

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



**STUDENT ASSISTANCE
FOUNDATION OF MONTANA
AND AFFILIATES**

**CONSOLIDATED FINANCIAL
REPORT**

JUNE 30, 2017

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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, 2017 and 2016, 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 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 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 31 through 34 and the schedule of consolidated grant and delivery and support for Reach Higher Montana on page 35 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2017, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.


Helena, Montana
September 14, 2017

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS
Year Ended June 30, 2017 and Comparative Totals for June 30, 2016

This section of the Student Assistance Foundation of Montana (SAF or the Corporation) annual financial report presents our discussion and analysis of the Corporation's financial performance during the years ended June 30, 2017 and 2016. Please read the following in conjunction with the Corporation's financial statements and accompanying notes.

Overview

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

On the surface, it can be said that financially, SAF and Tru Student, as a consolidated entity, had a successful year as illustrated in an abbreviated statement of activity shown below:

	June 30, <u>2017</u>	June 30, <u>2016</u>
Total Revenue	\$15,463,344	\$16,386,680
Less Expenses:		
Program Operating Expense	9,443,081	15,336,702
Fundraising Expense	1,880	169,614
General and Administrative Expense	57,444	87,494
Other Miscellaneous Items	<u>(23,269)</u>	<u>377</u>
Change in Net Assets	<u>\$ 5,937,670</u>	<u>\$ 793,247</u>

Although the Corporation improved its financial position during the year, it is important to put it into context of the changes that were made to the operation in fiscal year 2017. It is therefore important to read the financial statements and footnotes following this report.

Change in Primary Business Line

The Student Aid and Fiscal Responsibility Act, which was included in the health care reconciliation bill that was signed into law on March 30, 2010, effectively eliminated FFELP, the program that MHESAC and most of SAF and Tru Student's other clients participated in. This was a significant disruption to the SAF business model. Most of SAF's clients saw a decrease in their portfolios as loans began to amortize and no new loans were made under FFELP to replace the run-off.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2017 and Comparative Totals for June 30, 2016

Change in Primary Business Line (Continued)

During this time, new entrants into the FFELP rehabilitated loan market engaged Tru Student as their servicer and those portfolios did continue to grow for a few years before they too started to decrease as student loans paid off and no new loans were available to replace them. From late 2012 through mid-2015, Tru Student serviced private student loans for a start-up loan provider. This private loan serviced portfolio grew to approximately \$1.4 billion in loans before that client moved their portfolio to a larger student loan servicer in mid-2015. In late 2015, two of SAF/Tru Student clients gave notice that they would be moving their portfolio to a different servicer. This led SAF to do significant analysis on the feasibility of remaining in the student loan servicing business long term. Student loan servicing is a business that relies on large volumes of borrowers on the system to support the infrastructure necessary to provide the service that complies with all regulatory requirements and also provides a fair return to the company for its investment. As the FFELP program was eliminated and with several other clients moving to larger servicing platforms, SAF became aware that it could no longer be effective as a student loan servicer. The outcome of the exercise was that SAF and Tru Student would eliminate student loan servicing as a business line.

As a result of this decision, SAF and Tru Student spent the year ended June 30, 2017, preparing for and executing their exit from the student loan servicing business. This entailed notification to clients, regulatory agencies and borrowers as well as organizing and implementing the electronic and manual processes necessary to transfer all loans to multiple servicers, all on different servicing platforms. The final loans were deconverted from SAF's servicing system in December 2016. SAF spent the rest of fiscal year 2017 taking care of the tax reporting requirements for borrowers, responding to borrower inquiries regarding the change in servicers, and working with the Department of Education, the guarantee agencies and multiple state regulatory agencies to bring an orderly close to the student loan servicing line of business. By June 30, 2017, Tru Student was a dormant corporation with minimal residual expenses and no business activities. As a result of all of these changes, the financial statements for the year ended June 30, 2017, reflect components that are different from prior years.

Shift in Public Purpose Programs Governance and Funding

Beginning July 1, 2016, MHESAC took on the oversight and funding for the outreach, grant and scholarship activity previously delivered by SAF and has rebranded those programs as Reach Higher Montana (RHM). SAF administered one grant through December 2016, but all other public purpose programs were transferred to MHESAC. SAF continues to staff and manage the RHM programs for MHESAC through a service contract with MHESAC. SAF provides these services to RHM at cost plus a 5% mark-up. This new contract represents a new business line for SAF and contributed \$57,206 to the SAF increase in net assets for the year.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2017 and Comparative Totals for June 30, 2016

Revenue Generating Activities

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

Until June 30, 2017, SAF owned the building that housed its corporate offices at 2500 Broadway in Helena, Montana. The building is a 56,000 square foot structure that housed SAF and Tru Student in approximately 61% of the space available plus two other tenants that occupied the remaining 39%. As staff decreased during the year, it became evident that SAF no longer needed the amount of space that it previously occupied. A neighboring not-for-profit approached SAF with an offer and the building was sold on June 30, 2017. The building and some of the furniture and equipment was sold for \$8.1 million resulting in a gain of \$6,221,271. This gain is included in the financial results for the fiscal year ending June 30, 2017, and is a one-time boost to financial results.

There are smaller sources of revenue for SAF. SAF has received and will continue to receive royalty revenue for its lease of servicing rights to another student loan servicer of its direct servicing allocation received in 2012. Royalty revenue totaled \$238,894 in FY2017. Another source of revenue is for support services for SAF's two building tenants. This brought in \$193,949 for the year.

Staffing Levels and Expertise

The decision to eliminate the business line that employed the largest number of staff resulted in three primary reductions in force: October 2016, December 2016, and January 2017. During the previous year, SAF offered an early retirement package to qualifying employees, had a small involuntary reduction in force, and also let staff decrease organically by not replacing positions as they opened up. On July 1, 2016, SAF and Tru Student had a combined staff of 94 employees equal to 92.3 full-time equivalents (FTE). By the end of the fiscal year, at June 30, 2017, the combined company had 31 employees equal to 30.8 FTE. The staffing decreases resulted in unusually large expenses for severance packages to departing staff and unemployment reimbursement. During fiscal year 2017, SAF and Tru Student spent \$677,401 on severance packages and \$263,000 on unemployment benefits reimbursement. Additionally, there was a retention plan in place to compensate employees for remaining at the Corporation during the wind down of the loan servicing operation to ensure that there was adequate, knowledgeable staff to perform a professional and seamless exit from that business line. The cost of the retention plan in the fiscal year was \$480,462.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2017 and Comparative Totals for June 30, 2016

Staffing Levels and Expertise (Continued)

These unusual expenses are included in salaries, payroll taxes, and employee benefits. Even with these unusual costs, total staff cost was significantly less than the prior year:

<u>Salaries, Benefits & Employment Related Costs</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Difference</u>
Program Operating Expenses	\$5,928,445	\$10,112,295	(\$4,183,850)
General & Admin Expenses	<u>8,987</u>	<u>81,711</u>	<u>(72,724)</u>
Total	<u>\$5,937,432</u>	<u>\$10,194,006</u>	<u>(\$4,256,574)</u>

Of the staff that remain at June 30, 2017, 19 staff are involved in the business operation which includes management and administration of MHESAC and the MHESAC Indenture; oversight of Aspire, the student loan sub-servicer; system maintenance and security; facilities management and maintenance; strategic planning; accounting; and general business maintenance. The remaining 12 employees administer Reach Higher Montana and deliver the public purpose programs that are now under the guidance and direction of MHESAC.

Liquidity and Capital Resources

Regarding its business relationship with MHESAC, SAF has entered into an escrow agreement to ensure that there will be funds sufficient to meet the costs of servicing and managing the MHESAC trust in the future when the cash generated by the loan portfolio is no longer sufficient to pay its expenses. At June 30, 2017, the balance of the escrow account was \$5,651,995. Due to legal restrictions about the timing and limited allowable use for this account, SAF regards this cash as a restricted asset and also reflects an offsetting liability on its balance sheet as deferred income.

The sale of SAF's office building resulted in net cash from the transaction of \$4,362,377 which has been set aside as board restricted until the board of directors decides on an appropriate use for the funds.

In addition to the cash in the escrow and the board-designated account, SAF has a very liquid balance sheet showing unrestricted cash of \$3,359,360 and investments of \$1,528,933. Management believes that the cash, along with the revenue from the various contracts it has, puts SAF in a very positive operational position for future use of these funds consistent with its not-for-profit mission and ongoing operations.

Accounting Estimates

Since the creation of Tru Student in 2010, SAF as the sole owner, capitalized its subsidiary through a series of stock purchases and loans that were subsequently converted to stock. In total, SAF has invested \$4,601,777 in Tru Student. During the year, SAF management determined it was appropriate to adjust the investment on the SAF books from cost basis to fair value. The fair value was determined by a review of the assets held within Tru Student, primarily cash.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2017 and Comparative Totals for June 30, 2016

Accounting Estimates (Continued)

The fair value was determined to be the cash on hand less all reasonable future claims on that cash. The fair value was determined to be \$339,162, resulting in a write-down of \$4,262,615 as a loss on investment in Tru Student. Since the financial statements are consolidated with Tru Student and all intercompany transactions are eliminated in the process, this write-down is not reported in the following consolidated financial statements. However, it is significant and worthy of mention to the users of these statements.

CONSOLIDATED FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,359,360	\$ 3,448,087
Cash held for other obligations	4,500,690	1,591,294
Accounts receivable:		
Client & other receivables	114,218	1,275,430
Related parties	23,010	31,698
Interest receivable	-	68
Contributions receivable, current portion	-	5,000
Investments	1,528,933	1,529,182
Prepaid costs, net	<u>91,418</u>	<u>248,829</u>
Total current assets	<u>9,617,629</u>	<u>8,129,588</u>
 PROPERTY AND EQUIPMENT, at cost		
Land and building	-	2,883,045
Building improvements	-	1,392,343
Equipment and furniture	<u>3,417,766</u>	<u>3,983,874</u>
	3,417,766	8,259,262
Less: accumulated depreciation	<u>3,350,483</u>	<u>6,042,030</u>
Total property and equipment	<u>67,283</u>	<u>2,217,232</u>
 OTHER RESTRICTED ASSETS		
Endowment cash and cash equivalents	-	645,448
Escrow cash/cash equivalents & receivable	5,651,995	-
Contributions receivable, net of current portion	<u>-</u>	<u>18,269</u>
Total other restricted assets	<u>5,651,995</u>	<u>663,717</u>
Total assets	<u>\$ 15,336,907</u>	<u>\$ 11,010,537</u>

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, 2017 and 2016

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 295,740	\$ 1,942,248
Funds held for loan servicing clients	-	1,586,418
Funds held in trust	144,220	8,363
Compensated absence liability	410,818	666,258
Current maturities of notes payable	-	184,114
Total current liabilities	850,778	4,387,401
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	-	3,726,672
Deferred income	5,651,995	-
Total long-term liabilities	5,651,995	3,726,672
Total liabilities	6,502,773	8,114,073
NET ASSETS		
Unrestricted:		
Undesignated	4,471,757	2,227,747
Board-designated reserve for other obligations	4,362,377	-
Board-designated for endowment	-	645,448
Total unrestricted	8,834,134	2,873,195
Permanently restricted	-	23,269
Total net assets	8,834,134	2,896,464
TOTAL LIABILITIES AND NET ASSETS	\$ 15,336,907	\$ 11,010,537

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, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Management & servicing fee income	\$ 12,163,097	\$ 10,047,763
Deferred per escrow agreement	<u>(5,645,210)</u>	<u>-</u>
Net management servicing fee income	6,517,887	10,047,763
Programs delivery and support income	1,244,195	-
Interest on educational loans	-	1,754
Loan servicing income	590,432	5,040,879
Royalty income	238,894	234,952
Income from investments		
Investment income	2,828	2,843
Interest on endowment	-	1,616
Gain on sale of property and equipment	6,221,271	-
Realized loss on student loans	-	(46,864)
Contributions and grants	181,363	561,396
Other income	<u>465,859</u>	<u>514,622</u>
	15,462,729	16,358,961
Net assets released from restrictions	<u>615</u>	<u>27,719</u>
Total unrestricted revenue and support	<u>15,463,344</u>	<u>16,386,680</u>
Program Operating Expenses:		
Management and servicing		
Salaries, payroll taxes and employee benefits	4,845,924	9,155,007
Contract sub-servicing fees	961,106	1,477,936
Professional services	286,552	689,370
Contract services and labor	78,931	90,815
Staff travel and training	50,437	50,604
Insurance	76,928	93,526
Office supplies and copier charges	5,657	12,561
Computer charges	262,431	515,549
Telecommunications and utilities	226,487	319,472
Mail, postage and courier	97,110	385,712
Printing	5,729	15,645
Dues, subscriptions and memberships	18,394	30,337
Recruitment and relocation	-	25,661
Automobile	539	864
Repairs, maintenance and service	22,844	28,177
Depreciation	248,746	363,846
Loan fees	5,000	5,000
Operating lease payments	5,861	5,952

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, 2017 and 2016

	2017	2016
Program Operating Expenses (Continued):		
Management and servicing (continued)		
Other costs	79,232	209,989
Interest	152,303	183,610
Total management and servicing	7,430,211	13,659,633
Grant and public purpose program	825,881	1,677,069
Programs delivery and support	1,186,989	-
Total program operating expenses	9,443,081	15,336,702
 Fundraising expenses	 1,880	 169,614
 General and administrative expenses:		
Salaries, payroll taxes and employee benefits	8,987	81,711
Board and officer	21,194	38,531
Insurance	20,034	20,251
Income tax expense	1,538	(97,135)
Other	5,691	44,136
Total general and administrative expenses	57,444	87,494
 Total expenses	 9,502,405	 15,593,810
 Change in unrestricted net assets	 5,960,939	 792,870
 TEMPORARILY RESTRICTED NET ASSETS		
Revenue and support:		
Contributions and grants	615	27,719
Net assets released from restrictions	(615)	(27,719)
Change in temporarily restricted net assets	-	-
 PERMANENTLY RESTRICTED NET ASSETS		
Contributions received	(23,269)	377
Change in permanently restricted net assets	(23,269)	377
Change in net assets	5,937,670	793,247
 Net assets at the beginning of the year	 2,896,464	 2,103,217
 Net assets at the end of the year	 \$ 8,834,134	 \$ 2,896,464

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,937,670	\$ 793,247
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Sale (purchase) of educational loans	-	41,271
Contributions receivable	23,269	(377)
Loss on loan write-off	-	46,864
Non-cash adjustments to educational loans	-	(25,540)
Depreciation	304,399	393,704
Net gain on disposal of property and equipment	(6,221,271)	-
Change in investment values	249	(151)
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables	1,168,414	(269,992)
Interest receivable	68	25,925
Prepaid costs	157,411	15,977
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(1,646,508)	818,822
Compensated absences	(255,440)	(176,145)
Deferred client income	5,651,995	(230,936)
Grants awarded	-	(24,000)
Funds held for servicing clients	(1,450,561)	(5,971,374)
Net cash flows from operating activities	<u>3,669,695</u>	<u>(4,562,705)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(18,309)	(13,055)
Sale of property and equipment	8,085,130	-
Purchase of investments	-	(48,000)
Proceeds from sale of investments	-	525,968
Net cash flows from investing activities	<u>8,066,821</u>	<u>464,913</u>

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on notes/loans payable	(3,910,786)	(469,353)
Repayments on lease obligations	<u> -</u>	<u>(41,151)</u>
Net cash flows from financing activities	<u>(3,910,786)</u>	<u>(510,504)</u>
Net change in cash and cash equivalents	7,825,730	(4,608,296)
Cash and cash equivalents, beginning of year	<u>5,684,829</u>	<u>10,293,125</u>
Cash and cash equivalents, end of year	<u>\$ 13,510,559</u>	<u>\$ 5,684,829</u>
Supplemental schedule of noncash investing and financing activities:		
Cash paid for interest	<u>\$ 169,160</u>	<u>\$ 216,662</u>
Cash and cash equivalents are reported on the consolidated statement of financial position as follows:		
Cash and cash equivalents, current	\$ 3,359,360	\$ 3,448,087
Cash held for other obligations	4,500,690	1,591,294
Escrow cash/cash equivalents and interest receivable	5,651,995	-
Less interest receivable included above	(1,486)	-
Endowment cash and cash equivalents	<u> -</u>	<u>645,448</u>
	<u>\$ 13,510,559</u>	<u>\$ 5,684,829</u>

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

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 3 national clients during the year ended June 30, 2017, and up to 4 national clients during the year ended June 30, 2016. SAF provides financial support as well as a variety of counseling and information services to Montana students to pursue their 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 8 national clients during the year ended June 30, 2017, and up to 10 national clients during the year ended June 30, 2016. As part of the restructuring of business activity adopted by the SAF Board on June 30, 2016, SAF and Tru Student began the process of exiting the business of providing student loan servicing. This process culminated with the deconversion of the last loan servicing client in December 2016. SAF remains the Master Servicer of MHESAC's student loan portfolio and has subcontracted the day-to-day servicing responsibility with Aspire Resources, Inc. SAF continues to manage the MHESAC business via the management contract in place. At year end June 30, 2017, there were no student loan servicing contracts outside of MHESAC remaining.

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

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. MSLF is essentially an inactive company with no assets, liabilities or activity since June 30, 2012.

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, 2017, and June 30, 2016.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization and Principles of Consolidation (Continued)

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

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. The accompanying consolidated financial statements include the accounts and activity 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 services performed for Tru Student is considered unrelated business income and is subject to taxation. The Corporation recognized tax due of \$-0- for the year ended June 30, 2017, and a refund of \$98,515 for the year ended June 30, 2016.

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, 2017 and 2016, 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. Tru Student recognized tax expense of \$1,538 for the year ended June 30, 2017, and \$1,380 for the year ended June 30, 2016. 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, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued)

During the year ended June 30, 2017, Tru Student reported an operating loss of \$56,400. Tru Student reported an operating income of \$786,288 at June 30, 2016. For both years, Tru Student had a deferred tax benefit resulting from unexpired cumulative net operating loss carryforwards. A valuation allowance equal to the deferred income tax benefit 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, 2017 or 2016.

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 no temporarily restricted net assets at June 30, 2017 or 2016.

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 \$-0- and \$23,269 permanently restricted net assets at June 30, 2017 and 2016, respectively.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

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 and Contributions Receivable

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 was a \$23,269 (net of \$1,731 discount) unconditional promise to give at June 30, 2016. The entire contribution receivable was due from one individual. The gift was intended to be a contribution to SAF's permanent endowment. During the year that ended June 30, 2017, with the concurrence of SAF, the donor rescinded his unconditional promise and therefore the value of that promise was decreased to zero at June 30, 2017. 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, 2017 or 2016. Payments received on conditional grants are reported as refundable grant advances until the conditions have been met.

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:	<u>2017</u>		<u>2016</u>
One year	\$	-	\$ 5,000
Two to five years		-	20,000
Less discount to present value		-	(1,731)
Total Contributions Receivable	\$	-	\$ 23,269

Marketing, Advertising and Outreach

The Corporation expenses public purpose program marketing, advertising and promotional costs as incurred. Advertising expense of \$2,170 and \$26,308 for the years ended June 30, 2017, and June 30, 2016, respectively, is included in grant and public purpose expense. There was no marketing or advertising expense in 2017 or 2016 for management and servicing.

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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consist primarily of servicing and management fees due from MHESAC 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, 2017, and June 30, 2016, for servicing fee related receivables as management believed 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 follows:

	<u>2017</u>	<u>2016</u>
Management and servicing	\$ 248,746	\$ 363,846
Included in grant & public purpose and programs delivery & support	<u>55,653</u>	<u>29,858</u>
	<u>\$ 304,399</u>	<u>\$ 393,704</u>

Investments

Investments consist of certificates of deposit and land that is held for investment. These investments are carried at fair value.

Prepaid Costs

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 2. CONCENTRATION OF CREDIT RISK

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

At June 30, 2017, the carrying amount of those deposits was \$13,372,526 and the bank balance was \$13,530,298 with \$12,703,355 in excess of FDIC insured limits. At June 30, 2016, the carrying amount of those deposits was \$5,682,053 and the bank balance was \$6,195,582 with \$5,434,544 in excess of FDIC insured limits.

NOTE 3. INVESTMENTS

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.

For the years ended June 30, 2017 and 2016, 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, 2017 and 2016, with a related cost of \$1,005,198. The fair value measurement used for this valuation was Level 3 – significant unobservable inputs for situations in which there is little, if any, market activity in the form of a real estate appraisal. SAF received a Real Estate Appraisal Report prepared by a qualified appraiser using the sales comparison analysis market approach. Certificates of deposit are not subject to investment categorization requirements.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 3. INVESTMENTS (CONTINUED)

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

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$ 72,933	\$ 73,182
Land held for investment	<u>1,456,000</u>	<u>1,456,000</u>
Total Investments	<u>\$ 1,528,933</u>	<u>\$ 1,529,182</u>

Components of investment income include the following:

Interest	<u>\$ 2,828</u>	<u>\$ 4,459</u>
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NOTE 4. PROPERTY AND EQUIPMENT

At June 30 the Corporation had property and equipment as follows:

	<u>2017</u>	<u>2016</u>
Land and building	\$ -	\$ 2,883,045
Building improvements	-	1,392,343
Equipment and furniture	<u>3,417,766</u>	<u>3,983,874</u>
Total cost	<u>3,417,766</u>	8,259,262
Accumulated depreciation	<u>3,350,483</u>	<u>6,042,030</u>
Net book value	<u>\$ 67,283</u>	<u>\$ 2,217,232</u>

Student Assistance Foundation entered into a Purchase and Sale Agreement with an unrelated party on April 26, 2017, for some corporate assets. The Corporation agreed to sell the land with an address of 2500 East Broadway Street together with all buildings and improvements constructed on the land for \$7,950,000. It also agreed to sell certain office equipment and systems located in the building for \$150,000. The sale was executed on June 30, 2017. The gain on the sale of the building was \$6,091,151. The gain on equipment sold, \$146,638, was netted with loss on equipment disposed not related to the building sale of \$16,518, for a net gain of \$130,120. The SAF Board has designated \$4,362,377 of the gain, equal to the net cash proceeds from the sale, to be held as a reserve for other obligations.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 5. LONG-TERM DEBT

At June 30, 2017 and 2016, long term debt consisted of the following:

	<u>2017</u>	<u>2016</u>
Note payable to Valley Bank for building, bearing interest at the rate of 5.00% for first 60 payments payable in monthly installments of \$30,716 and a rate to be reset based on the five-year rate plus 2.5% for the remaining 180 payments in installments necessary to satisfy the loan by its scheduled maturity; secured by real property.	-	\$ 3,910,786
Total notes payable	-	3,910,786
Less current maturities	-	(184,114)
Long-term notes payable	<u>\$ -</u>	<u>\$ 3,726,672</u>

The Valley Bank note payable was paid off with the proceeds from the June 30, 2017 sale of the building.

NOTE 6. OPERATING LEASE

At June 30, 2017, the Corporation has one lease for equipment that is classified as an operating lease. Total rent expense on such leases for the fiscal years ended June 30, 2017 and 2016, was \$5,952 and \$5,952, respectively.

As of June 30, 2017, the future minimum lease payment under an operating lease with an initial or remaining term in excess of one year is as follows:

2018	\$ 1,488
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STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 7. ENDOWMENT

In 2009, Student Assistance Foundation 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.

The Board made no additional contributions in the years ended June 30, 2017, and 2016. Earnings of \$-0- and \$1,619 were added during the years ended 2017 and 2016, respectively. The Endowment was transferred, as a donation, to MHESAC in July 2016. The transfer was part of the Board's restructuring plan and is also related to MHESAC's subsequent governance of the public purpose programs SAF operated at June 30, 2016.

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 – Promise to Give and Contributions Receivable for additional information). During the year end June 30, 2017, the donor restricted funds were no longer recognized as an unconditional promise to give.

The following describes the composition of net assets of the endowment and the unconditional promise to give as of June 30, 2017 and 2016, respectively, and the changes in endowment net assets for the years then ended:

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balance July 1, 2015	\$ 643,829	\$ 22,892	\$ 666,721
Contributions	-	377	377
Investment interest	<u>1,619</u>	<u>-</u>	<u>1,619</u>
Balance, June 30, 2016	645,448	23,269	668,717
Contribution to MHESAC	(645,448)	-	(645,448)
Write off contribution receivable	<u>-</u>	<u>(23,269)</u>	<u>(23,269)</u>
Balance, June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 8. NET ASSETS

At June 30 net assets consist of the following:

Unrestricted:	<u>2017</u>	<u>2016</u>
Undesignated	\$ 4,471,757	\$ 2,227,747
Board designated for other obligations	4,362,377	-
Board designated for endowment	<u>-</u>	<u>645,448</u>
Total unrestricted	<u>8,834,134</u>	<u>2,873,195</u>
Permanently Restricted:		
Total permanently restricted	<u>-</u>	<u>23,269</u>
Total net assets	<u>\$ 8,834,134</u>	<u>\$ 2,896,464</u>

During the year ended June 30, 2017 and 2016, temporarily restricted net assets were released from restrictions as follows:

Expiration of donor restriction by expenditure for:	<u>2017</u>	<u>2016</u>
Circle of Success	\$ -	\$ 7,545
College Goal Montana	-	5,000
High School Business Challenge	-	(5,113)
ETV Foster Care	<u>615</u>	<u>20,287</u>
Total temporarily restricted net assets released	<u>\$ 615</u>	<u>\$ 27,719</u>

NOTE 9. 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 five percent of the participant's salary.

In September 2015, SAF terminated the 403(b) plan. Employees could elect to retain all or any portion of the distribution, subject to current income tax, or employees could roll all or a portion of the distribution into an individual retirement arrangement or into the SAF 401(k) plan, thereby deferring income taxation on the amount of the distribution.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 9. RETIREMENT PLAN (CONTINUED)

SAF incurred pension costs of \$191,958 in the year ended June 30, 2017, and \$293,278 in the year ended June 30, 2016. Tru Student adopted the SAF 401(k) plan for Tru Student employees at inception. Tru Student incurred pension costs of \$8,663 in the year ended June 30, 2017, and \$25,302 in the year ended June 30, 2016.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Management and Servicing Agreements

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

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

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

During the years ended June 30, 2017 and 2016, SAF billed MHESAC \$7,606,558 and \$9,537,574, respectively. At June 30, 2017 and 2016, the reconciliation for billed and actual management and servicing fees resulted in a balance receivable from MHESAC of \$22,554 and \$442,048, respectively. These balances are included in 2017 and 2016 client receivables, respectively.

SAF had entered into servicing agreements with Tru Student. The cost of these services was a monthly fee based on the contractual agreements Tru Student had with their clients. During the years ended June 30, 2017 and 2016, SAF billed Tru Student \$299,157 and \$1,859,521, respectively. At June 30, 2017 and 2016, the reconciliation for billed and actual costs resulted in a balance payable to SAF of \$-0- and \$267,545, 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. Tru Student discontinued its operations December 2016, and ceased paying operational expenses. At June 30, 2017 and 2016, the reconciliation for billed and actual costs resulted in a balance payable to SAF of \$-0- and \$29,581, respectively.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Servicing Agreements (Continued)

SAF paid Tru Student client relation fees, contract fees, and common paymaster expenses. At June 30, 2017 and 2016, the reconciliation for billed and actual costs resulted in a balance payable by Tru Student of \$1,888 and to Tru Student of \$12,198, respectively.

All significant intercompany transactions and accounts have been eliminated.

Escrow Agreement

SAF has entered into an escrow agreement with MHESAC in order to assure there will be sufficient funds to pay future monthly management and servicing fees. An escrow account was established for the purpose of receiving and holding escrow property. Wells Fargo Bank was appointed as the escrow agent and is authorized and directed to hold and invest the escrow property. All interest and other earnings on the escrow property shall be deposited in the escrow account.

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

In September 2016, an initial deposit from MHESAC of \$4,976,034 was made into the escrow account. The deposit was a calculated amount based on cash flow projections from the MHESAC Indenture. The amount represents an initial balance that, when added to expected increases to the escrow in the coming years, will ensure sufficient funds to pay for servicing and management in future years when the MHESAC portfolio has amortized to the point where it no longer produces sufficient cash to cover its servicing and management obligations. During the year an additional \$669,176 was added to the SAF escrow from amounts collected from MHESAC in excess of the monthly management and servicing fees based on the allocated costs plus 15%. At June 30, 2017, the Escrow balance was \$5,651,995 made up of a principal balance of \$5,645,210 and interest earned of \$6,785. There is an offsetting Deferred Income amount with a balance of \$5,651,995 at June 30, 2017. The escrow funds will be used to supplement the cash available from the MHESAC Indenture in future years when a shortfall is expected between the cash available from the Indenture and the actual costs of providing master servicer and management services per the contracts between SAF and MHESAC.

Management and Support Agreement

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Support Agreement (Continued)

The cost of these services to deliver the programs is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreement plus a mark-up of five percent of these costs. The management cost shall not exceed \$300,000 (increased annually by the "All Urban Consumer Price Index" provided by the United States Department of Labor not to exceed 3% annually).

During the year ended June 30, 2017, SAF billed MHESAC \$204,564 for management services and \$1,039,549 for program delivery of the Reach Higher Montana initiatives. The reconciliation for billed and actual management and program delivery resulted in a net balance receivable from MHESAC of \$82.

Group Benefits Plan

SAF provides a medical and dental insurance coverage plan for its employees. Effective July 1, 2015, SAF opted for an insured plan of medical coverage with PacificSource. Effective July 1, 2016, SAF switched to dental, vision and life insurance plans with Guardian. Tru Student adopted the SAF group plan for its employees also.

Unemployment

During the fiscal year ending June 30, 2017, SAF significantly reduced the number of staff due to the decision to eliminate the student loan servicing line of business. As a result, SAF incurred significant unemployment expenses. For unemployment claims, SAF is a reimbursable employer. Terminated staff who qualify for unemployment may be eligible for up to 28 weeks of benefits. The look back period for benefits is one year. At June 30, 2016, an estimated payable of \$106,989 was recorded in relation to probable unemployment benefits SAF expects to reimburse the Montana Unemployment Insurance Division related to employees who terminated near the end of the fiscal year. During the year ended June 30, 2017, SAF incurred \$335,253 in unemployment benefit charges and reflects an estimated payable at June 30, 2017 of \$40,337 related to probable additional unemployment benefits.

Remote Services Agreement

On February 1, 2001, SAF entered into an agreement with the Pennsylvania Higher Education Assistance Agency (PHEAA) for remote system access for the effective computer processing of loans serviced by SAF. The agreement requires PHEAA to maintain the remote system in accordance with Title IV of the Higher Education Act of 1965, as amended. Subsequent amendments to the original agreement on February 1, 2004, extend the term of the agreement through January 31, 2015, 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. Although no longer actively using the remote system for student loan servicing activity, SAF still had limited use of the system for various clean up functions after the deconversions of its student loan clients.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Remote Services Agreement (Continued)

Fees for access and maintenance of the remote system vary depending on volume and services provided. Once all loans had been deconverted, SAF agreed to pay \$2,000 a month to have access to historical information. PHEAA continues to act as back-up third party servicer for certain loans based on an agreement originally dated November 9, 2011 and renewed in July 2017.

NOTE 11. 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 10. Additionally, on July 1, 2016, SAF entered into an agreement with MHESAC to provide staffing and operational services to Reach Higher Montana, a division of MHESAC. During fiscal year 2017, SAF had two of its five board members in common with MHESAC's seven board members.

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

SAF Relationship with Tru Student

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

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

In 2010, SAF entered into an agreement with Tru Student to provide servicing functions to Tru Student as described in Note 10. SAF also had agreements with Tru Student to provide administrative and IT services. As of June 30, 2017, SAF and Tru Student have both exited the business of providing student loan servicing and support.

During fiscal year 2017, SAF had two of its five board members in common with Tru Student's three board members.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017 and 2016

NOTE 11. RELATED PARTY TRANSACTIONS (CONTINUED)

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. On June 30, 2017, at the closing of the sale of the building, SAF assigned the leases to the new building owner. The new owner assumed all rights and obligations pursuant to the leases. SAF will continue shared cost agreements with MGSLP for computer operations.

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

	<u>2017</u>	<u>2016</u>
Sublease and Shared Costs		
Payments from:		
MGSLP	\$ 327,061	\$ 359,836
OCHE	248,920	273,065
Accounts receivable:		
MGSLP	16,621	21,153
OCHE	6,389	10,545
Total	<u>\$ 23,010</u>	<u>\$ 31,698</u>

NOTE 12. 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 13. MAJOR CUSTOMER

Fees from MHESAC accounted for 59% and 68% of SAF's total revenues for years ended June 30, 2017 and 2016, respectively. There was \$27,159 and \$443,042 receivable from MHESAC outstanding at June 30, 2017, and June 30, 2016, respectively.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017 and 2016

NOTE 14. OTHER GRANT ACTIVITY

Effective July 1, 2016, SAF transferred, and MHESAC accepted, responsibility for the governance and direction of all SAF public purpose programs with the exception of the Family Economic Security (FES) grant. The FES grant remained with SAF through December 31, 2016, the expiration of its contract. SAF will manage and administer, on behalf of MHESAC, the public purpose charitable programs for Reach Higher Montana.

In November 2013, SAF was the recipient of a financial literacy grant of \$844,195 to provide services for the 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. The contract was renewed from July 1, 2015, through June 30, 2016 and then December 31, 2016. This grant is used to deliver financial literacy education to eligible low-income high school students in six regions throughout the State. Revenue totaling \$181,363 was recognized in the year ended June 30, 2017, and \$209,880 in the year ended June 30, 2016.

Since fiscal year 2006, SAF has been the recipient of the Chaffee grant education and training voucher program grant. This grant was transferred to MHESAC and Reach Higher Montana Initiative effective July 1, 2016. The grant provides for the delivery of Educational Training Vouchers (ETV) funds, development and delivery of college and life skills prep program and promotion of the use of ETV and other financial aid resources. Revenue totaling \$615 was recognized by SAF before assumption of the program by Reach Higher Montana in the year ended June 30, 2017 and \$304,318 in the year ended June 30, 2016.

NOTE 15. SUBSEQUENT EVENTS

SAF has entered into a lease agreement with a third party to lease office space at 2500 Broadway effective July 1, 2017. SAF will compensate the third party for rentable space and a proportionate share of operating expenses and expenses associated with the maintenance of the grounds and facility. SAF has also entered into a facility service agreement with the third party for SAF staff to continue to provide facility maintenance services.

Additional Events

Management has evaluated subsequent events through September 14, 2017, 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, 2017 with Comparative Totals for 2016

ASSETS	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2017	2016
CURRENT ASSETS					
Cash and cash equivalents	\$ 2,989,663	\$ 369,697	\$ -	\$ 3,359,360	\$ 3,448,087
Cash held for other obligations	4,498,214	2,476	-	4,500,690	1,591,294
Accounts receivable:					
Tru Student	1,888	-	(1,888)	-	-
Client & other receivables	114,218	-	-	114,218	1,275,430
Related parties	23,010	-	-	23,010	31,698
Interest receivable	-	-	-	-	68
Contributions receivable, current portion	-	-	-	-	5,000
Investments	1,868,095	-	(339,162)	1,528,933	1,529,182
Prepaid costs, net	91,418	-	-	91,418	248,829
Total current assets	<u>9,586,506</u>	<u>372,173</u>	<u>(341,050)</u>	<u>9,617,629</u>	<u>8,129,588</u>
PROPERTY AND EQUIPMENT, at cost					
Land and building	-	-	-	-	2,883,045
Building improvements	-	-	-	-	1,392,343
Equipment and furniture	3,417,766	-	-	3,417,766	3,983,874
	3,417,766	-	-	3,417,766	8,259,262
Less: accumulated depreciation	3,350,483	-	-	3,350,483	6,042,030
Total property and equipment	<u>67,283</u>	<u>-</u>	<u>-</u>	<u>67,283</u>	<u>2,217,232</u>
OTHER RESTRICTED ASSETS					
Endowment cash and cash equivalents	-	-	-	-	645,448
Escrow cash/cash equivalents & receivable	5,651,995	-	-	5,651,995	-
Contributions receivable, net of current portion	-	-	-	-	18,269
Total other restricted assets	<u>5,651,995</u>	<u>-</u>	<u>-</u>	<u>5,651,995</u>	<u>663,717</u>
Total assets	<u>\$ 15,305,784</u>	<u>\$ 372,173</u>	<u>\$ (341,050)</u>	<u>\$ 15,336,907</u>	<u>\$ 11,010,537</u>

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
June 30, 2017 with Comparative Totals for 2016

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2017	2016
CURRENT LIABILITIES					
Other accounts payable and accrued expenses	\$ 295,713	\$ 1,915	\$ (1,888)	\$ 295,740	\$ 1,942,248
Funds held for loan servicing client	-	-	-	-	1,586,418
Funds held in trust	144,220	-	-	144,220	8,363
Compensated absence liability	410,818	-	-	410,818	666,258
Current maturities of notes payable	-	-	-	-	184,114
Total current liabilities	<u>850,751</u>	<u>1,915</u>	<u>(1,888)</u>	<u>850,778</u>	<u>4,387,401</u>
LONG-TERM LIABILITIES					
Notes payable, net of current maturities	-	-	-	-	3,726,672
Deferred income	5,651,995	-	-	5,651,995	-
Total long-term liabilities	<u>5,651,995</u>	<u>-</u>	<u>-</u>	<u>5,651,995</u>	<u>3,726,672</u>
Total liabilities	<u>6,502,746</u>	<u>1,915</u>	<u>(1,888)</u>	<u>6,502,773</u>	<u>8,114,073</u>
NET ASSETS					
Capital stock, common, \$.01 par	-	5	(5)	-	-
Additional paid-in-capital	-	4,601,772	(4,601,772)	-	-
Unrestricted:					
Undesignated, unrestricted	4,440,661	(4,231,519)	4,262,615	4,471,757	2,227,747
Board designated reserve for other obligations	4,362,377	-	-	4,362,377	-
Board designated for endowment	-	-	-	-	645,448
Total unrestricted	<u>8,803,038</u>	<u>370,258</u>	<u>(339,162)</u>	<u>8,834,134</u>	<u>2,873,195</u>
Permanently restricted	-	-	-	-	23,269
Total net assets	<u>8,803,038</u>	<u>370,258</u>	<u>(339,162)</u>	<u>8,834,134</u>	<u>2,896,464</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,305,784</u>	<u>\$ 372,173</u>	<u>\$ (341,050)</u>	<u>\$ 15,336,907</u>	<u>\$ 11,010,537</u>

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, 2017 with Comparative Totals for 2016

	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2017	2016
UNRESTRICTED NET ASSETS					
Revenue and Support:					
Management & servicing fee income	\$ 12,163,097	\$ -	\$ -	\$ 12,163,097	\$ 10,047,763
Deferred per escrow agreement	(5,645,210)	-	-	(5,645,210)	-
Net management servicing fee income	6,517,887	-	-	6,517,887	10,047,763
Programs administration and delivery income	1,244,195	-	-	1,244,195	-
Interest on educational loans	-	-	-	-	1,754
Loan servicing income	304,429	585,160	(299,157)	590,432	5,040,879
Royalty income	238,894	-	-	238,894	234,952
Income from investments					
Investment Income	2,828	-	-	2,828	2,843
Interest on endowment	-	-	-	-	1,616
Loss on investment in subsidiary	(4,262,615)	-	4,262,615	-	-
Gain on sale of property and equipment	6,221,271	-	-	6,221,271	-
Realized loss on student loans	-	-	-	-	(46,864)
Intercompany contract revenue	29,200	12,842	(42,042)	-	-
Contributions and grants	181,363	-	-	181,363	561,396
Other income	525,451	-	(59,592)	465,859	514,622
	11,002,903	598,002	3,861,824	15,462,729	16,358,961
Net assets released from restrictions	615	-	-	615	27,719
Total unrestricted revenue and support	11,003,518	598,002	3,861,824	15,463,344	16,386,680
Program Operating Expenses:					
Management and servicing					
Salaries, payroll taxes and employee benefits	4,633,504	212,420	-	4,845,924	9,155,007
Contract sub-servicing fees	960,813	299,450	(299,157)	961,106	1,477,936
Professional services	277,458	9,094	-	286,552	689,370
Contract services and labor	69,603	51,370	(42,042)	78,931	90,815
Staff travel and training	49,169	1,268	-	50,437	50,604
Insurance	76,928	-	-	76,928	93,526
Office supplies and copier charges	5,409	248	-	5,657	12,561
Computer charges	262,431	39,922	(39,922)	262,431	515,549
Telecommunications and utilities	220,908	5,579	-	226,487	319,472
Mail, postage and courier	95,724	1,386	-	97,110	385,712
Printing	5,141	588	-	5,729	15,645
Dues, subscriptions and memberships	18,385	9	-	18,394	30,337
Recruitment and relocation	-	-	-	-	25,661
Automobile	517	22	-	539	864
Repairs, maintenance and service	21,931	3,978	(3,065)	22,844	28,177
Depreciation	245,427	3,319	-	248,746	363,846
Loan fees	5,000	-	-	5,000	5,000
Operating lease payments	5,861	-	-	5,861	5,952
Other costs	78,196	17,641	(16,605)	79,232	209,989
Interest	152,303	-	-	152,303	183,610
Total management and servicing	7,184,708	646,294	(400,791)	7,430,211	13,659,633
Grant and public purpose program	825,881	-	-	825,881	1,677,069
Programs delivery and support	1,186,989	-	-	1,186,989	-
Total program operating expenses	9,197,578	646,294	(400,791)	9,443,081	15,336,702

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES (CONTINUED)
For the Year Ended June 30, 2017 with Comparative Totals for 2016

	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2017	2016
Fundraising Expenses	<u>1,880</u>	<u>-</u>	<u>-</u>	<u>1,880</u>	<u>169,614</u>
General and Administrative Expenses:					
Salaries, payroll taxes and employee benefits	8,987	-	-	8,987	81,711
Board and officer	14,624	6,570	-	21,194	38,531
Insurance	20,034	-	-	20,034	20,251
Income taxes	-	1,538	-	1,538	(97,135)
Other	<u>5,691</u>	<u>-</u>	<u>-</u>	<u>5,691</u>	<u>44,136</u>
Total general and administrative expenses	<u>49,336</u>	<u>8,108</u>	<u>-</u>	<u>57,444</u>	<u>87,494</u>
 Total expenses	<u>9,248,794</u>	<u>654,402</u>	<u>(400,791)</u>	<u>9,502,405</u>	<u>15,593,810</u>
Change in unrestricted net assets	<u>1,754,724</u>	<u>(56,400)</u>	<u>4,262,615</u>	<u>5,960,939</u>	<u>792,870</u>
 TEMPORARILY RESTRICTED NET ASSETS					
Revenue and Support:					
Contributions and grants	615	-	-	615	27,719
Net assets released from restrictions	<u>(615)</u>	<u>-</u>	<u>-</u>	<u>(615)</u>	<u>(27,719)</u>
Change in temporarily restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 PERMANENTLY RESTRICTED NET ASSETS					
Contributions received	<u>(23,269)</u>	<u>-</u>	<u>-</u>	<u>(23,269)</u>	<u>377</u>
Change in permanently restricted net assets	<u>(23,269)</u>	<u>-</u>	<u>-</u>	<u>(23,269)</u>	<u>377</u>
 Change in net assets	1,731,455	(56,400)	4,262,615	5,937,670	793,247
Net assets at the beginning of the year	<u>7,071,583</u>	<u>426,658</u>	<u>(4,601,777)</u>	<u>2,896,464</u>	<u>2,103,217</u>
 Net assets at the end of the year	<u>\$ 8,803,038</u>	<u>\$ 370,258</u>	<u>\$ (339,162)</u>	<u>\$ 8,834,134</u>	<u>\$ 2,896,464</u>

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
SCHEDULE OF CONSOLIDATED GRANT AND DELIVERY AND SUPPORT FOR
REACH HIGHER MONTANA

For the Years Ended June 30, 2017 and 2016

	2017	2016
Operating & overhead expenses		
SAF Program administration	\$ 3,899	\$ 483,589
Delivery and support of Reach Higher Montana	1,186,989	-
Campus outreach		
Outreach staff & offices	-	388,435
Outreach program		
College Goal Montana	-	42,855
FES Grant - Montana Money Magic	178,086	214,748
Foster Care Program	-	354,578
Grants awarded and other donations		
Circle of Success	-	44,414
Endowment donation to Reach Higher Montana	645,448	-
Graduation Matters	-	4,750
Youth Serve Montana	-	98,500
Scholarships		
High School Business Challenge	-	10,625
Miscellaneous Scholarships (refund)	(500)	-
Sponsorships		
Exploration Works	-	1,500
Governor's Office of Community Service	-	1,500
Governor's Office of Indian Affairs	-	5,000
Grand Street Theatre	-	5,000
Helena Education Foundation	-	1,000
Helena Family YMCA	-	4,050
Helena Symphony	-	500
Leadership Montana	-	1,000
Miscellaneous Sponsorships (refund)	(1,052)	3,900
Montana Association for Career and Technical Education	-	550
Montana Association of Student Councils	-	1,000
Montana College Access Network	-	2,500
Montana Financial Education Coalition	-	1,575
Montana Nonprofit Association	-	1,000
Office of Public Instruction	-	2,500
Orphan Girl Productions	-	1,000
United Way of Missoula	-	1,000
	\$ 2,012,870	\$ 1,677,069

See Independent Auditor's Report on Accompanying Information.

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, 2017 and 2016, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 14, 2017.

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.



Helena, Montana
September 14, 2017