

**STUDENT ASSISTANCE
FOUNDATION OF MONTANA
AND AFFILIATE**

**CONSOLIDATED FINANCIAL
REPORT**

JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Student Assistance Foundation of Montana and Affiliate (the Corporation), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2021 and 2020, 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.

Management's financial analysis on pages 3 through 6, 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 consolidated financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Effect of Adopting New Accounting Standard

As discussed in Note 1, SAF adopted the Financial Accounting Standards Board's Accounting Standard Update (ASU) 2016-02, Leases (Topic 842) as of and for the year ended June 30, 2021. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 31 through 33 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Anderson Zurmuehlen & Co., P.C.

Helena, Montana
September 9, 2021

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
MANAGEMENT'S FINANCIAL ANALYSIS
Years Ended June 30, 2021 and 2020

This section of the Student Assistance Foundation of Montana's (SAF or the Corporation) annual financial report presents our discussion and analysis of the Corporation's financial performance during the years ended June 30, 2021 and 2020. Please read the following in conjunction with the Corporation's consolidated 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. Since 1999, SAF has continued to evolve and change in response to economic and political factors. SAF's primary responsibility as a not-for-profit support organization continues to be support of MHESAC as it continues to evolve as well. SAF is the Master Servicer and Administrator for MHESAC, both in the Federal Family Education Loan Program (FFELP) as well as its Reach Higher Montana (RHM) initiative.

As a means of expanding beyond its traditional MHESAC support role, SAF has recently started providing support services to other organizations under the name of Workmosis, a dba of SAF. In this effort, SAF is using the talents, skill, and professional resources that the existing staff have to provide services and support to other small businesses, primarily other not-for-profits. The Workmosis business effort is still in the initial stages.

During the fiscal year ended June 30, 2021, SAF created a new Limited Liability Corporation to acquire and manage a commercial office building in Helena, Montana. The new company is called Workmosis Power, LLC (WMP) and SAF is the sole member. The purpose of the building was primarily to house SAF and RHM staff and provide the permanent headquarters for SAF, MHESAC, RHM and Workmosis. The building is significantly larger than is currently needed for existing staff and therefore, WMP, through a contractual management relationship with Workmosis is leasing surplus office space to multiple tenants and is managing a commercial real estate business. This new company is consolidated into the SAF consolidated financial statements.

Consolidated Operational Results

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Total Revenue	\$ 5,454,262	\$ 3,974,644
Less Expenses:		
Program Operating Expense	3,431,841	3,326,903
General and Administrative Expense	<u>314,447</u>	<u>316,058</u>
Change in Net Assets	<u>\$ 1,707,974</u>	<u>\$ 331,683</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Years Ended June 30, 2021 and 2020

Consolidated Operational Results (Continued)

During the year a significant amount of the change in net assets was generated through investment activity. As required by generally accepted accounting principles, SAF records not only the actual investment income earned and received but also the gains and losses from changes in market value on the investments relative to the original acquisition cost. The income from the investments is recorded as follows for FY21:

Interest and investment income received	\$ 591,879
Realized gain/(loss) on sale of investment	385,952
Investment market value change	3,732,210
Income reallocated to deferred revenue escrow account	(2,888,859)
Investment advisor fees	<u>(101,430)</u>
Net Investment Income	<u>\$ 1,719,752</u>

In order to see more clearly the result of operations exclusive of investment activity we would need to reduce the change in net assets by the \$1,719,752 in net investment income resulting in decrease in net assets from operations of \$11,498.

The cash flow statement shows a net decrease in cash and cash equivalents of \$1.29 million. This decrease is attributed primarily to two items. First, SAF advanced cash in the amount of \$750,000 to Workmosis Power, LLC to acquire an office building. This came from cash on hand (\$250,000) and cash from the liquidation of an investment (\$500,000). Second, less cash was being held by our financial advisors before being invested in either equities or fixed income instruments. This is in sharp contrast to the previous year when the investment markets were very erratic, and cash was held a little longer while deciding and timing our strategy for deploying the cash into a particular investment. To put these results into context, it is important to read the consolidated financial statements and footnotes following this analysis.

Revenue Generating Activities

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 the sub-servicer. Income derived from management and master servicer responsibilities totaled \$2,172,419. Additionally, SAF provides the staffing and administrative support for RHM, MHESAC's public benefit arm. SAF earned \$1,230,848 for supporting RHM.

Rent income received via Workmosis Power, LLC totaled \$282,337, net of intercompany rent, for just over six months of building ownership. This is the first year for this activity so there is no comparison to prior year. When the building was acquired in December 2020, the building had an occupancy rate of 89%. Management was able to relocate existing tenants to other space within the building to accommodate SAF space needs and was also able to bring in new tenants. The result is that at June 30, 2021, the building occupancy was 99%.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Years Ended June 30, 2021 and 2020

Revenue Generating Activities (Continued)

SAF, through its Workmosis effort provided accounting and project services to other organizations for which SAF received \$48,010 in income during the year. Workmosis earned \$57,772 in building management and maintenance fees from WMP which is eliminated in the consolidation. SAF also received a donation of \$2,000, incurred a loss on fixed assets of \$1,500 and had a small amount of non-recurring miscellaneous income of \$396.

Staffing Levels and Expertise

At the end of the fiscal year the company had 27 employees equal to 26.35 FTE which management considers to be the core staff required at this time

Of the staff at June 30, 2021, fifteen 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 maintenance; strategic planning; accounting; personnel support; and general business maintenance. It also includes staff that are in place to support new SAF business initiatives as they are developed which includes the commercial office management undertaken mid-year when the office building was acquired.

An additional staff of twelve was used to administer RHM 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 MHESAC's loan portfolio is no longer sufficient to pay its expenses. At June 30, 2021, the balance of the escrow account was \$15,145,158. Due to legal restrictions about the timing and limited allowable use for this account, SAF regards this cash as a restricted asset and 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.

SAF uses the services of an investment advisory firm to execute the investment strategy put in place back in FY19. SAF has three different pools that are invested in equities and fixed income investments, depending on the stated goals of each pool. The first pool of funds is a short-term operations pool that is intended to be invested in secure, fixed income investments. The purpose of the pool is for investment in future business efforts. The second pool of funds is a long-term investment pool that is set aside as Board directed funds. These funds are long-term in nature and are therefore invested more heavily in equities as well as some portion of fixed income instruments. The third pool of funds is the long-term pool that is designated by the escrow agreement between SAF and MHESAC. It is anticipated that these funds will not be drawn on until 2024 and are therefore invested for a longer term in higher yielding assets such as equities as well as a balancing investment in fixed income instruments. Investment income, net of expenses was \$1,719,752 in FY21.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Years Ended June 30, 2021 and 2020

Liquidity and Capital Resources (Continued)

In addition to the investments described above, SAF holds cash in the escrow of \$64,502, the Board-restricted account of \$123,336, SAF operating cash of \$779,921 and tenant security deposits of \$23,412. Management believes that the cash, the investments, and 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.

Impact of COVID-19 Pandemic

Beginning in February 2020 and continuing through the end of the fiscal year 2021, SAF was forced to deal with the Covid-19 pandemic as were most companies throughout the country. Due to the strength of the SAF revenue contracts and the nature of the business, SAF's revenue lines were not impacted. Additionally, SAF was able to transition staff to work from home arrangements even before the statewide quarantine order was put in place for non-essential workers. Because of these two factors, SAF was able to continue all business functions remotely but also timely and completely. It was not necessary to reduce staff either permanently or through temporary furlough. Once the work from home mandate was relaxed, SAF decided to give employees the choice of continuing to work from home on a permanent basis or return to the office. Several staff chose to remain in a remote work environment, joining those staff members that have always worked remotely.

Due to the minimal impact on the business of SAF, management, supported by the board of directors, declined to apply for any of the stimulus funds made available by the CARES act for businesses that were significantly impacted by the pandemic.

The various investment pools that SAF maintains were more directly impacted by the economic reaction to the pandemic. Two of the investment pools, the escrow account and the board-directed investment account are both long-term in nature. As such, they are both invested heavily in equities which reacted to the downturn and subsequent recovery of the stock markets. As the pandemic continued into FY21, the investment in equities not only rebounded but were in place to take advantage of the record breaking equity performance seen in the broader market.

CONSOLIDATED FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 779,921	\$ 1,071,850
Accounts receivable	2,249	207,332
Interest receivable	27,569	25,793
Investments	3,067,835	3,124,111
Prepaid costs, net	174,427	111,938
Total current assets	4,052,001	4,541,024
 PROPERTY AND EQUIPMENT, at cost		
Land and building	2,311,630	-
Building improvements	47,447	-
Equipment and furniture	596,585	1,095,570
	2,955,662	1,095,570
Less: accumulated depreciation	550,504	1,014,323
	2,405,158	81,247
Leasehold improvements, net	62,604	4,790
Total property and equipment	2,467,762	86,037
 OTHER ASSETS		
Cash and cash equivalents held for security deposits	23,412	-
Cash and cash equivalents held for other obligations	123,336	373,315
Investments held for other obligations	6,689,916	5,054,307
Total other assets	6,836,664	5,427,622
 OTHER RESTRICTED ASSETS		
Escrow cash and cash equivalents	64,502	839,681
Escrow interest and funds receivable	138,523	172,950
Escrow investments	14,942,133	10,015,713
Total other restricted assets	15,145,158	11,028,344
TOTAL ASSETS	\$ 28,501,585	\$ 21,083,027

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
June 30, 2021 and 2020

	2021	2020
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Other accounts payable and accrued expenses	\$ 230,974	\$ 345,415
Funds held in trust	136,426	147,344
Compensated absences liability	368,208	357,998
Current maturities of real estate notes payable	45,061	-
Total current liabilities	780,669	850,757
LONG-TERM LIABILITIES		
Real estate notes payable, net of current maturities	1,663,848	-
Deferred income	15,145,158	11,028,334
Total long-term liabilities	16,809,006	11,028,334
Total liabilities	17,589,675	11,879,091
NET ASSETS		
Without donor restrictions		
Undesignated	4,083,859	3,764,791
Board-designated reserve for other obligations	6,828,051	5,439,145
Total net assets	10,911,910	9,203,936
TOTAL LIABILITIES AND NET ASSETS	\$ 28,501,585	\$ 21,083,027

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2021 and 2020

	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support:		
Management & servicing fee income	\$ 3,400,384	\$ 3,788,645
Deferred per escrow agreement	<u>(1,227,965)</u>	<u>(1,431,869)</u>
Net management and servicing fee income	2,172,419	2,356,776
Programs delivery and support income	1,230,848	1,174,090
Royalty income	-	108,066
Investment income, net	1,719,752	259,161
Operating lease income	282,337	-
Loss on disposal of fixed assets	(1,500)	-
Contributions	2,000	-
Other income	<u>48,406</u>	<u>76,551</u>
Total revenue and support without donor restrictions	<u>5,454,262</u>	<u>3,974,644</u>
Expenses:		
Program operating expenses:		
Servicing and management for MHESAC	1,936,801	2,116,157
Delivery and support of RHM	1,171,260	1,118,181
Other services	114,296	92,565
Workmosis Power, LLC	<u>209,484</u>	-
Total program operating expenses	<u>3,431,841</u>	<u>3,326,903</u>
Supporting services expenses:		
Management and general expenses	<u>314,447</u>	316,058
Total supporting services expenses	<u>314,447</u>	<u>316,058</u>
Total expenses	<u>3,746,288</u>	<u>3,642,961</u>
Change in net assets	1,707,974	331,683
Net assets at the beginning of the year	<u>9,203,936</u>	<u>8,872,253</u>
Net assets at the end of the year	<u>\$ 10,911,910</u>	<u>\$ 9,203,936</u>

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021

	Program Operating				Supporting Services		Total
	Servicing and Management for MHESAC	Delivery and Support of RHM	Other Services	Workmosis Power, LLC	Total Program Operating	Management and General	
Salaries, payroll taxes and employee benefits	\$ 1,204,655	\$ 1,068,571	\$ 100,122	\$ 77	\$ 2,373,425	\$ 207,035	\$ 2,580,460
Automobile	156	196	-	-	352	38	390
Board and officer	-	-	-	-	-	8,125	8,125
Computer charges	70,959	18,904	3,833	661	94,357	19,200	113,557
Contract services and labor	8,565	1,040	-	19,083	28,688	664	29,352
Contract sub-servicing fees	416,421	-	-	-	416,421	-	416,421
Depreciation	15,077	18,923	-	30,267	64,267	3,723	67,990
Dues, subscriptions and memberships	4,334	783	634	1,567	7,318	554	7,872
Income tax expense	-	-	-	-	-	6,210	6,210
Insurance	29,305	36,780	-	17,627	83,712	25,816	109,528
Interest, building note	-	-	-	31,736	31,736	-	31,736
Mail, postage and courier	1,167	219	176	3,504	5,066	224	5,290
Marketing	-	-	1,264	-	1,264	-	1,264
Office supplies and copier charges	4,592	858	1,766	2,136	9,352	870	10,222
Other costs	5,766	1,284	5,932	226	13,208	1,015	14,223
Printing	211	100	-	-	311	30	341
Professional services	50,584	514	-	4,477	55,575	16,469	72,044
Property taxes	-	-	-	13,030	13,030	-	13,030
Rent	85,144	15,792	-	-	100,936	16,346	117,282
Repairs, maintenance and service	-	-	-	35,704	35,704	-	35,704
Staff travel and training	4,268	1,068	-	1,442	6,778	619	7,397
Telecommunications and utilities	35,597	6,228	569	47,947	90,341	7,229	97,570
Trustee fees	-	-	-	-	-	280	280
Total expenses by function included in the expense section on the statement of activities	<u>\$ 1,936,801</u>	<u>\$ 1,171,260</u>	<u>\$ 114,296</u>	<u>\$ 209,484</u>	<u>\$ 3,431,841</u>	<u>\$ 314,447</u>	<u>\$ 3,746,288</u>

The Notes to Financial Statements are an integral part of this statement.

STUDENT ASSISTANCE FOUNDATION OF MONTANA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020

	Program Operating			Supporting Services		
	Servicing and Management for MHESAC	Delivery and Support of RHM	Other Services	Total Program Operating	Management and General	Total
Salaries, payroll taxes and employee benefits	\$ 1,270,774	\$ 1,024,869	\$ 85,895	\$ 2,381,538	\$ 207,639	\$ 2,589,177
Automobile	1,034	1,125	-	2,159	196	2,355
Board and officer	-	-	-	-	10,291	10,291
Computer charges	60,772	17,818	570	79,160	15,698	94,858
Contract services and labor	4,877	-	-	4,877	-	4,877
Contract sub-servicing fees	522,028	-	5,900	527,928	-	527,928
Depreciation	9,058	9,862	-	18,920	1,716	20,636
Dues, subscriptions and memberships	5,291	1,014	-	6,305	716	7,021
Insurance	30,774	33,504	-	64,278	24,039	88,317
Mail, postage and courier	682	743	-	1,425	129	1,554
Office supplies and copier charges	4,885	908	-	5,793	919	6,712
Other costs	5,786	1,232	-	7,018	1,008	8,026
Printing	241	108	-	349	37	386
Professional services	63,210	1,699	-	64,909	27,630	92,539
Rent	92,967	17,085	-	110,052	17,587	127,639
Staff travel and training	9,608	2,077	200	11,885	1,788	13,673
Telecommunications and utilities	34,170	6,137	-	40,307	6,375	46,682
Trustee fees	-	-	-	-	290	290
Total expenses by function included in the expense section on the statement of activities	<u>\$ 2,116,157</u>	<u>\$ 1,118,181</u>	<u>\$ 92,565</u>	<u>\$ 3,326,903</u>	<u>\$ 316,058</u>	<u>\$ 3,642,961</u>

The Notes to Financial Statements are an integral part of this statement.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,707,974	\$ 331,683
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	67,990	20,636
Leasehold improvement amortization	5,851	5,224
Change in investment values, net	(5,345,801)	440,319
Realized (gain) loss on investment	(385,952)	185,020
Loss on disposal of fixed assets	1,500	-
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Accounts receivable	205,083	(173,578)
Funds due to escrow investments	43,759	(2,915)
Interest receivable	(11,108)	(1,459)
Prepaid costs	(62,489)	(43,143)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(114,442)	159,293
Compensated absences	10,210	38,025
Deferred client income	4,116,824	1,552,067
Funds held in trust	(10,918)	(14,484)
Net cash flows from operating activities	228,481	2,496,688
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,393,400)	(54,474)
Purchase of leasehold improvements	(63,665)	-
Purchase of investments	(1,274,000)	(1,445,000)
Proceeds from sale of investments	500,000	-
Net cash flows from investing activities	(3,231,065)	(1,499,474)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of real estate note payable	1,730,948	-
Principal payments on real estate note payable	(22,039)	-
Net cash flows from financing activities	1,708,909	-
Net change in cash and cash equivalents	(1,293,675)	997,214
Cash and cash equivalents, beginning of year	2,284,846	1,287,632
Cash and cash equivalents, end of year	\$ 991,171	\$ 2,284,846
Cash and cash equivalents are reported on the statement of financial position as follows:		
Cash and cash equivalents	\$ 779,921	\$ 1,071,850
Cash and cash equivalents held for security deposits	23,412	-
Cash and cash equivalents held for other obligations	123,336	373,315
Escrow cash/cash equivalents	64,502	839,681
	\$ 991,171	\$ 2,284,846

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

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. As part of the restructuring of business activity adopted by the SAF Board on June 30, 2016, SAF 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.

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. 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 (RHM) by MHESAC.

SAF underwent a process to explore renaming and rebranding the Corporation in the fiscal year that ended June 30, 2020. To that end, SAF filed a dba with the State of Montana for Workmosis in February 2020. In the future, all operating revenue not directly related to support of MHESAC or RHM will be conducted under the name Workmosis. SAF has rolled out marketing for Workmosis. Workmosis is providing administrative services for a variety of not-for-profit organizations as well as providing business and building management for Workmosis Power, LLC.

On November 10, 2020, Workmosis Power, LLC (WMP) was created as a limited liability corporation with SAF as the sole member. WMP is a bankruptcy remote company that was created for the purchase of an office building. SAF advanced WMP \$750,000. On December 18, 2020, WMP purchased the Power Block building in downtown Helena, Montana with a combination of cash and real estate note payable. The Power Block building is a six-story office building built in 1889. Leases in place at the time of the purchase transferred to WMP. SAF moved to the building in May 2021. On June 30, 2021, the building was 99% occupied.

The accompanying consolidated financial statements include the accounts of SAF and WMP. All significant intercompany transactions and accounts have been eliminated.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated 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 administrative and project services performed for non-501(c)(3) companies is considered unrelated business income and is subject to taxation.

WMP is a Limited Liability Company and is a single member disregarded entity. The net rental income of WMP, to the extent it is debt-financed, is considered unrelated business income and is subject to taxation along with executive services provided to the tenants.

SAF has a deferred tax benefit resulting from unexpired cumulative net operating loss carryforwards. A valuation allowance equal to the deferred income tax benefit had been established due to the uncertainty of having taxable future income going forward. The net impact of the deferred income tax benefit and related valuation allowance was not adjusted at year end, so no balance is reported in the accompanying financial statements for this activity.

The Corporation recognized tax due of \$6,210 for the year ended June 30, 2021, and \$-0- due for the year ended June 30, 2020. There are no other significant deferred tax assets or liabilities as of June 30, 2021 or 2020.

Accounting Estimates

The preparation of consolidated 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 consolidated 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:

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

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, whereby the donor has stipulated the funds be maintained in perpetuity.

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, 2021 and 2020.

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.

Marketing Costs

Marketing costs are expensed as incurred and total \$1,264 and \$-0- during the years ended June 30, 2021 and 2020, respectively.

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 statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated 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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consists of administrative services clients and rents receivable at June 30, 2021. At June 30, 2020, accounts receivable consisted primarily of payments due to the Corporation from its previous loan servicing system provider related to an error to borrower accounts created by a coding problem in the system. The cash received related to the 2020 balance was paid to the impacted borrowers and clients that SAF used to service. Payables had also been recorded in 2020 to reflect the amounts to be paid to those parties. There were also receivables from MHESAC and project services clients at June 30, 2020. No allowance for uncollectible accounts was recorded for June 30, 2021, and June 30, 2020, 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. Building and building improvements are depreciated using the straight-line method over estimated lives of 39 and 10 years, respectively. Depreciation expense is \$67,990 and \$20,636 for the years ended June 30, 2021 and 2020, respectively.

Leasehold improvements of \$63,665 were made as of June 30, 2021, for SAF's new location. Leasehold improvements of \$15,472 at the prior location were fully amortized at the end of the lease on May 31, 2021. Amortization of these costs over the life of the lease resulted in expense of \$5,851 and \$5,224 for years ended June 30, 2021 and June 30, 2020, respectively, leaving a balance of \$62,604 and \$4,790 in leasehold improvements each year.

Investments

Investment purchases are recorded at cost. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses less external and direct internal investment expenses. Investment return on escrow investments is deferred in accordance with the escrow agreement.

Prepaid Costs

Expenses which are considered to have future benefits are recorded as prepaid assets. Prepaid costs are amortized over the periods benefited. Implementation costs of a cloud computing arrangement are included in prepaid costs. SAF has a cloud computing arrangement for its accounting software. Implementation costs were incurred with the cloud servicer for the creation and setup of WMP. The Corporation capitalized \$2,228 of implementation costs as of June 30, 2021. The WMP cloud setup has been placed in service and \$371 in amortization has been recognized as of June 30, 2021.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition

Revenue for contracts related to management and servicing fees along with programs delivery and support are recognized on a monthly basis as expenses are incurred. The revenue varies over time due to the cost-plus nature of the contracts. Performance obligations, which mainly revolve around day-to-day management, are satisfied on an ongoing basis. These contracts are described further in Note 8.

Royalty income was variable over time and was based on the monthly borrower count. The royalty contract ended March 31, 2020. Project services revenue and administrative services revenue is recognized as services are provided on a monthly basis.

New Accounting Standards

The Corporation adopted the following Accounting Standards Update (ASU) in fiscal year 2021:

ASU 2016-02, *Leases (Topic 842)*. This accounting standard increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about lease arrangements. Under this new standard, lessees recognize right of use (ROU) assets and related lease liabilities on the statement of financial position for all arrangements with terms longer than 12 months. Lessor accounting remains basically unchanged. 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, as there were no leases longer than 12 months at June 30, 2020. Enhanced disclosure of leases is presented in Note 6.

ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*. This accounting standard pertains to accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. There is minimal change to presentation in these consolidated financial statements. Accordingly, there is no effect on net assets in connection with the implementation of this ASU. Explanation of costs incurred can be found in “Prepaid Costs” in Note 1 above.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. These reclassifications do not affect prior year net assets as previously reported.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021 and 2020

NOTE 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the date of the consolidated statements of financial position, comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 779,921	\$ 1,071,850
Accounts receivable	2,249	207,332
Investments	3,067,835	3,124,111
Interest receivable	27,569	25,793
Cash held for other obligations	123,336	373,315
Investments held for other obligations	<u>6,689,916</u>	<u>5,054,307</u>
	<u>\$ 10,690,826</u>	<u>\$ 9,856,708</u>

The cash and investments held for other obligations are board designated. The board can release these funds for current year liquidity as other obligations are defined, including future business efforts identified through strategic planning. Of the total assets for the Corporation, 90% are financial assets. Of the financial assets, 41% are available to fund the current year operations.

As part of SAF's liquidity management plan, it has a policy to structure its assets to be available to meet the cash needs for general expenditures, liabilities, and other obligations as they come due. SAF invests cash in excess of daily requirements in a money-market sweep account.

In 2018, an investment policy was developed, and an investment committee formed. The committee has contracted with an investment advisor to invest excess funds to meet the current financial needs of the corporation and plan for future endeavors. Excess cash beyond current needs is in investments including U.S. Government obligations, corporate bonds, equity stocks, exchange traded funds, equity funds, and real estate investment trusts.

The majority of SAF's operating funds are received in advance from its primary 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 reduce the use of 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 AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash deposits. SAF maintains cash deposits at four 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, 2021, the carrying amount of those deposits was \$990,872 and the bank balance was \$996,498 with \$295,270 in excess of FDIC insured limits. At June 30, 2020, the carrying amount of those deposits was \$2,284,846 and the bank balance was \$2,284,771 with \$1,779,787 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 Corporation 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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the methodologies used at June 30, 2021, and there were no transfers between levels.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

Common stocks and real estate investment trusts: Valued at the closing price on the active market in which the individual securities are traded.

Mutual and exchange-traded funds: Valued at the daily closing price as reported by the fund. Mutual funds held by SAF are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.

Corporate and government obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing values on current yields of comparable securities of issuers with similar credit ratings.

A significant portion of the investment assets are classified within Level 1 because they are comprised of equity stocks, exchange traded and equity funds, and real estate investment trusts with readily determinable fair values based on daily market transactions. SAF invests in U.S. government obligations and corporate bonds that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

Investments are made by investment managers whose performance is monitored by SAF and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, SAF and the investment committee believe that the investment policy and guidelines are prudent for the long-term welfare of the Corporation.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

At June 30, 2021, the Corporation had investments consisting of the following:

	Fair value measurements at report date using		
	Total	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>
Short-term investments			
U.S. Government obligations	\$ 617,534	\$ -	\$ 617,534
Corporate bonds	739,755	-	739,755
Equity stocks	861,699	861,699	-
Exchange traded funds	676,875	676,875	-
Equity funds	141,636	141,636	-
Real estate investment trusts	<u>30,336</u>	<u>30,336</u>	-
	3,067,835	1,710,546	1,357,289
Investments held for other obligations			
U.S. Government obligations	546,769	-	546,769
Corporate bonds	639,897	-	639,897
Equity stocks	4,094,945	4,094,945	-
Exchange traded funds	772,803	772,803	-
Equity funds	497,502	497,502	-
Real estate investment trusts	<u>138,000</u>	<u>138,000</u>	-
	6,689,916	5,503,250	1,186,666
Escrow investments			
U.S. Government obligations	1,165,605	-	1,165,605
Corporate bonds	1,368,969	-	1,368,969
Equity stocks	9,259,539	9,259,539	-
Exchange traded funds	1,701,290	1,701,290	-
Equity funds	1,133,766	1,133,766	-
Real estate investment trusts	<u>312,964</u>	<u>312,964</u>	-
	14,942,133	12,407,559	2,534,574
 Total Investments	 <u>\$ 24,699,884</u>	 <u>\$ 19,621,355</u>	 <u>\$ 5,078,529</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

At June 30, 2020, the Corporation had investments consisting of the following:

	Fair value measurements at report date using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Short-term investments			
U.S. Government obligations	\$ 760,937	\$ -	\$ 760,937
Corporate bonds	822,719	-	822,719
Equity stocks	636,505	636,505	-
Exchange traded funds	739,708	739,708	-
Equity funds	155,715	155,715	-
Real estate investment trusts	<u>8,527</u>	<u>8,527</u>	-
	3,124,111	1,540,455	<u>1,583,656</u>
Investments held for other obligations			
U.S. Government obligations	490,897	-	490,897
Corporate bonds	540,503	-	540,503
Equity stocks	2,949,670	2,949,670	-
Exchange traded funds	622,584	622,584	-
Equity funds	410,862	410,862	-
Real estate investment trusts	<u>39,791</u>	<u>39,791</u>	-
	5,054,307	4,022,907	<u>1,031,400</u>
Escrow investments			
U.S. Government obligations	941,044	-	941,044
Corporate bonds	1,080,267	-	1,080,267
Equity stocks	5,861,650	5,861,650	-
Exchange traded funds	1,260,437	1,260,437	-
Equity funds	793,444	793,444	-
Real estate investment trusts	<u>78,871</u>	<u>78,871</u>	-
	10,015,713	<u>7,994,402</u>	<u>2,021,311</u>
 Total Investments	 <u>\$ 18,194,131</u>	 <u>\$ 13,557,764</u>	 <u>\$ 4,636,367</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

Components of investment income include the following:

	<u>2021</u>	<u>2020</u>
Interest and investment income	\$ 591,879	\$ 537,541
Realized gain (loss) on sale of investments	385,952	(185,020)
Unrealized market value change of investments	3,732,210	114,511
Investment expenses	(101,430)	(87,673)
Investment income on escrow to deferred revenue, net	<u>(2,888,859)</u>	<u>(120,198)</u>
Income from investments	<u>\$ 1,719,752</u>	<u>\$ 259,161</u>

The realized gain (loss) on sale of investments represents the difference between the carrying amount at the beginning of the reporting period, or the transaction price if purchased in the current period, and its settlement price. At June 30, 2021, the realized gain was \$385,952. The unrealized market value change calculates the difference between the carrying amount at the beginning of the period, or the transactions price if purchased in the current period, and its carrying amount at the end of the reporting period. At June 30, 2021, the unrealized market value change was \$3,732,210.

NOTE 5. LONG-TERM DEBT

At June 30, 2021, long-term debt consisted of the following:

	<u>2021</u>
Note payable to Valley Bank for WMP building, bearing interest at the rate of 3.47% for first 120 payments payable in monthly installments of \$8,638 and a rate to be reset based on the ten-year rate plus 3.00% for the remaining 180 payments in installments necessary to satisfy the loan by its scheduled maturity; secured by real property, rents from the building and a guarantee by SAF	\$ 1,708,909
Less current maturities	<u>(45,061)</u>
Long-term notes payable	<u>\$ 1,663,848</u>

There was no long-term debt at June 30, 2020.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 5. LONG-TERM DEBT (CONTINUED)

Future maturity requirements of long-term debt for the five years subsequent to June 30, 2021 and thereafter are as follows:

2022	\$	45,061
2023		46,650
2024		48,142
2025		49,992
2026		51,755
Thereafter		<u>1,467,309</u>
		<u>\$ 1,708,909</u>

NOTE 6. LEASES

Lessee

At the start of the fiscal year SAF had one operating lease for office space in place. Total rent expense on this lease for the fiscal years ended June 30, 2021 and 2020, was \$114,752 and \$125,184, respectively.

At June 30, 2021, SAF has one operating lease, for office space, in place with WMP. The operating lease payments related to this lease are eliminated in the consolidation. Total lease payments eliminated for the fiscal year ended June 30, 2021, was \$7,260.

With the implementation of the new lease standard as described in Note 1 under the topic "New Accounting Standards", SAF now recognizes an Operating Lease ROU Asset of \$193,575, and an offsetting Operating Lease Liability totaling \$193,575.

The lease began on May 1, 2021, and terminates on April 30, 2026. Monthly rent is \$3,630 with a provision for cost of living (CPI) increases which are determined annually. The CPI increases are not considered in the calculation of the ROU asset or the Operating Lease Liability because they are unknown. Adjustments will be made per the accounting standard when increases occur.

A discount rate is used in the calculation of the ROU. The rate used equals the financing rate for the purchase of the building, 3.47%.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021 and 2020

NOTE 6. LEASES (CONTINUED)

Lessee (Continued)

As of June 30, 2021, the future lease payments under the operating lease with a remaining term in excess of one year is as follows:

2022	\$ 43,560
2023	43,560
2024	43,560
2025	43,560
2026	<u>36,300</u>
Total	210,540
Less discount applied	<u>16,965</u>
Operating lease liability	<u>\$ 193,575</u>

The total operating lease right-of-use asset and obligation under operating lease liability were eliminated during consolidation.

Lessor

With the purchase of the Power Block Building by WMP on December 18, 2020, 34 leases were transferred to WMP. These are all operating leases. Total operating lease income as of June 30, 2021, is \$282,337 after elimination of SAF's operating lease in the consolidating adjustments.

As of June 30, 2021, the future operating lease payments to be received under the leases in place, with the SAF amount listed separately as a related party, is as follows:

	<u>Unrelated</u>	<u>Related</u>
2022	\$ 292,834	\$ 43,560
2023	132,637	43,560
2024	19,562	43,560
2025	4,254	43,560
2026	-	36,300

Options to extend a lease are included in some of the current leases. Of those with options, all but one is a 1-year extension requiring a 60-day notice. One is for 3 years with a 9-month notice.

For both Lessee and Lessor transactions, significant assumptions and judgments are used in determining whether a contract contains a lease and the allocation of any consideration in a contract between lease and non-lease components. There is no consideration in the current leases.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 7. RETIREMENT PLAN

The Corporation maintains a retirement vehicle for employees, the Student Assistance Foundation of Montana 401(k) 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.

SAF incurred pension costs of \$109,808 in the year ended June 30, 2021, and \$113,498 in the year ended June 30, 2020.

NOTE 8. 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, 2021 and 2020, SAF billed MHESAC \$3,399,598 and \$3,761,630 respectively. At June 30, 2021 and 2020, the reconciliation for billed and actual management and servicing fees resulted in a balance payable to MHESAC of \$2,904 and \$1,085, respectively. These balances are included in 2021 and 2020 funds held in trust.

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 originally appointed as the escrow agent and was authorized and directed to hold and invest the escrow property.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreement (Continued)

All interest and other earnings on the escrow property were deposited in the escrow account. During the fiscal year that ended June 30, 2019, Wells Fargo Bank chose to discontinue serving as Escrow agent given the decision to move escrow property into an independent investment account and gave notice to terminate the escrow agreement effective February 2019. Ascent Bank (formerly known as First Security Bank of Helena) was appointed as the new escrow agent and is authorized and directed to hold and forward escrow property to be invested in an independent investment 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.

Additions to the SAF escrow are from amounts collected from MHESAC in excess of the monthly management and servicing fees based on the allocated costs plus 15%. Following is a summary of the changes in the SAF escrow at June 30:

	<u>2021</u>	<u>2020</u>
Interest and investment income	\$ 346,521	\$ 291,748
Realized gain (loss) on sale of investments	191,131	(149,479)
Unrealized market value change of investments	2,413,378	28,649
Investment expenses	<u>(62,171)</u>	<u>(50,720)</u>
Investment income, net	2,888,859	120,198
Escrow, beginning balance	11,028,344	9,476,267
Bank fee deposited in 2020 and offset in 2021	(10)	10
Addition to escrow in excess of monthly management and servicing fees	<u>1,227,965</u>	<u>1,431,869</u>
Escrow, fair value ending balance	<u>\$ 15,145,158</u>	<u>\$ 11,028,344</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021 and 2020

NOTE 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreement (Continued)

A summary of the escrow balance between the principal excess management and servicing fees added plus net investment income over the life of the agreement at June 30 is as follows:

	<u>2021</u>	<u>2020</u>
Escrow balance – principal	\$ 11,766,700	\$ 10,538,735
Investment income, net plus bank fee	<u>3,378,458</u>	<u>489,609</u>
Escrow, fair value total	<u>\$ 15,145,158</u>	<u>\$ 11,028,344</u>

During the years ended June 30, 2021 and 2020, there was an offsetting deferred income amount with a fair value balance of \$15,145,158 and \$11,028,334, respectively.

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, 2021, SAF billed MHESAC \$273,853 for management services and \$956,036 for program delivery. During the year ended June 30, 2020, SAF billed MHESAC \$302,357 for management services and \$880,135 for program delivery of the Reach Higher Montana initiatives. At June 30, 2021 and 2020, the reconciliation for billed and actual management and program delivery resulted in a net balance payable and net balance receivable from MHESAC of \$2,532 and \$635, respectively.

Group Benefits Plan

SAF provides medical, dental, vision and life insurance coverage for its employees. Effective July 1, 2018, SAF opted for a level pay plan of medical coverage with Cigna. Effective July 1, 2016, SAF chose dental, vision, and life insurance plans with Guardian.

Unemployment

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, 2021, SAF incurred \$-0- in unemployment benefit charges. During the year ended June 30, 2020, SAF incurred \$7,711 in unemployment benefit charges.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Remote Services Agreement

On February 1, 2001, SAF entered into an agreement with the Pennsylvania Higher Education Assistance Agency (PHEAA) for remote system access for the effective computer processing of loans serviced by SAF. The agreement required PHEAA to maintain the remote system in accordance with Title IV of the Higher Education Act of 1965, as amended.

There was a system error discovered that had been under discussion since 2016. In FY 2020, SAF came to terms with PHEAA for reimbursement to borrowers and clients for errors made that increased loan balances. The receivable for this payment from PHEAA and payable for subsequent payments to borrowers and clients is also described in Note 1 Summary of Significant Accounting Policies.

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 9. 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 8. 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 2021, SAF had two of its five board members in common with MHESAC's seven board members.

NOTE 10. 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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021 and 2020

NOTE 11. MAJOR CUSTOMER

Fees from MHESAC accounted for 63% and 90% of SAF's total revenues for years ended June 30, 2021 and 2020, respectively. There was \$2,936 payable to MHESAC and \$4,375 receivable from MHESAC outstanding at June 30, 2021 and 2020, respectively.

NOTE 12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 9, 2021, the date which the consolidated financial statements were available for issue and did not identify any events to disclose.

SUPPLEMENTARY INFORMATION

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2021 with Comparative Totals for 2020**

ASSETS	Student Assistance Foundation	Workmosis Power, LLC	Consolidating Adjustments	2021	2020
CURRENT ASSETS					
Cash and cash equivalents	\$ 599,153	\$ 180,768	\$ -	\$ 779,921	\$ 1,071,850
Accounts receivable:					
Workmosis Power	10,532	-	(10,532)	-	-
Client & other receivables	1,557	692	-	2,249	207,332
Interest receivable	27,569	-	-	27,569	25,793
Advance to subsidiary	750,000	-	(750,000)	-	-
Investments	3,067,835	-	-	3,067,835	3,124,111
Prepaid costs, net	<u>153,383</u>	<u>21,044</u>	<u>-</u>	<u>174,427</u>	<u>111,938</u>
Total current assets	<u>4,610,029</u>	<u>202,504</u>	<u>(760,532)</u>	<u>4,052,001</u>	<u>4,541,024</u>
PROPERTY AND EQUIPMENT, at cost					
Land and building	-	2,311,630	-	2,311,630	-
Building improvements	-	47,447	-	47,447	-
Equipment and furniture	<u>596,585</u>	<u>-</u>	<u>-</u>	<u>596,585</u>	<u>1,095,570</u>
	596,585	2,359,077	-	2,955,662	1,095,570
Less: accumulated depreciation	<u>520,237</u>	<u>30,267</u>	<u>-</u>	<u>550,504</u>	<u>1,014,323</u>
	76,348	2,328,810	-	2,405,158	81,247
Operating lease right-of-use asset	193,575	-	(193,575)	-	-
Leasehold improvements, net	<u>62,604</u>	<u>-</u>	<u>-</u>	<u>62,604</u>	<u>4,790</u>
Total property and equipment	<u>332,527</u>	<u>2,328,810</u>	<u>(193,575)</u>	<u>2,467,762</u>	<u>86,037</u>
OTHER ASSETS					
Cash and cash equivalents held for security deposits	-	23,412	-	23,412	-
Cash and cash equivalents held for other obligations	123,336	-	-	123,336	373,315
Investments held for other obligations	<u>6,689,916</u>	<u>-</u>	<u>-</u>	<u>6,689,916</u>	<u>5,054,307</u>
Total other assets	<u>6,813,252</u>	<u>23,412</u>	<u>-</u>	<u>6,836,664</u>	<u>5,427,622</u>
OTHER RESTRICTED ASSETS					
Escrow cash/cash equivalents	64,502	-	-	64,502	839,681
Escrow interest and funds receivable	138,523	-	-	138,523	172,950
Escrow investments	<u>14,942,133</u>	<u>-</u>	<u>-</u>	<u>14,942,133</u>	<u>10,015,713</u>
Total other restricted assets	<u>15,145,158</u>	<u>-</u>	<u>-</u>	<u>15,145,158</u>	<u>11,028,344</u>
TOTAL ASSETS	<u>\$ 26,900,966</u>	<u>\$ 2,554,726</u>	<u>\$ (954,107)</u>	<u>\$ 28,501,585</u>	<u>\$ 21,083,027</u>

See Independent Accountant's Report on Accompanying Information.

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
June 30, 2021 with Comparative Totals for 2020**

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Workmosis Power, LLC	Consolidating Adjustments	2021	2020
CURRENT LIABILITIES					
Other accounts payable and accrued expenses	\$ 206,123	\$ 35,383	\$ (10,532)	\$ 230,974	\$ 345,415
Funds held in trust	106,371	30,055	-	136,426	147,344
Compensated absences liability	368,208	-	-	368,208	357,998
Advance from parent company	-	750,000	(750,000)	-	-
Current obligation under operating lease	37,435	-	(37,435)	-	-
Current maturities of real estate notes payable	<u>-</u>	<u>45,061</u>	<u>-</u>	<u>45,061</u>	<u>-</u>
Total current liabilities	<u>718,137</u>	<u>860,499</u>	<u>(797,967)</u>	<u>780,669</u>	<u>850,757</u>
LONG-TERM LIABILITIES					
Obligation under operating lease, net of current maturities	156,140	-	(156,140)	-	-
Real estate notes payables, net of current maturities	-	1,663,848	-	1,663,848	-
Deferred income	<u>15,145,158</u>	<u>-</u>	<u>-</u>	<u>15,145,158</u>	<u>11,028,334</u>
Total long-term liabilities	<u>15,301,298</u>	<u>1,663,848</u>	<u>(156,140)</u>	<u>16,809,006</u>	<u>11,028,334</u>
Total liabilities	<u>16,019,435</u>	<u>2,524,347</u>	<u>(954,107)</u>	<u>17,589,675</u>	<u>11,879,091</u>
NET ASSETS					
Without donor restrictions					
Undesignated	4,053,480	30,379	-	4,083,859	3,764,791
Board-designated reserve for other obligations	<u>6,828,051</u>	<u>-</u>	<u>-</u>	<u>6,828,051</u>	<u>5,439,145</u>
Total net assets	<u>10,881,531</u>	<u>30,379</u>	<u>-</u>	<u>10,911,910</u>	<u>9,203,936</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,900,966</u>	<u>\$ 2,554,726</u>	<u>\$ (954,107)</u>	<u>\$ 28,501,585</u>	<u>\$ 21,083,027</u>

See Independent Accountant's Report on Accompanying Information.

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATING STATEMENTS OF ACTIVITIES**
For the Year Ended June 30, 2021 with Comparative Totals for 2020

	Student Assistance Foundation	Workmosis Power, LLC	Consolidating Adjustments	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Revenue and support:					
Management & servicing fee income	\$ 3,400,384	\$ -	\$ -	\$ 3,400,384	\$ 3,788,645
Deferred per escrow agreement	<u>(1,227,965)</u>	-	-	(1,227,965)	(1,431,869)
Net management and servicing fee income	2,172,419	-	-	2,172,419	2,356,776
Programs delivery and support income	1,230,848	-	-	1,230,848	1,174,090
Building management & maintenance income	57,772	-	(57,772)	-	-
Royalty income	-	-	-	-	108,066
Investment income, net	1,719,751	1	-	1,719,752	259,161
Operating lease income	-	289,597	(7,260)	282,337	-
Loss on disposal of fixed assets	(1,500)	-	-	(1,500)	-
Contributions	2,000	-	-	2,000	-
Other income	<u>34,159</u>	<u>14,247</u>	-	48,406	<u>76,551</u>
Total revenue and support without donor restrictions	<u>5,215,449</u>	<u>303,845</u>	<u>(65,032)</u>	<u>5,454,262</u>	<u>3,974,644</u>
Expenses:					
Program operating expenses:					
Servicing and management for MHESAC	1,942,072	-	(5,271)	1,936,801	2,116,157
Delivery and support of RHM	1,172,237	-	(977)	1,171,260	1,118,181
Other services	114,296	-	-	114,296	92,565
Workmosis Power, LLC	-	267,256	(57,772)	209,484	-
Total program operating expenses	<u>3,228,605</u>	<u>267,256</u>	<u>(64,020)</u>	<u>3,431,841</u>	<u>3,326,903</u>
Supporting services expense					
Management and general expenses	<u>309,249</u>	<u>6,210</u>	<u>(1,012)</u>	<u>314,447</u>	<u>316,058</u>
Total supporting services expenses	<u>309,249</u>	<u>6,210</u>	<u>(1,012)</u>	<u>314,447</u>	<u>316,058</u>
Total expenses	<u>3,537,854</u>	<u>273,466</u>	<u>(65,032)</u>	<u>3,746,288</u>	<u>3,642,961</u>
Change in net assets	1,677,595	30,379	-	1,707,974	331,683
Net assets at the beginning of the year	<u>9,203,936</u>	-	-	<u>9,203,936</u>	<u>8,872,253</u>
Net assets at the end of the year	<u>\$ 10,881,531</u>	<u>\$ 30,379</u>	<u>\$ -</u>	<u>\$ 10,911,910</u>	<u>\$ 9,203,936</u>

See Independent Accountant's Report on Accompanying Information.