

**STUDENT ASSISTANCE
FOUNDATION OF MONTANA
AND AFFILIATES**

**CONSOLIDATED FINANCIAL
REPORT**

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

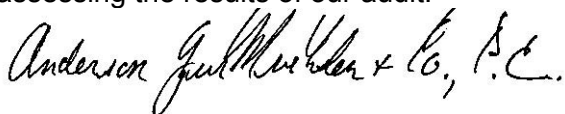
To the Board of Directors
Student Assistance Foundation
of Montana
Helena, Montana

We have audited the accompanying consolidated statements of financial position of Student Assistance Foundation of Montana and Affiliates (the Corporation) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Student Assistance Foundation of Montana and Affiliates as of June 30, 2012 and 2011, and the results of its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012, 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* and should be considered in assessing the results of our audit.



Helena, Montana
September 12, 2012

CONSOLIDATED FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,697,965	\$ 4,961,208
Accounts receivable:		
Other client & miscellaneous receivables	1,012,631	544,364
Related parties	64,401	43,434
Interest receivable	113	2,426,342
Investments	2,002,918	1,999,902
Prepaid costs, net	813,749	336,120
Total current assets	<u>7,591,777</u>	<u>10,311,370</u>
 PROPERTY AND EQUIPMENT, at cost		
Land and building	2,883,045	2,883,045
Building improvements	1,265,849	1,263,931
Construction work in progress	437,663	-
Equipment and furniture	4,055,628	3,902,660
	<u>8,642,185</u>	<u>8,049,636</u>
Less: accumulated depreciation	4,793,406	4,334,299
Total property and equipment	<u>3,848,779</u>	<u>3,715,337</u>
 OTHER ASSETS		
Educational loans receivable, net	18,216	-
Total other assets	<u>18,216</u>	<u>-</u>
 OTHER RESTRICTED ASSETS		
Cash and cash equivalents	-	2,691,818
Endowment cash and cash equivalents	463,738	183,954
Endowment interest receivable	10	937
Educational loans receivable, net	-	194,180,145
Prepaid costs, net	-	3,000
Total other restricted assets	<u>463,748</u>	<u>197,059,854</u>
Total assets	<u>\$ 11,922,520</u>	<u>\$ 211,086,561</u>

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

	<u>2012</u>	<u>2011</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,698,033	\$ 1,480,925
Funds held for loan servicing clients	1,982,425	3,155,929
Special allowance payment payable	-	1,204,361
Accrued interest payable	-	32,624
Grant program liability	1,304,761	1,253,000
Compensated absence liability	1,037,417	984,922
Current obligation under capital lease	64,617	60,860
Refundable grant advance	32,934	49,700
Current maturities of notes payable	197,161	301,141
Current maturities of MSLF line of credit:		
MSLF line of credit payable	-	203,676,598
Less fair value adjustment	-	(5,774,109)
Total current liabilities	<u>6,317,348</u>	<u>206,425,951</u>
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	4,806,067	2,157,156
Obligation under capital lease	<u>23,649</u>	<u>88,266</u>
Total long-term liabilities	<u>4,829,716</u>	<u>2,245,422</u>
Total liabilities	<u>11,147,064</u>	<u>208,671,373</u>
NET ASSETS		
Unrestricted:		
Unrestricted, undesignated	262,253	2,210,515
Board-designated for endowment	<u>463,748</u>	<u>184,892</u>
Total unrestricted	726,001	2,395,407
Temporarily restricted	<u>49,455</u>	<u>19,781</u>
Total net assets	<u>775,456</u>	<u>2,415,188</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,922,520</u>	<u>\$ 211,086,561</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2012 and 2011

	2012	2011
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Management & servicing fee income	\$ 12,660,736	\$ 13,504,164
Interest on educational loans	2,083,623	4,570,124
Loan servicing income	2,805,161	1,863,047
Income from investments		
Investment income	4,631	7,970
Interest on endowment	1,755	2,066
Realized loss on loan transfer	(107,708)	-
Unrealized gain on MSLF line of credit	-	340,696
Contributions & grants	36,706	140,769
Other income	482,781	571,427
	17,967,685	21,000,263
Net assets released from restrictions	358,935	324,292
Total unrestricted revenue and support	18,326,620	21,324,555
Program Operating Expenses:		
Loan servicing		
Salaries, payroll taxes and employee benefits	9,254,262	9,173,988
Contract sub-servicing fees	1,889,822	1,971,014
Professional services	567,217	737,551
Advertising	82,349	72,258
Marketing and outreach	1,500	1,613
Contract services and labor	483,157	583,860
Staff travel and training	197,037	180,879
Insurance	73,657	75,700
Office supplies and copier charges	55,682	53,866
Computer charges	659,763	519,084
Telecommunications and utilities	284,753	296,259
Mail, postage and courier	549,503	491,270
Printing	73,127	58,576
Dues, subscriptions and memberships	57,962	75,997
Recruitment and relocation	12,614	3,705
Automobile	3,454	2,436
Repairs, maintenance and service	51,366	53,488
Depreciation	480,240	491,014
Conversion costs	752,878	1,881,112

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

	<u>2012</u>	<u>2011</u>
Program Operating Expenses (Continued):		
Loan servicing (continued)		
Loan fees	412,275	879,052
Operating lease payments	18,126	25,032
Other costs	213,216	371,092
Interest	458,637	942,890
Grants and public purpose program	3,040,863	2,834,139
Servicing costs allocated between companies	69,346	(6,120)
Lender services	-	6,660
Total program operating expenses	<u>19,742,806</u>	<u>21,776,415</u>
 Fundraising Expenses	 <u>95,677</u>	 <u>261,674</u>
 General and Administrative Expenses:		
Salaries, payroll taxes and employee benefits	107,337	118,678
Board and officer	54,664	56,347
Professional services	-	37,633
Insurance	14,465	14,115
Income tax recapture	(66,660)	(2,276)
Other	47,737	45,770
Total general and administrative expenses	<u>157,543</u>	<u>270,267</u>
 Total expenses	 <u>19,996,026</u>	 <u>22,308,356</u>
Increase (decrease) in unrestricted net assets	(1,669,406)	(983,801)
 TEMPORARILY RESTRICTED NET ASSETS		
Revenue and Support:		
Contributions	388,609	333,073
Net assets released from restrictions	<u>(358,935)</u>	<u>(324,292)</u>
Increase in temporarily restricted net assets	<u>29,674</u>	<u>8,781</u>
 Increase (decrease) in net assets	 <u>(1,639,732)</u>	 <u>(975,020)</u>
Net assets at the beginning of the year	<u>2,415,188</u>	<u>3,390,208</u>
Net assets at the end of the year	<u>\$ 775,456</u>	<u>\$ 2,415,188</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
STATEMENTS CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,639,732)	\$ (975,020)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Purchase of educational loans	(18,216)	(135,342)
Repayments of educational loans	6,934,641	15,862,486
Non-cash adjustments to educational loans	(1,436,767)	(2,528,658)
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	-
Unrealized gain on MSLF line of credit	-	(340,696)
Depreciation	561,220	572,194
Change in investment values	(189)	398
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables	(488,307)	(60,100)
Interest receivable	2,426,229	338,443
Prepaid costs	(474,629)	106,444
Increase (decrease) in current liabilities:		
Accounts and accrued expenses payable	(1,019,877)	(473,811)
Compensated absences	52,495	(6,884)
Refundable grant advance	(16,766)	(47,900)
Grants awarded	51,761	2,000
Funds held for servicing clients	(1,173,504)	(295,929)
Net cash flows from operating activities	438,141	12,017,625
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(694,662)	(386,256)
Proceeds from sale of fixed assets	-	1,775
Purchase of investments	(27,827)	(29,112)
Proceeds from sale of investments	25,000	20,000
Net cash flows from investing activities	(697,489)	(393,593)

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

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on line of credit	(5,900,000)	(15,400,000)
Proceeds from issuance of notes/loans payable	4,650,000	-
Repayments on notes/loans payable	(2,105,069)	(337,387)
Repayments on lease obligations	(60,860)	(65,134)
Net cashflows from financing activities	<u>(3,415,929)</u>	<u>(15,802,521)</u>
Net change in cash and cash equivalents	(3,675,277)	(4,178,489)
Cash and cash equivalents, beginning of year	<u>7,836,980</u>	<u>12,015,469</u>
Cash and cash equivalents, end of year	<u>\$ 4,161,703</u>	<u>\$ 7,836,980</u>
Supplemental schedule of noncash investing and financing activities:		
Cash paid for interest	<u>\$ 508,975</u>	<u>\$ 1,012,938</u>
Cash and cash equivalents are reported on the consolidated statement to financial position as follows:		
Cash and cash equivalents, current	\$ 3,697,965	\$ 4,961,208
Cash and cash equivalents, restricted	-	2,691,818
Endowment cash and cash equivalents	<u>463,738</u>	<u>183,954</u>
	<u>\$ 4,161,703</u>	<u>\$ 7,836,980</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

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 11 national clients during the year ended June 30 2012 and up to 9 national clients during the year ended June 30 2011. 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 9 national clients during the year ended June 30, 2012 and up to 6 national clients during the year ended June 30, 2011.

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. 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. 400 shares and 300 shares were issued and outstanding at June 30, 2012 and 2011, 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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

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, 2012. 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 rehabilitation loan servicing is considered unrelated business income and is subject to taxation. The Corporation recognized tax expense recapture of (\$66,710) for the year ended June 30, 2012 and tax expense recapture of (\$2,376) for the year ended June 30, 2011.

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. 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 \$50 for the year ended June 30, 2012 and \$100 for the year ended June 30, 2011. 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, 2012 and 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued):

During the years ended June 30, 2012 and 2011, Tru Student reported an operating loss of \$1,377,296 and \$975,020, respectively, for financial reporting purposes. The enacted federal and state corporate tax rates at June 30, 2012 were 15-35% and 6.75%, respectively. The deferred income tax benefit of the unexpired cumulative net operating loss carry forward of \$2,079,462 for tax purposes is estimated to be \$452,283 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, 2012 or June 30, 2011.

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, 2009 and Montana taxing authorities for years prior to the tax year ended June 30, 2007.

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 \$49,455 at June 30, 2012 and \$19,781 at June 30, 2011 (see Note 9).

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

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, 2012 or 2011.

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, 2012 and 2011. 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, 2012. 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 \$15,567 and \$24,265 for the years ended June 30, 2012 and June 30, 2011, 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, 2012 and 2011

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, 2012 and June 30, 2011 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 on 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, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Loan Servicing	\$ 500,254	\$ 491,014
Included in Affiliated Client Expenses	14,298	33,896
Included in Grants and Public Purpose Program Expenses	46,668	47,284
	<u>\$ 561,220</u>	<u>\$ 572,194</u>

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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued):

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 or 3-month Commercial Paper Rates 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, 2012 and 2011, rebates of \$2,287,455 and \$4,850,360, respectively, were netted in special allowance revenue on the financial statements.

Effective July 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.

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Based Repayment (IBR) Plan (continued):

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).

Assets Restricted by MSLF Agreement:

As more fully explained in Note 5, certain MSLF assets are restricted under the terms of the indenture governing the line of credit with Citicorp. These assets are presented as other assets in the statement of financial position at June 30, 2011.

Reclassifications:

Certain reclassifications were made to the 2011 financial statements in order to conform to the 2012 presentation. The reclassifications had no effect on the change in net assets or total assets previously reported.

NOTE 2. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash deposits. SAF, Tru Student and MSLF 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 unlimited deposit insurance coverage on noninterest-bearing accounts.

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. At June 30, 2011, the carrying amount of those deposits was \$5,143,810 and the bank balance was \$5,460,340 with \$1,901,587 in excess of FDIC insured limits.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

NOTE 3. INVESTMENTS

For the years ended June 30, 2012 and 2011 there is no significant difference between cost and fair value for certificate of deposits. The fair value of land held for investment is \$1,456,000 at June 30, 2012 and 2011, 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, 2012 and 2011, the Corporation had investments consisting of the following:

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 472,702	\$ 469,875
Corporate bonds	74,216	74,027
Land held for investment	<u>1,456,000</u>	<u>1,456,000</u>
Total Investments	<u>\$ 2,002,918</u>	<u>\$ 1,999,902</u>

Components of investment income include the following:

Interest and dividends	<u>\$ 6,386</u>	<u>\$ 10,036</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, 2012</u>	<u>June 30, 2011</u>
Student/interim status	\$ 17,615	\$ 26,104,662
Repayment status	601	168,083,798
Less allowance for uncollectible loans	-	(8,315)
Total	<u>\$ 18,216</u>	<u>\$ 194,180,145</u>

Following is a breakdown of the different loan types held at June 30, 2012 and June 30, 2011 (gross loan amounts):

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Stafford	\$ 18,216	\$ 17,583,375
PLUS	-	3,739,989
Consolidation	-	172,865,096
Less allowance for uncollectible loans	-	(8,315)
Total	<u>\$ 18,216</u>	<u>\$ 194,180,145</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

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

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%. 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. 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, 2012 and 2011

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

For the year ended June 30, 2011, MSLF held a loan portfolio of \$194,188,460 with an average default rate of 2.14%, resulting in a provision for uncollectible educational loans of \$8,315 being recorded. 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.

Following is a breakdown by loan guarantor rates of the current loan portfolios held at June 30, 2012 and June 30, 2011:

	<u>2012</u>	<u>2011</u>
100% Guaranteed	\$ 7,016	\$ -
98% Guaranteed	11,200	4,755,978
97% Guaranteed	-	189,432,482
TOTAL PORTFOLIO	<u>\$ 18,216</u>	<u>\$194,188,460</u>

No changes were implemented in our accounting policies or methodologies during the year ended June 30, 2012.

NOTE 5. LONG-TERM DEBT

At June 30, 2012 and 2011, long term debt consisted of the following:

	<u>2012</u>	<u>2011</u>
Note payable to MHESAC, bearing interest at the rate of 8.22%; payable in monthly installments of \$28,526 through February 2019 secured by real property		
Note paid off in August 2011.	\$ -	\$ 1,883,706

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

NOTE 5. LONG-TERM DEBT (CONTINUED)

	<u>2012</u>	<u>2011</u>
Note payable to Valley Bank for building and Tru Student financing, 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.	4,537,356	-
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.	465,872	514,735
Note payable to Montana Business Assistance Connection, bearing interest at the rate of 6.0%; payable in monthly installments of \$10,150.60 through December 2011; unsecured. Paid in full Dec 2011	-	59,856
Total notes payable	5,003,228	2,458,297
Less current maturities	(197,161)	(301,141)
Long-term notes payable	<u>\$ 4,806,067</u>	<u>\$ 2,157,156</u>

Future maturity requirements of long-term debt for the five years subsequent to June 30, 2012 are as follows

2013	\$	197,161
2014		207,751
2015		218,914
2016		467,534
2017		184,064
Thereafter		<u>3,727,804</u>
		<u>\$ 5,003,228</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

NOTE 5. LONG-TERM DEBT (CONTINUED)

MSLF:

A Citicorp Line of Credit was established by indenture, originally dated August 5, 2003, for the express purpose of acquiring and originating student loans. The original line of credit had a maximum of \$100,000,000 and a maturity date of August 5, 2008 subject to annual renewals. On July 23, 2008 an amendment extending the Citicorp line of credit until September 8, 2008 was completed. On September 4, 2008, Citicorp advised MSLF that the Line of Credit was not extended under the annual renewal option of the agreement and provided a notification that the coverage condition was not satisfied in relationship to the required portfolio valuation of the collateral (educational loans). Collateral for the line of credit included the loans acquired with the proceeds, related guarantee agreements, borrower interest, all funds on deposit in the accounts established under the indenture and personal property of MSLF.

Citicorp requested the margin between the portfolio carrying amount and the portfolio valuation be deposited in the trust account to cure the coverage condition. MSLF management chose not to satisfy this request due to economic feasibility. A subsequent notification on September 9, 2008 indicated a termination event had occurred under the existing agreement and Citicorp could exercise all rights and remedies under the agreement.

The indenture was placed in a coverage condition event of termination status with Citicorp electing to continue the relationship and implementing an increase in "on-going" pricing and accruing additional interest that will become payable upon full repayment of the principal. The probability of the additional deferred interest being paid was remote; therefore, no accrual was recorded in the financial statements of MSLF. On September 16, 2011, Citicorp advised MSLF that they would dissolve the credit facility and requested that MSLF enter into a consensual relinquishment (strict foreclosure) to collapse the credit facility and transfer asset ownership to Citicorp in consideration for complete payoff of obligations under the facility. The relinquishment was completed in December 2011. SAF continued to service the loans for Citicorp until MHESAC acquired the loan portfolio in an unrelated transaction.

In accordance with the indenture amendment dated October 28, 2010, the deferred interest fees calculated after that amendment date are waived by Citicorp. The unrecorded deferred charges under this agreement at June 30, 2011 totaled \$17,970,364. The deferred charges were eliminated as part of the relinquishment.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

NOTE 5. LONG-TERM DEBT (CONTINUED)

MSLF (Continued):

The credit line on June 30, 2011 was \$203,676,598. An allowance of \$5,774,109 was recorded at June 30, 2011 to reflect the difference between the outstanding line of credit and the fair value of the net collateral assets that secured the debt at that time.

The balance of advances drawn on the line of credit as of June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Citicorp line of credit; bearing variable interest of .191% at June 30, 2011 with a maturity date of August 5, 2008 (annual renewals discontinued effective July 23, 2008); secured by student loans	<u>\$ -</u>	<u>\$ 203,676,598</u>

NOTE 6. CAPITAL LEASES

At June 30, 2012, 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, 2012 and 2011 was \$88,266 and \$149,126, respectively, and is due in monthly installments of \$5,670. 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, 2012:

	2013	\$ 68,040
	2014	<u>23,927</u>
	Total minimum lease payments	91,967
	Less the amount representing interest	(3,701)
	Less current portion	<u>(64,617)</u>
	Present value of net minimum lease payments, long-term	<u>\$ 23,649</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

NOTE 7. OPERATING LEASES

The Corporation has operating leases for furniture and equipment with various providers as well as one operating lease for lease space. Four leases at June 30, 2012 and four leases at June 30, 2011 were classified as operating leases. Total rent expense on such leases for the fiscal years ended June 30, 2012 and 2011 was \$21,343 and \$26,539, respectively.

As of June 30, 2012 future minimum lease payments under operating leases with a remaining term in excess of one year are as follows:

2013	\$ 114,782
2014	109,485
2015	100,361

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 \$277,240 and \$60,000 in the years ended June 30, 2012 and June 30, 2011, respectively, and earnings of \$1,616 and \$2,067 were added during the years ended 2012 and 2011, respectively. SAF considers the following factors in making a determination to expend donor-restricted endowment funds.

- Preservation of the funds
- Investment policies adopted

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

NOTE 8. ENDOWMENT (CONTINUED)

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.

The following describes the composition of net assets of the endowment as of June 30, 2012 and 2011, respectively, and the changes in endowment net assets for the years then ended:

	<u>Unrestricted</u>
Balance, July 1, 2010	\$ 122,825
Contributions	60,000
Investment interest	2,067
Balance, June 30, 2011	184,892
Contributions	277,240
Investment interest	1,616
Balance, June 30, 2012	<u>\$ 463,748</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

NOTE 9. NET ASSETS

At June 30 net assets consist of the following:

Unrestricted:	<u>2012</u>	<u>2011</u>
Undesignated	\$ 262,253	\$ 2,210,515
Board designated for endowment	<u>463,748</u>	<u>184,892</u>
Total unrestricted	<u>726,001</u>	<u>2,395,407</u>
Temporarily Restricted:		
KnowHow2Go/GOAL 2025/HSBC	<u>49,455</u>	<u>19,781</u>
Total temporarily restricted	<u>49,455</u>	<u>19,781</u>
Total net assets	<u>\$ 775,456</u>	<u>\$ 2,415,188</u>

During the year ended June 30, 2012 and 2011, temporarily restricted net assets were released from restrictions as follows:

Expiration of donor restriction by expenditure for:	<u>2012</u>	<u>2011</u>
Circle of Success (Access Circle)	\$ 52,365	\$ 34,614
College Goal Montana	20,922	14,949
GOAL 2025	20,161	-
High School Business Challenge	2,250	5,550
KnowHow2Go/MCAN	73,614	35,694
Access Grants	-	961
ETV Foster Care	<u>189,623</u>	<u>232,524</u>
Total temporarily restricted net assets released	<u>\$ 358,935</u>	<u>\$ 324,292</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

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 \$401,587 in the year ended June 30, 2012 and \$436,288 in the year ended June 30, 2011. 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 \$55,295 in the year ended June 30, 2012 and \$17,943 in the year ended June 30, 2011.

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.

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, 2009, 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.

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, 2012 and 2011, SAF billed MHESAC \$12,756,583 and \$13,370,225, respectively. At June 30, 2012 and 2011, the reconciliation for billed and actual costs resulted in a balance receivable from MHESAC of \$21,103 and \$115,483 respectively. These balances are included in 2012 and 2011 client receivables, respectively.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Servicing Agreements (Continued):

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 remains outstanding, unless the agreement is otherwise terminated in accordance with the terms stated. 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 \$362,345 and \$662,387 in servicing fees from MSLF during the years ended June 30, 2012 and 2011, respectively. There were intercompany payables of \$0 and \$95,971 as of June 30, 2012 and 2011, 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, 2012 and June 30, 2011 there was no balance outstanding on the line. The credit agreement expires on December 1, 2012.

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% and a maturity date of August 18, 2012. On June 30, 2012 there was no balance outstanding.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Remote Services Agreement:

On February 1, 2001, SAF entered into an agreement with the Pennsylvania Higher Education Assistance Agency (PHEAA) for remote system access for the effective computer processing of loans serviced by SAF. The agreement 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.

NOTE 12. RELATED PARTY TRANSACTIONS

SAF Relationship with MHESAC:

On February 1, 2000, SAF entered into an agreement with Montana Higher Education Student Assistance Corporation (MHESAC) to provide management and servicing functions to MHESAC as described in Note 11. For fiscal year 2012, 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. These assets were transferred in exchange for notes more fully described in Note 5.

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%. 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 loan.

Shared Cost Agreements:

The Corporation has a sublease and shared cost agreement with Montana Guaranteed Student Loan Program (MGSLP) and Office of the Commissioner of Higher Education (OCHE), both agencies of the Board of Regents of Montana. The costs shared are primarily related to computer operations, personnel and building operations.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Sublease and Shared Costs		
Payments from:		
MGSLP	\$ 374,484	\$ 432,214
OCHE	259,303	256,576
Accounts receivable:		
Payments due from:		
MGSLP	54,218	31,686
OCHE	10,183	11,748

Total net receivables/payables from these agreements, including the balance due from MHESAC disclosed in Note 11, was \$85,504 at June 30, 2012 and \$159,111 at June 30, 2011.

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 76% and 78% of SAF's total revenues for the years ended June 30, 2012 and 2011, respectively. Accounts receivable relating to these revenues accounted for 1% and 18.7% of SAF's total receivables as of June 30, 2012 and June 30, 2011, respectively.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

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, 2012 and 2011. There were no transfers between Levels 1 and 2 in 2012 or 2011.

<u>Financial Instrument</u>	<u>Fair and Carrying Value</u>	<u>Significant Other Observable Inputs (Level 2)</u>
2012:		
<u>Assets:</u>		
Land Held for Investment	\$ 1,456,000	\$ 1,456,000
2011:		
<u>Assets:</u>		
Land Held for Investments	1,456,000	1,456,000
<u>Liabilities:</u>		
MSLF line of credit	197,902,489	197,902,489

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

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).

MSLF Line of Credit:

Fair value for the MSLF line of credit is based on the contractual value of the underlying collateral for the loan (liquidation value). GAAP permits entities to measure many financial instruments and certain other items at fair value. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The Corporation has elected to apply this guidance to the MSLF line of credit.

There were no changes in these valuation approaches during 2012. The table below summarizes the change in fair value:

	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 197,902,489	\$ 213,643,185
Net change from repayments of loan	(5,900,000)	(15,400,000)
Unrealized gain (loss) on beginning valuation	5,666,401	(340,696)
Realized loss on consensual relinquishment	107,708	-
Adjustment from consensual relinquishment	<u>(197,776,598)</u>	<u>-</u>
Ending Balance	<u>\$ -</u>	<u>\$ 197,902,489</u>

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>2012</u>		<u>2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Interest receivable	\$ 123	\$ 123	\$ 2,427,279	\$ 2,427,279
Investments –				
certificates of deposit	546,918	546,918	543,902	543,902
Corporate bonds	74,216	74,216	74,027	74,027
Educational loans				
receivable, net	<u>18,216</u>	<u>18,216</u>	<u>194,180,145</u>	<u>184,684,288</u>
Total financial assets	<u>\$ 639,473</u>	<u>\$ 639,473</u>	<u>\$197,225,353</u>	<u>\$187,729,496</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	<u>2012</u>		<u>2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial liabilities:				
Funds held for servicing client	\$ 1,982,425	\$ 1,982,425	\$ 3,155,929	\$ 3,155,929
Interest payable	-	-	32,624	32,624
Notes payable	5,003,228	5,003,228	2,458,297	2,458,297
Capital lease obligations	<u>88,266</u>	<u>88,266</u>	<u>149,126</u>	<u>149,126</u>
Total financial liabilities	<u>\$ 7,073,919</u>	<u>\$ 7,073,919</u>	<u>\$ 5,795,976</u>	<u>\$ 5,795,976</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, 2012.

Interest receivable and payable:

The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2012, 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. Corporate issue fair value is derived from a market approach and trading values of the instruments.

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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

NOTE 17. SUBSEQUENT EVENTS

Related Party Transactions:

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%. This agreement allowed for interest only payments through September 10, 2012 with interest and principal payments commencing October 2012. 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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

NOTE 17. SUBSEQUENT EVENTS (CONTINUED)

Additional Events:

Management has evaluated subsequent events through September 12, 2012, the date which the financial statements were available for issue and did not identify any further events to disclose.

ACCOMPANYING INFORMATION

INDEPENDENT AUDITOR'S REPORT
ON ACCOMPANYING INFORMATION

To the Board of Directors
Student Assistance Foundation
of Montana
Helena, Montana 59601

We have audited the consolidated financial statements of Student Assistance Foundation of Montana and Affiliates as of and for the year ended June 30, 2012 and 2011, and have issued our report thereon dated September 12, 2012, which contained an unqualified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating information presented on pages 35 to 42 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and it is not a required part of the consolidated financial statements. The scheduled of consolidated grant and public programs expense presented on page 43 is also presented for additional analysis and is 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 audit 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.



Helena, Montana
September 12, 2012

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STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2012 with Comparative Totals for 2011

ASSETS	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
	<u> </u>	<u> </u>	<u> </u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,980,466	\$ 21	\$ 717,478
Accounts receivable:			
Student Assistance Foundation	-	-	25,556
Tru Student	2,382,904	-	-
Other client & miscellaneous receivables	895,110	-	117,521
Related parties	64,401	-	-
Interest receivable	113	-	-
Investments	2,754,695	-	-
Prepaid costs, net	384,159	-	429,590
Funds held for loan servicing client	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>9,461,848</u>	<u>21</u>	<u>1,290,145</u>
PROPERTY AND EQUIPMENT, at cost			
Land and building	2,883,045	-	-
Building improvements	1,265,849	-	-
Construction work in progress	437,663	-	-
Equipment and furniture	<u>4,053,853</u>	<u>-</u>	<u>1,775</u>
	8,640,410	-	1,775
Less: accumulated depreciation	<u>4,792,785</u>	<u>-</u>	<u>621</u>
Total property and equipment	<u>3,847,625</u>	<u>-</u>	<u>1,154</u>
OTHER ASSETS			
Educational loans receivable	<u>18,216</u>	<u>-</u>	<u>-</u>
Total other assets	<u>18,216</u>	<u>-</u>	<u>-</u>
OTHER RESTRICTED ASSETS			
Cash and cash equivalents	-	-	-
Endowment cash and cash equivalents	463,738	-	-
Endowment interest receivable	10	-	-
Educational loans receivable			
Student loans receivable	-	-	-
Less: allowance for uncollectible accounts	-	-	-
Prepaid costs, net	<u>-</u>	<u>-</u>	<u>-</u>
Total other restricted assets	<u>463,748</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 13,791,437</u>	<u>\$ 21</u>	<u>\$ 1,291,299</u>

See Independent Auditor's Report on Accompanying Information.

Consolidating Adjustments	Consolidated	
	2012	2011
\$ -	\$ 3,697,965	\$ 4,961,208
(25,556)	-	-
(2,382,904)	-	-
-	1,012,631	544,364
-	64,401	43,434
-	113	2,426,342
(751,777)	2,002,918	1,999,902
-	813,749	336,120
-	-	-
<u>(3,160,237)</u>	<u>7,591,777</u>	<u>10,311,370</u>
-	2,883,045	2,883,045
-	1,265,849	1,263,931
-	437,663	-
-	4,055,628	3,902,660
-	8,642,185	8,049,636
-	4,793,406	4,334,299
-	3,848,779	3,715,337
-	18,216	-
-	18,216	-
-	-	2,691,818
-	463,738	183,954
-	10	937
-	-	194,188,460
-	-	(8,315)
-	-	3,000
-	463,748	197,059,854
<u>\$ (3,160,237)</u>	<u>\$ 11,922,520</u>	<u>\$ 211,086,561</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
June 30, 2012 with Comparative Totals for 2011

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
	<u> </u>	<u> </u>	<u> </u>
CURRENT LIABILITIES			
Other accounts payable and accrued expenses	\$ 1,549,482	\$ -	\$ 307,011
Funds held for loan servicing client	1,982,425	-	-
Special allowance payment payable	-	-	-
Accrued interest payable	-	-	-
Grant program liability	1,304,761	-	-
Loan Payable to parent corporation	-	-	2,250,000
Compensated absence liability	937,938	-	99,479
Current obligation under capital lease	64,617	-	-
Current maturities of notes payable	197,161	-	-
Current refundable grant advance	32,934	-	-
Current maturities of MSLF line of credit:			
MSLF line of credit	-	-	-
Less fair value adjustment	-	-	-
Total current liabilities	<u>6,069,318</u>	<u>-</u>	<u>2,656,490</u>
LONG-TERM LIABILITIES			
Notes payable, net of current maturities	4,806,067	-	-
Obligation under capital lease	23,649	-	-
Total long-term liabilities	<u>4,829,716</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>10,899,034</u>	<u>-</u>	<u>2,656,490</u>
NET ASSETS			
Capital stock, common, \$.01 par	-	-	4
Additional paid-in-capital	-	-	751,773
Unrestricted:			
Undesignated, unrestricted	2,379,200	21	(2,116,968)
Board designated for endowment	463,748	-	-
Total unrestricted	2,842,948	21	(1,365,191)
Temporarily restricted	49,455	-	-
Total net assets	<u>2,892,403</u>	<u>21</u>	<u>(1,365,191)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,791,437</u>	<u>\$ 21</u>	<u>\$ 1,291,299</u>

See Independent Auditor's Report on Accompanying Information.

Consolidating Adjustments	Consolidated	
	2012	2011
\$ (158,460)	\$ 1,698,033	\$ 1,480,925
	1,982,425	3,155,929
-	-	1,204,361
-	-	32,624
-	1,304,761	1,253,000
(2,250,000)	-	-
-	1,037,417	984,922
-	64,617	60,860
-	197,161	301,141
-	32,934	49,700
-	-	203,676,598
-	-	(5,774,109)
<u>(2,408,460)</u>	<u>6,317,348</u>	<u>206,425,951</u>
-	4,806,067	2,157,156
-	23,649	88,266
-	4,829,716	2,245,422
<u>(2,408,460)</u>	<u>11,147,064</u>	<u>208,671,373</u>
(4)	-	-
(751,773)	-	-
	262,253	2,210,515
-	463,748	184,892
(751,777)	726,001	2,395,407
-	49,455	19,781
<u>(751,777)</u>	<u>775,456</u>	<u>2,415,188</u>
<u>\$ (3,160,237)</u>	<u>\$ 11,922,520</u>	<u>\$ 211,086,561</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended June 30, 2012 with Comparative Totals for 2011

	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
UNRESTRICTED NET ASSETS			
Revenue and Support:			
Management & servicing fee income	\$ 12,660,736	\$ -	\$ -
Interest on educational loans	269	2,083,354	-
Loan servicing income	2,764,177	-	753,420
Income from investments			
Investment income	4,511	120	-
Interest on endowment	1,755	-	-
Loan interest income	87,072	-	-
Realized loss on loan transfer	-	(107,708)	-
Unrealized gain on MSLF line of credit	-	-	-
Intercompany contract revenue	103,867	-	303,603
Contributions and grants	36,706	-	-
Other income	514,685	-	690
	<u>16,173,778</u>	<u>1,975,766</u>	<u>1,057,713</u>
Net assets released from restrictions	<u>358,935</u>	<u>-</u>	<u>-</u>
Total unrestricted revenue and support	<u>16,532,713</u>	<u>1,975,766</u>	<u>1,057,713</u>
Program Operating Expenses:			
Loan Servicing			
Salaries, payroll taxes and employee benefits	8,106,644	-	1,147,618
Contract sub-servicing fees	1,173,455	362,345	354,022
Professional services	451,167	-	116,050
Advertising	82,349	-	-
Marketing and outreach	1,500	-	-
Contract services and labor	333,689	-	149,468
Staff travel and training	130,982	-	66,055
Insurance	70,819	-	2,838
Office supplies and copier charges	54,711	-	971
Computer charges	526,495	-	133,268
Telecommunications and utilities	280,192	-	4,561
Mail, postage and courier	538,423	-	11,080
Printing	66,647	-	6,480
Dues, subscriptions and memberships	56,620	-	1,342
Recruitment and relocation	12,614	-	-
Automobile	3,454	-	-
Repairs, maintenance and service	48,004	-	3,362
Depreciation	479,901	-	339
Conversion costs	-	752,878	-
Loan fees	-	412,275	-
Operating lease payments	18,126	-	-
Other costs	184,882	23,916	8,658
Interest	221,493	225,067	99,149
Grants and public purpose program	3,040,863	-	-
Servicing costs allocated to MSLF	253,813	-	-
Servicing costs allocated to SAF	-	-	314,453
Servicing costs allocated to Tru Student	649,340	-	-
Lender services	-	-	-
Total program operating expenses	<u>16,786,183</u>	<u>1,776,481</u>	<u>2,419,714</u>

See Independent Auditor's Report on Accompanying Information.

Consolidated		
Consolidating Adjustments	2012	2011
\$ -	\$ 12,660,736	\$ 13,504,164
-	2,083,623	4,570,124
(712,436)	2,805,161	1,863,047
-	4,631	7,970
-	1,755	2,066
(87,072)	-	-
-	(107,708)	-
-	-	340,696
(407,470)	-	-
-	36,706	140,769
(32,594)	482,781	571,427
(1,239,572)	17,967,685	21,000,263
-	358,935	324,292
(1,239,572)	18,326,620	21,324,555
-	9,254,262	9,173,988
-	1,889,822	1,971,014
-	567,217	737,551
-	82,349	72,258
-	1,500	1,613
-	483,157	583,860
-	197,037	180,879
-	73,657	75,700
-	55,682	53,866
-	659,763	519,084
-	284,753	296,259
-	549,503	491,270
-	73,127	58,576
-	57,962	75,997
-	12,614	3,705
-	3,454	2,436
-	51,366	53,488
-	480,240	491,014
-	752,878	1,881,112
-	412,275	879,052
-	18,126	25,032
(4,240)	213,216	371,092
(87,072)	458,637	942,890
-	3,040,863	2,834,139
(362,345)	(108,532)	-
(303,603)	10,850	(7,740)
(482,312)	167,028	1,620
-	-	6,660
(1,239,572)	19,742,806	21,776,415

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES (CONTINUED)
For the Year Ended June 30, 2012 with Comparative Totals for 2011

	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
Fundraising Expenses	<u>95,677</u>	<u>-</u>	<u>-</u>
General and Administrative Expenses:			
Salaries, payroll taxes and employee benefits	107,337	-	-
Board and officer	33,944	5,475	15,245
Professional services	-	-	-
Insurance	14,465	-	-
Income taxes	(66,710)	-	50
Other	<u>47,737</u>	<u>-</u>	<u>-</u>
Total general and administrative expenses	<u>136,773</u>	<u>5,475</u>	<u>15,295</u>
 Total expenses	<u>17,018,633</u>	<u>1,781,956</u>	<u>2,435,009</u>
Increase (decrease) in unrestricted net assets	<u>(485,920)</u>	<u>193,810</u>	<u>(1,377,296)</u>
 TEMPORARILY RESTRICTED NET ASSETS			
Revenue and Support:			
Contributions	388,609	-	-
Net assets released from restrictions	<u>(358,935)</u>	<u>-</u>	<u>-</u>
 Increase in temporarily restricted net assets	<u>29,674</u>	<u>-</u>	<u>-</u>
 Increase(decrease) in net assets	(456,246)	193,810	(1,377,296)
Net assets at the beginning of the year	<u>3,348,650</u>	<u>(193,789)</u>	<u>(487,896)</u>
Common stock issued	-	-	1
Contributed capital	<u>-</u>	<u>-</u>	<u>499,999</u>
Net assets at the end of the year	<u>\$ 2,892,404</u>	<u>\$ 21</u>	<u>\$ (1,365,192)</u>

See Independent Auditor's Report on Accompanying Information

	<u>Consolidated</u>	
Consolidating Adjustments	2012	2011
-	<u>95,677</u>	<u>261,674</u>
-	107,337	118,678
-	54,664	56,347
-	-	37,633
-	14,465	14,115
-	(66,660)	(2,276)
-	<u>47,737</u>	<u>45,770</u>
-	<u>157,543</u>	<u>270,267</u>
<u>(1,239,572)</u>	<u>19,996,026</u>	<u>22,308,356</u>
-	<u>(1,669,406)</u>	<u>(983,801)</u>
-	388,609	333,073
-	<u>(358,935)</u>	<u>(324,292)</u>
-	<u>29,674</u>	<u>8,781</u>
-	(1,639,732)	(975,020)
<u>(251,777)</u>	<u>2,415,188</u>	<u>3,390,208</u>
(1)	-	-
<u>(499,999)</u>	-	-
<u>\$ (751,777)</u>	<u>\$ 775,456</u>	<u>\$ 2,415,188</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
SCHEDULE OF CONSOLIDATED GRANT AND PUBLIC PROGRAMS EXPENSE
For the Years Ended June 30, 2012 with Comparative Totals for 2011

	<u>2012</u>	<u>2011</u>
Operating & overhead expenses		
Program administration	\$ 416,110	\$ 322,303
Campus outreach		
Outreach staff & offices	714,085	725,512
Outreach program		
College Goal Montana	65,668	56,537
Foster Care Program	229,871	234,146
Montana College Access/KnowHow2Go	100,121	51,070
SAT/ACT practice tests	-	15,000
Grants awarded		
Access grants	1,250,761	1,250,000
Gear Up contribution	-	6,058
Helena Symphony Youth Concert	-	5,000
Graduation Matters	50,000	-
Matella	6,000	-
Montana Education & Savings Account Match	50,000	-
Salish Kootenai college	9,000	-
Webwriters	4,297	8,579
Scholarships		
Circle of Success	63,000	56,000
Bozeman School Foundation	10,000	-
Bozeman Schools Worthy Students Scholarships	-	10,000
High School Business Challenge	2,250	8,000
Jobs for Montana Graduates	-	3,000
Miscellaneous Scholarships	3,250	3,000
Missoula Education Foundation Scholarships	10,000	10,000
MPSEOC Scholarship	1,000	5,000
Grand Street Theater	5,000	-
Sponsorships		
Big Brothers Big Sisters of Helena	1,500	-
Donors Choose.org	-	3,489
Exploration Works	1,000	1,500
Grand Street Theatre	2,000	-
Helena Education Foundation	12,500	7,200
Helena Family YMCA	2,500	-
Helena Symphony	5,000	-
Highwood Public Schools	-	2,500
Jobs for Montana Graduates Conference	2,500	20,000
Miscellaneous Sponsorships	8,950	14,745
Montana Financial Education Coalition	-	2,000
Montana Indian Education Association	-	2,500
MPSEOC Sponsorship	12,000	8,500
OPI Student Advisory Board Summit	-	2,500
Student Advisory Board	2,500	-
	<u>\$ 3,040,863</u>	<u>\$ 2,834,139</u>

See Independent Auditor's Report.

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

Internal Control over Financial Reporting

Management of the Student Assistance Foundation of Montana and Affiliates is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free of 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*.

This report is intended solely for the information and use of management, audit committee, Board of Directors and others within the entity and federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Anderson Zurmuehlen & Co., P.C.".

Helena, Montana
September 12, 2012