

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, 2018

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	I and 2
MANAGEMENT'S FINANCIAL ANALYSIS	3 through 7
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	8 and 9
Consolidated Statements of Activities	10
Consolidated Statements of Functional Expenses	11
Consolidated Statements of Cash Flows.....	12 and 13
Notes to Consolidated Financial Statements.....	14 through 28
ACCOMPANYING INFORMATION	
Consolidating Schedule of Financial Position.....	29 and 30

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, 2018 and 2017, and the related consolidated statements of activities, functional expenses 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2018 and 2017, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating schedules on page 29 and 30 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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.


Helena, Montana
September 11, 2018

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS
Year Ended June 30, 2018 with Comparative Totals for June 30, 2017

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, 2018 and 2017. Please read the following in conjunction with the Corporation's financial statements and accompanying notes.

Overview

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

In 2010, the FFELP program was irrevocably changed and from that point on, all federal student loans were originated by the federal government, forsaking the public-private partnership that had previously been the bedrock of the national student loan program. In 2016, after pursuing various strategies, it was decided to close down the SAF and Tru Student loan servicing operations due to the increasing difficulty to make this business line economically feasible given the diminishing portfolios of clients. As a result of this decision, SAF and Tru Student began the process of converting loan portfolios to other servicers. This process was completed in December 2016.

Operational Results

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total Revenue	\$ 4,640,631	\$ 15,462,745
Less Expenses:		
Program Operating Expense	4,309,152	9,442,482
Fundraising Expense	85	1,880
General and Administrative Expense	483,490	57,444
Other Miscellaneous Items	-	(23,269)
Change in Net Assets	<u>\$ (152,096)</u>	<u>\$ 5,937,670</u>

Although it appears that the company incurred a loss, it should be noted that the loss on the decrease in market value of the land (investment held for sale) was a non-cash book entry only of \$381,000 just as the previous increases in that assets value was a non-cash book-only gain. Net of this particular item the statement of activities shows a net increase in net assets of \$228,904, an improvement in its financial position during the year.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2018 with Comparative Totals for June 30, 2017

Operational Results (Continued)

The cash flow statement shows a net increase in cash and cash equivalents of over \$2 million. To put these results into context, it is 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 in which MHESAC and most of SAF and Tru Student's other clients participated and represented a fundamental change to the public-private partnership that had formed the bedrock of the national student loan program up to this point. It was also a huge 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. 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 its 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 portfolios 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 of our 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, the year that ended June 30, 2018, is the first full year that SAF and Tru Student did not service student loans. During the previous year, both companies were preparing for and executing the 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 basically a dormant corporation with minimal residual expenses and no business activities. As a result of all of these changes from the previous year, the financial statements are significantly different year over year with costs and the associated revenues both being significantly lower in FY18.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2018 with Comparative Totals for June 30, 2017

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). Fiscal Year 2018 represents the second complete year that SAF staffed and managed the RHM programs for MHESAC through a services contract with MHESAC. SAF provides these services to RHM at cost plus a 5% mark-up. This new contract represents a business line for SAF during both years of the comparative statements presented and contributed a positive \$62,900 to the SAF change in net assets for the FY18.

Revenue Generating Activities

Although the loan servicing arm of SAF was eliminated in FY17 and Tru Student was dormant throughout the year, SAF still has significant activity to manage. SAF remains the contractual manager of MHESAC with responsibility for administering MHESAC's loan portfolio and bonds outstanding. SAF is also the master servicer of MHESAC's loan portfolio with responsibility for monitoring, measuring and reviewing the servicing that has been placed with Aspire Resources, Inc. as sub-servicer.

During the year, SAF was able to sell a great deal of its surplus furniture to the entity that bought the SAF office building last year. Most of the office furniture had a book value at or close to zero due to depreciation in prior years. SAF recorded a gain of \$68,656 on this sale. This was a one-time boost to financial results.

There are a couple of other 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 \$220,536 in FY18. Another source of revenue is for support services for our two co-tenants in our leased office space. This brought in \$76,857 for the year before those tenants moved out of the building. Finally, we provided facility management and maintenance services for the building's new owner for most of the year, bringing in \$91,800. During June 2018, SAF gave notice to the new building owner, vacated their old corporate headquarters and moved to new space.

Staffing Levels and Expertise

On July 1, 2017, SAF had a staff of 31 employees equal to 30.8 full-time equivalents (FTE). By the end of the fiscal year, at June 30, 2018, the combined company had 29 employees equal to 28.6 FTE which management considers to be the core staff required at this time. Any further changes to staff will be determined as both SAF and MHESAC, our managed client, continue to develop their businesses and programs.

Of the staff that remain at June 30, 2018, seventeen 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; personnel support; and general business maintenance.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2018 with Comparative Totals for June 30, 2017

Staffing Levels and Expertise (Continued)

An additional staff of twelve is being used to administer Reach Higher Montana and deliver the public purpose programs that are now under the guidance and direction of MHESAC.

Liquidity and Capital Resources

Regarding its business relationship with MHESAC, SAF has entered into an escrow agreement to assure that there will be funds sufficient to meet the costs of servicing and managing the MHESAC trust in the future when the cash generated by the loan portfolio is no longer sufficient to pay its expenses. At June 30, 2018, the balance of the escrow account was \$7,379,660. Due to legal restrictions about the timing and limited allowable use for this account, SAF regards this cash as a restricted asset and also reflects an offsetting liability on its balance sheet as deferred income. This escrow account will continue to grow each year until approximately 2024, which is when it is projected it will be necessary to subsidize the MHESAC servicing and management expense.

During the year, SAF entered into a buy-sell agreement on the vacant land that it holds as an investment. The sale is expected to close after the issuance of the financial statements. Based on the selling price, which is considered to be market price, the statement of activities reflects a write-down on the difference between the carrying value of the land and the selling price of the land. The loss is \$381,000. The lower selling price reflects the sale of the parcel as a whole, rather than individual lots.

In addition to the cash in the escrow and the board-designated account, SAF has a very liquid balance sheet showing unrestricted cash of \$3,866,453 and another \$4,362,377 in cash that is held as Board restricted. During the year, the Board created an investment committee, developed a charter as well as an investment policy and has issued a Request for Proposal for investment advisory services. 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.

Dissolution of Subsidiary

During the year, SAF as the sole owner of Tru Student made the decision to dissolve that corporation since it no longer had any clients or viable business line. Since the creation of Tru Student in 2010, SAF had capitalized its subsidiary through a series of stock purchases and loans that were subsequently converted to stock. In total, SAF invested \$4,601,777 in Tru Student. SAF management previously adjusted the investment that was reflected on the SAF books from cost basis to fair market value. The fair value was determined by a review of the assets held within Tru Student, primarily cash. The fair value was determined to be the cash on hand less all reasonable future claims on that cash. At the beginning of the year, this fair value was determined to be \$339,162.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2018 with Comparative Totals for June 30, 2017

Dissolution of Subsidiary (Continued)

However, at the end of the year, the cash on hand was actually \$334,506, resulting in an additional write-down on the investment of \$4,666. Tru Student was dissolved June 28, 2018. Immediately following the close of the year, all Tru Student accounts were closed and SAF was in receipt of the cash remaining.

Since the financial statements are consolidated with Tru Student and all intercompany transactions are eliminated in the process, this write-down does not show up on the accompanying 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, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,866,453	\$ 3,359,360
Cash held for other obligations	4,362,377	4,500,690
Accounts receivable:		
Client & other receivables	82,812	114,218
Related parties	-	23,010
Investment in land - available for sale	1,075,000	1,456,000
Investments	-	72,933
Prepaid costs, net	79,445	91,418
Total current assets	9,466,087	9,617,629
PROPERTY AND EQUIPMENT, at cost		
Equipment and furniture	1,304,273	3,417,766
Leasehold improvements, net	8,215	-
	1,312,488	3,417,766
Less: accumulated depreciation	1,259,071	3,350,483
Total property and equipment	53,417	67,283
OTHER RESTRICTED ASSETS		
Escrow cash/cash equivalents & receivable	7,379,660	5,651,995
Total other restricted assets	7,379,660	5,651,995
TOTAL ASSETS	\$ 16,899,164	\$ 15,336,907

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, 2018 and 2017

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 439,667	\$ 295,740
Funds held in trust	-	144,220
Compensated absence liability	<u>397,799</u>	<u>410,818</u>
Total current liabilities	<u>837,466</u>	<u>850,778</u>
 LONG-TERM LIABILITIES		
Deferred income	<u>7,379,660</u>	<u>5,651,995</u>
Total long-term liabilities	<u>7,379,660</u>	<u>5,651,995</u>
Total liabilities	<u>8,217,126</u>	<u>6,502,773</u>
 NET ASSETS		
Without donor restrictions		
Undesignated	4,319,661	4,471,757
Board-designated reserve for other obligations	<u>4,362,377</u>	<u>4,362,377</u>
Total net assets	<u>8,682,038</u>	<u>8,834,134</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 16,899,164</u>	 <u>\$ 15,336,907</u>

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, 2018 and 2017

	2018	2017
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and Support:		
Management & servicing fee income	\$ 4,931,762	\$ 12,163,097
Deferred per escrow agreement	(1,702,175)	(5,645,210)
Net management and servicing fee income	3,229,587	6,517,887
Programs delivery and support income	1,320,898	1,244,195
Loan servicing income	-	590,432
Royalty income	220,536	238,894
Income from investments		
Investment income, net	12,647	2,229
Write-down of non-operating investment	(381,000)	-
Gain on sale of property and equipment	68,656	6,221,271
Contributions and grants	-	181,363
Other income	169,307	465,859
	4,640,631	15,462,130
Net assets released from donor restrictions	-	615
Total revenue and support without donor restrictions	4,640,631	15,462,745
Expenses:		
Program Operating Expenses:		
Management and servicing for MHESAC	2,903,487	5,907,584
Programs delivery and support	1,257,266	1,186,836
Other services	120,074	1,263,856
Grant and public purpose program	-	825,874
Tru Student	28,325	258,332
Total program operating expenses	4,309,152	9,442,482
Supporting services expense		
Fundraising expenses	85	1,880
General and administrative expenses	483,490	57,444
Total supporting services expenses	483,575	59,324
Total expenses	4,792,727	9,501,806
Change in net assets without donor restrictions	(152,096)	5,960,939
NET ASSETS RELEASED WITH DONOR RESTRICTION		
Revenue and support:		
Contributions and grants with donor restrictions	-	615
Net assets released from donor restriction to revenue and support	-	(615)
Net assets reclassified upon rescission of previous donor restriction	-	(23,269)
Change in net assets with donor restriction	-	(23,269)
Change in net assets	(152,096)	5,937,670
Net assets at the beginning of the year	8,834,134	2,896,464
Net assets at the end of the year	\$ 8,682,038	\$ 8,834,134

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

	Program Services					Supporting Activities		
	Servicing & Mgmt for MHESAC	Delivery & Support of RHM	Other Services	Tru Student	Total Programs	Management & General	Fundraising	Total
Salaries, payroll taxes and employee benefits	1,731,277	1,128,276	69,258	22,387	2,951,198	281,052	-	3,232,250
Automobile	691	709	22	-	1,422	128	-	1,550
Board and officer	-	-	-	-	-	15,835	-	15,835
Computer charges	84,381	17,627	7,076	-	109,084	23,499	-	132,583
Contract services and labor	23,973	2,850	651	1,680	29,154	3,698	-	32,852
Contract sub-servicing fees	649,736	-	26,254	-	675,990	-	-	675,990
Depreciation	22,814	23,421	740	-	46,975	4,231	-	51,206
Dues, subscriptions and memberships	4,889	1,335	182	-	6,406	630	-	7,036
Fundraising expense	-	-	-	-	-	-	85	85
Income tax expense	-	-	-	-	-	1,343	-	1,343
Insurance	55,676	36,334	1,147	-	93,157	10,038	-	103,195
Mail, postage and courier	887	848	33	30	1,798	155	-	1,953
Office supplies and copier charges	2,808	2,402	75	-	5,285	440	-	5,725
Operating lease payments	1,357	129	75	-	1,561	423	-	1,984
Other costs	4,742	2,415	173	307	7,637	749	-	8,386
Printing	240	101	-	-	341	37	-	378
Professional services	106,559	5,852	974	3,921	117,306	101,827	-	219,133
Rent	107,898	17,682	3,506	-	129,086	19,933	-	149,019
Repairs, maintenance and service	5,124	729	166	-	6,019	946	-	6,965
Staff travel and training	15,074	4,603	601	-	20,278	1,805	-	22,083
Telecommunications and utilities	85,361	11,953	4,141	-	101,455	16,721	-	118,176
Trustee fees	-	-	5,000	-	5,000	-	-	5,000
Total expenses by function included in the expense section on the statement of activities	<u>\$ 2,903,487</u>	<u>\$ 1,257,266</u>	<u>\$ 120,074</u>	<u>\$ 28,325</u>	<u>\$ 4,309,152</u>	<u>\$ 483,490</u>	<u>\$ 85</u>	<u>\$ 4,792,727</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
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (152,096)	\$ 5,937,670
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Contributions receivable	-	23,269
Depreciation	51,206	304,399
Leasehold improvement	(8,215)	-
Net gain on disposal of property and equipment	(68,656)	(6,221,271)
Change in investment values	381,000	249
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables	53,495	1,168,414
Interest receivable	-	68
Prepaid costs	11,973	157,411
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	143,927	(1,646,508)
Compensated absences	(13,019)	(255,440)
Deferred client income	1,727,665	5,651,995
Funds held for servicing clients	(144,220)	(1,450,561)
Net cash flows from operating activities	<u>1,983,060</u>	<u>3,669,695</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(30,469)	(18,309)
Sale of property and equipment	70,000	8,085,130
Proceeds from sale of investments	72,933	-
Net cash flows from investing activities	<u>112,464</u>	<u>8,066,821</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, 2018 and 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on notes/loans payable	-	(3,910,786)
Net cash flows from financing activities	-	(3,910,786)
Net change in cash and cash equivalents	2,095,524	7,825,730
Cash and cash equivalents, beginning of year	13,510,559	5,684,829
Cash and cash equivalents, end of year	<u>\$ 15,606,083</u>	<u>\$ 13,510,559</u>
Supplemental schedule of noncash investing and financing activities:		
Cash paid for interest	\$ -	\$ 169,160
Cash and cash equivalents are reported on the consolidated statement of financial position as follows:		
Cash and cash equivalents, current	\$ 3,866,453	\$ 3,359,360
Cash held for other obligations	4,362,377	4,500,690
Escrow cash/cash equivalents and interest receivable	7,379,660	5,651,995
Less interest receivable included above	(2,407)	(1,486)
	<u>\$ 15,606,083</u>	<u>\$ 13,510,559</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, 2018 and 2017

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 no national clients during the year ended June 30, 2018, and up to 3 national clients during the year ended June 30, 2017. 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 no national clients during the year ended June 30, 2018, and up to 8 national clients during the year ended June 30, 2017. 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 which ended on December 31, 2016. 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. The dissolution of MSLF was authorized by the board on June 20, 2018.

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, 2018, and June 30, 2017.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization and Principles of Consolidation (Continued)

Tru Student 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. In 2018, Tru Student is essentially a dormant company and was dissolved through the Montana Secretary of State on June 27, 2018. The remaining assets have been liquidated leaving a cash balance of \$334,506.

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 (FASB).

Management's Financial Analysis is not required supplemental information under FASB standards. SAF has chosen to present this information and it precedes the financial statements.

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 \$100 for the year ended June 30, 2018, and \$-0- due for the year ended June 30, 2017.

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, 2018 and 2017, 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 \$1,243 for the year ended June 30, 2018, and \$1,538 for the year ended June 30, 2017.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued)

Deferred tax assets and liabilities caused by a difference between the tax basis of an asset or liability and its reported amount are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the new rate enactment date. Income tax credits are accounted for by the flow-through method, which recognizes the credits as reductions of income tax expense in the year utilized.

During the year ended June 30, 2018, Tru Student reported an operating loss of \$35,752. Tru Student reported an operating loss of \$56,400 at June 30, 2017. 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. 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, 2018 or 2017.

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Classification of Net Assets

The Corporation reports information regarding its financial position and activities according to two classes: net assets without donor restrictions and net assets with donor restrictions. The net assets are reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of SAF's management and the board of directors.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of SAF or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. The Corporation had no net assets with donor restrictions at June 30, 2018 and 2017.

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 were no unconditional promises to give at June 30, 2018 and 2017. There was a \$23,269 (net of \$1,731 discount) unconditional promise to give at July 1, 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, 2018 or 2017.

Marketing, Advertising and Outreach

The Corporation expenses public purpose program marketing, advertising, and promotional costs as incurred. Advertising expense of \$-0- and \$2,170 for the years ended June 30, 2018, and June 30, 2017, respectively, is included in grant and public purpose expense. There was no marketing or advertising expense in 2018 or 2017 for management and servicing.

Functional Allocation of Expenses

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

Fundraising Expenses

Fundraising expenses represent final cleanup of the Corporation's public benefit program state reporting.

Cash and Cash Equivalents

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy on a square footage basis; equipment depreciation and indirect expenses on a full-time equivalent basis; and salaries, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort by departments. Time and effort is based on a combination of time sheet project direct reporting when practical and a percentage estimate that is preassigned to each department and reviewed during forecasting for each business activity including administration.

Accounts Receivable

Accounts receivable consist primarily of servicing and management fees due from MHESAC. No allowance for uncollectible accounts was recorded for June 30, 2018, and June 30, 2017, for servicing fee related receivables as management believes that substantially all accounts are collectible.

Property and Equipment

Equipment is capitalized at cost and depreciated using the straight-line method over estimated lives of 3 to 5 years. Assets acquired with a purchase price less than \$1,000 are expensed in the year purchased. Equipment under capital lease is capitalized at the net present value of future lease payments and depreciated over the life of the lease. Donated assets are recorded at fair value as of the date of donation and expensed or capitalized similar to purchased assets. Building and building improvements are depreciated using the straight-line method over estimated lives of 20 and 10 years, respectively. Depreciation expense is \$51,206 and \$304,399 for the years ended June 30, 2018, and 2017 respectively.

Leasehold improvements of \$8,449 were completed on leased property in the year ended June 30, 2018. Amortization of these cost over the life of the lease resulted in expense for the year ended June 30, 2018, of \$234, leaving a balance of \$8,215 in leasehold improvements.

Investments

Investments consist of certificates of deposit and land that is available for sale. 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, 2018 and 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. SAF has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented, which had no effect on the change in net assets or total assets previously reported. SAF has elected not to restate 2017 for the functional allocation of expenses and liquidity disclosures, which this option is allowed in the year of implementation.

NOTE 2. LIQUIDITY AND AVAILABILITY

The following financial assets are expected to be available to support the organization in the year ending June 30, 2019:

Cash and cash equivalents	\$ 3,866,453
Client and other receivables	82,812
Cash held for other obligations	<u>4,362,377</u>
	<u>\$ 8,311,642</u>

The cash held for other obligations is board designated. The board can release these funds for current year liquidity as other obligations are defined. Of the total assets for the organization, 93% are financial assets. Of the financial assets, 53% are available to fund the current year operations.

As part of SAF's liquidity management plan, we currently invest cash in excess of daily requirements in a money-market sweep account. An investment committee has recently been formed with the goal of better investing the excess funds on hand for current and future endeavors.

The majority of SAF's operating funds are received in advance from our sole client, MHESAC, for services to be provided monthly. Management and loan servicing is reimbursed on a cost plus 15% basis except for servicing fees, which are reimbursed at cost. Program delivery and administration is reimbursed on a cost plus 5% basis. This arrangement allows SAF to meet the majority of its operating expenses with current inflow of cash and not have to use much, if any, funds accumulated from prior years.

SAF routinely forecasts 12 months in advance and monitors its liquidity quarterly as it completes each quarterly update of the rolling forecast.

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

NOTE 2. LIQUIDITY AND AVAILABILITY (CONTINUED)

The investment of land that is available for sale is currently under contract with a planned closing by the end of the fiscal year. The cash from that sale has not been designated for any specific purpose, so at this point would be available to support the organization. Since the sale has not yet closed, this is not included in the cash available listed above. The estimated proceeds net of closing costs will be approximately \$1 million.

NOTE 3. CONCENTRATION OF CREDIT RISK

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

At June 30, 2018, the carrying amount of those deposits was \$15,605,783 and the bank balance was \$15,625,661 with \$14,875,661 in excess of FDIC insured limits. 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.

NOTE 4. FAIR VALUE MEASUREMENTS

The Corporation follows the guidance established for measuring fair value under GAAP and related disclosure requirements. Fair value is defined by GAAP as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal or most advantageous market for the specific asset or liability.

Fair value measurement assumes the highest and best use of the asset by market participants and requires valuation techniques that maximize use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy prioritizes valuation input into three broad levels.

- Level 1 – Quoted prices in active markets for identical assets or liabilities to which the organization has access at the measurement date.
- Level 2 – Significant observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or inputs other than quoted prices that are observable or can be corroborated by observable market data. This level input must be observable for substantially the full term of the assets or liabilities;
- Level 3 – Significant unobservable inputs for situations in which there is little, if any, market activity.

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

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

For the years ended June 30, 2018 and 2017, there is no significant difference between cost and fair value for certificate of deposits. The fair value of Investment in land-available for sale was \$1,075,000 at June 30, 2018, and \$1,456,000 at June 30, 2017, 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 buy-sell agreement at June 30, 2018. It was previously valued using an appraisal dated July 2015. Certificates of deposit are not subject to investment categorization requirements.

NOTE 5. INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Certificates of deposit	\$ -	\$ 72,933
Investment in Land-available for sale	<u>1,075,000</u>	<u>1,456,000</u>
Total Investments	<u>\$ 1,075,000</u>	<u>\$ 1,528,933</u>

Components of investment income include the following:

	<u>2018</u>	<u>2017</u>
Write-down of investment in land – available for sale	\$ (381,000)	\$ -
Interest income	14,247	2,828
Investment expenses	<u>(1,600)</u>	<u>(599)</u>
	<u>\$ (368,353)</u>	<u>\$ 2,229</u>

NOTE 6. PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Equipment and furniture	\$1,304,273	\$ 3,417,766
Leasehold improvements, net	<u>8,215</u>	<u>-</u>
Total cost	1,312,488	3,417,766
Accumulated depreciation	<u>1,259,071</u>	<u>3,350,483</u>
Net book value	<u>\$ 53,417</u>	<u>\$ 67,283</u>

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

NOTE 6. PROPERTY AND EQUIPMENT (CONTINUED)

Student Assistance Foundation sold 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 sold 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 of \$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. In 2018, SAF also sold certain office equipment located in the building for \$70,000. The gain on equipment sold, \$70,000, was net with loss on equipment disposed not related to the sale of equipment, \$1,344, for a net gain of \$68,656. During the fiscal year, many assets were retired or surplused that were fully depreciated. This is visible in the \$2 million plus reduction in the equipment and furniture line along with accumulated depreciation while there was no such change reflected in the net book value.

NOTE 7. OPERATING LEASE

In 2018, the Corporation had an operating lease for equipment and two operating leases for office space. One lease remains at June 30, 2018, and one lease at June 30, 2017 which were classified as operating leases. Total rent expense on such leases for the fiscal years ended June 30, 2018 and 2017, was \$145,112 and \$5,952, respectively.

As of June 30, 2018, the future minimum lease payment under an operating lease with an initial or remaining term in excess of one year is as follows:

2019	\$ 125,184
2020	125,184
2021	114,752

NOTE 8. NET ASSETS

At June 30 net assets consist of the following:

Without donor restrictions:	<u>2018</u>	<u>2017</u>
Undesignated	\$ 4,319,661	\$ 4,471,757
Board designated for other obligations	<u>4,362,377</u>	<u>4,362,377</u>
Total net assets	<u>\$ 8,682,038</u>	<u>\$ 8,834,134</u>

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

NOTE 8. NET ASSETS (CONTINUED)

During the year ended June 30, 2018 and 2017, net assets with donor restrictions were released from restrictions as follows:

Expiration of donor restriction by expenditure for:	<u>2018</u>	<u>2017</u>
ETV Foster Care	\$ <u> -</u>	\$ <u> 615</u>
Total net assets with donor restrictions released	\$ <u> -</u>	\$ <u> 615</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 six percent of the participant’s salary as of January 1, 2018. Prior to that the match was five percent.

SAF incurred pension costs of \$132,240 in the year ended June 30, 2018, and \$191,958 in the year ended June 30, 2017. Tru Student adopted the SAF 401(k) plan for Tru Student employees at inception. Tru Student incurred pension costs of \$1,171 in the year ended June 30, 2018, and \$8,863 in the year ended June 30, 2017.

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.

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

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Servicing Agreements (Continued)

The cost of these services is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreements plus 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, 2018 and 2017, SAF billed MHESAC \$4,945,165 and \$7,606,558, respectively. At June 30, 2018 and 2017, the reconciliation for billed and actual management and servicing fees resulted in a balance receivable from MHESAC of \$9,151 and \$22,554, respectively. These balances are included in 2018 and 2017 client receivables and payables, 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. Tru Student discontinued its operations December 2016 and ceased paying for servicing and operational expenses. During the years ended June 30, 2018 and 2017, SAF billed Tru Student \$-0- and \$299,157, respectively. At June 30, 2018 and 2017 there was \$-0- payable for servicing and operational expenses.

SAF paid Tru Student client relation fees, contract fees, and common paymaster expenses. At June 30, 2018 and 2017, the reconciliation for billed and actual costs resulted in a balance payable by Tru Student of \$-0- and \$1,888, 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.

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

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreement (Continued)

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 \$1,702,175 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% along with \$25,490 in interest. At June 30, 2018, the Escrow balance was \$7,379,660 made up of a principal balance of \$7,347,385 and interest earned of \$32,275.

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. During the years ended June 30, 2018 and 2017, there was an offsetting deferred income amount with a balance of \$7,379,660 and \$5,645,210, respectively. 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.

The cost of these services to deliver the programs is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreement plus a mark-up of five percent of these costs.

During the year ended June 30, 2018, SAF billed MHESAC \$289,402 for management services and \$989,485 for program delivery. 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. At June 30, 2018 and 2017 the reconciliation for billed and actual management and program delivery resulted in a net balance receivable from MHESAC of \$42,012 and \$82, respectively.

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.

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

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 and reimburses the Montana Unemployment Insurance Division for terminated staff who qualify for unemployment benefits. Terminated staff who qualify for unemployment may be eligible for up to 28 weeks of benefits. The look back period for benefits is one year. During the year ended June 30, 2018, SAF incurred \$53,725 in unemployment benefit charges with no remaining estimated payable related to the fiscal year 2017 reduction of staff. During the year ended June 30, 2017, SAF incurred \$335,253 in unemployment benefit charges and had 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 required PHEAA to maintain the remote system in accordance with Title IV of the Higher Education Act of 1965, as amended. Subsequent amendments to the original agreement on February 1, 2004, extend the term of the agreement through January 31, 2015. As part of that agreement PHEAA provided access to the information on the system though SAF no longer actively used the report system for student loan servicing activity. This limited access allowed SAF use of the system for various clean up functions after the deconversions of SAF student loan clients. Fees for access and maintenance of the remote system were fixed since there was no active servicing being performed. Effective June 2018, SAF no longer has access to the remote PHEAA Compass system. However, 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 2018, 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.

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

NOTE 11. RELATED PARTY TRANSACTIONS (CONTINUED)

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 in their investment in Tru Student and an additional \$4,666 loss during the fiscal year 2018. 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. The organization was officially dissolved by the Montana Secretary of State in June 2018.

During fiscal year 2018, SAF had two of its five board members in common with Tru Student's three board members.

Shared Cost Agreements

The Corporation had 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. 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 continued shared cost agreements with MGSLP for computer operations through January 2018.

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

	<u>2018</u>	<u>2017</u>
Sublease and Shared Costs		
Payments from:		
MGSLP	\$ 96,162	\$ 327,061
OCHE	10,582	248,920
Accounts receivable:		
MGSLP	-	16,621
OCHE	-	6,389
Total	<u>\$ -</u>	<u>\$ 23,010</u>

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

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 70% and 59% of SAF's total revenues for years ended June 30, 2018 and 2017, respectively. There was \$64,781 and \$27,159 receivable from MHESAC outstanding at June 30, 2018 and 2017, respectively.

NOTE 14. SUBSEQUENT EVENTS

SAF has entered into Buy-Sell agreement. The Corporation has agreed to sell certain real property for a total purchase price of \$1,075,000. The property to be sold is the 10.32 acre tract located in Helena, Montana between Lola Street and Irene Street. The Buyer has placed with an escrow agent a cash deposit of \$5,000. The sale is contingent upon the Buyer's independent property investigation and feasibility analysis.

The dissolution of MSLF is in process at June 30, 2018 and will be completed in fiscal year 2019.

With the dissolution of Tru Student in June 2018, the remaining cash assets were moved into SAF in July 2018.

Additional Events

Management has evaluated subsequent events through September 11, 2018, 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, 2018 with Comparative Totals for 2017

ASSETS	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2018	2017
CURRENT ASSETS					
Cash and cash equivalents	\$ 3,531,947	\$ 334,506	\$ -	\$ 3,866,453	\$ 3,359,360
Cash held for other obligations	4,362,377	-	-	4,362,377	4,500,690
Accounts receivable:					
Client & other receivables	82,812	-	-	82,812	114,218
Related parties	-	-	-	-	23,010
Investment in land - available for sale	1,075,000	-	-	1,075,000	1,456,000
Investments	334,496	-	(334,496)	-	72,933
Prepaid costs, net	79,445	-	-	79,445	91,418
Total current assets	<u>9,466,077</u>	<u>334,506</u>	<u>(334,496)</u>	<u>9,466,087</u>	<u>9,617,629</u>
PROPERTY AND EQUIPMENT, at cost					
Equipment and furniture	1,304,273	-	-	1,304,273	3,417,766
Leasehold improvements, net	8,215	-	-	8,215	-
	1,312,488	-	-	1,312,488	3,417,766
Less: accumulated depreciation	1,259,071	-	-	1,259,071	3,350,483
Total property and equipment	<u>53,417</u>	<u>-</u>	<u>-</u>	<u>53,417</u>	<u>67,283</u>
OTHER RESTRICTED ASSETS					
Escrow cash/cash equivalents & receivable	7,379,660	-	-	7,379,660	5,651,995
Total other restricted assets	<u>7,379,660</u>	<u>-</u>	<u>-</u>	<u>7,379,660</u>	<u>5,651,995</u>
Total assets	<u>\$ 16,899,154</u>	<u>\$ 334,506</u>	<u>\$ (334,496)</u>	<u>\$ 16,899,164</u>	<u>\$ 15,336,907</u>

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
June 30, 2018 with Comparative Totals for 2017

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2018	2017
CURRENT LIABILITIES					
Other accounts payable and accrued expenses	\$ 439,667	\$ -	\$ -	\$ 439,667	\$ 295,740
Funds held in trust	-	-	-	-	144,220
Compensated absence liability	<u>397,799</u>	-	-	<u>397,799</u>	<u>410,818</u>
Total current liabilities	<u>837,466</u>	-	-	<u>837,466</u>	<u>850,778</u>
LONG-TERM LIABILITIES					
Deferred income	<u>7,379,660</u>	-	-	<u>7,379,660</u>	<u>5,651,995</u>
Total long-term liabilities	<u>7,379,660</u>	-	-	<u>7,379,660</u>	<u>5,651,995</u>
Total liabilities	<u>8,217,126</u>	-	-	<u>8,217,126</u>	<u>6,502,773</u>
NET ASSETS					
Capital stock, common, \$.01 par	-	5	(5)	-	-
Additional paid-in-capital	-	4,601,772	(4,601,772)	-	-
Without donor restrictions					
Undesignated	4,319,651	(4,267,271)	4,267,281	4,319,661	4,471,757
Board-designated reserve for other obligations	<u>4,362,377</u>	-	-	<u>4,362,377</u>	<u>4,362,377</u>
Total net assets	<u>8,682,028</u>	<u>334,506</u>	<u>(334,496)</u>	<u>8,682,038</u>	<u>8,834,134</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,899,154</u>	<u>\$ 334,506</u>	<u>\$ (334,496)</u>	<u>\$ 16,899,164</u>	<u>\$ 15,336,907</u>

See Independent Auditor's Report on Accompanying Information.