Program	**242,907**	353,199
Montana College Access/KnowHow2Go	**19,276**	42,151
Grants awarded		
Access grants	**-**	525,000
Graduation Matters	**50,650**	50,000
University of Montana - Western	**2,500**	-
Youth Serve Montana	**50,000**	50,000
Scholarships		
Bozeman School Foundation	**10,000**	10,000
Circle of Success	**71,334**	62,000
Custer County Education Foundation	**5,000**	-
High School Business Challenge	**9,750**	10,000
Jobs for Montana Graduates	**2,500**	1,000
Miscellaneous Scholarships	**1,750**	1,000
Sponsorships		
Career Training Institute	**2,000**	-
CR Anderson Association of Students	**-**	1,600
DonorChoose.org	**5,143**	-
Exploration Works	**5,500**	1,600
Flathead Valley Community College Foundation	**5,000**	-
Grand Street Theatre	**5,000**	-
Helena Education Foundation	**10,000**	5,000
Helena Family YMCA	**2,500**	2,500
Helena Symphony	**1,000**	7,000
Kalispell Education Foundation	**2,500**	-
Leadership Montana	**7,000**	-
MAPS Media Institute	**10,000**	-
Mariah's Challenge School Fund	**2,500**	-
Miscellaneous Sponsorships	**7,150**	6,800
Montana Chamber of Commerce	**3,250**	1,250
Montana Financial Education Coalition	**-**	2,000
Montana Professional Teaching Foundation	**3,500**	-
MPSEOC Sponsorship	**15,000**	-
Museum of the Rockies	**5,000**	-
Office of Public Instruction	**2,500**	-
One Montana	**10,000**	-
Rural Dynamics	**2,500**	-
Spectrum	**3,500**	-
	$ 1,707,250	$ 2,182,581

See Independent Auditor’s Report on Accompanying Information.

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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, 2014 and 2013, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 11, 2014.

Internal Control over Financial Reporting

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

Purpose of this Report

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

Anderson ZurMuehlen & Co., P.C.

Helena, Montana
September 11, 2014