

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, 2016

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	I and 2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3 and 4
Consolidated Statements of Activities	5 and 6
Consolidated Statements of Cash Flows.....	7 and 8
Notes to Consolidated Financial Statements.....	9 to 28
ACCOMPANYING INFORMATION.....	29
Consolidating Schedule of Financial Position.....	30 and 31
Consolidating Schedule of Activities.....	32 and 33
Schedule of Consolidated Grant and Public Programs Expense.....	34
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	35 and 36

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, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 30 through 33 and the schedule of consolidated grant and public programs expense on page 34 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Helena, Montana
September 15, 2016

CONSOLIDATED FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,448,087	\$ 2,494,961
Cash held for clients/partners	1,591,294	7,154,335
Accounts receivable:		
Client & other receivables	1,275,430	1,000,749
Related parties	31,698	36,387
Interest receivable	68	25,993
Contributions receivable, current portion	5,000	-
Investments	1,529,182	2,006,999
Prepaid costs, net	<u>248,829</u>	<u>264,806</u>
Total current assets	<u>8,129,588</u>	<u>12,984,230</u>
PROPERTY AND EQUIPMENT, at cost		
Land and building	2,883,045	2,883,045
Building improvements	1,392,343	1,389,296
Equipment and furniture	<u>3,983,874</u>	<u>3,977,780</u>
	8,259,262	8,250,121
Less: accumulated depreciation	<u>6,042,030</u>	<u>5,652,240</u>
Total property and equipment	<u>2,217,232</u>	<u>2,597,881</u>
OTHER ASSETS		
Educational loans receivable, net	<u>-</u>	<u>62,595</u>
Total other assets	<u>-</u>	<u>62,595</u>
OTHER RESTRICTED ASSETS		
Endowment cash and cash equivalents	645,448	643,829
Contributions receivable, net of current portion	<u>18,269</u>	<u>22,892</u>
Total other restricted assets	<u>663,717</u>	<u>666,721</u>
Total assets	<u>\$ 11,010,537</u>	<u>\$ 16,311,427</u>

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
June 30, 2016 and 2015

	2016	2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,942,248	\$ 1,123,426
Funds held for loan servicing clients	1,586,418	7,534,005
Funds held for sponsored organization	8,363	32,150
Grant program liability	-	24,000
Compensated absence liability	666,258	842,403
Current obligation under capital lease	-	41,151
Current maturities of notes payable	184,114	468,636
Deferred income	-	230,936
Total current liabilities	4,387,401	10,296,707
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	3,726,672	3,911,503
Total long-term liabilities	3,726,672	3,911,503
Total liabilities	8,114,073	14,208,210
NET ASSETS		
Unrestricted:		
Undesignated	2,227,747	1,436,496
Board-designated for endowment	645,448	643,829
Total unrestricted	2,873,195	2,080,325
Permanently restricted	23,269	22,892
Total net assets	2,896,464	2,103,217
TOTAL LIABILITIES AND NET ASSETS	\$ 11,010,537	\$ 16,311,427

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, 2016 and 2015

	2016	2015
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Management & servicing fee income	\$ 10,047,763	\$ 10,607,364
Interest on educational loans	1,754	4,352
Loan servicing income	5,040,879	4,379,382
Royalty income	234,952	235,418
Income from investments		
Investment income	2,843	2,565
Interest on endowment	1,616	833
Realized loss on student loans	(46,864)	-
Contributions and grants	561,396	760,764
Other income	514,622	512,870
	16,358,961	16,503,548
Net assets released from restrictions	27,719	92,791
Total unrestricted revenue and support	16,386,680	16,596,339
Program Operating Expenses:		
Loan servicing		
Salaries, payroll taxes and employee benefits	9,155,007	9,044,468
Contract sub-servicing fees	1,477,936	1,282,112
Professional services	689,370	395,304
Marketing and outreach	-	2,000
Contract services and labor	90,815	256,240
Staff travel and training	50,604	69,323
Insurance	93,526	74,991
Office supplies and copier charges	12,561	15,766
Computer charges	515,549	557,552
Telecommunications and utilities	319,472	344,856
Mail, postage and courier	385,712	539,640
Printing	15,645	49,975
Dues, subscriptions and memberships	30,337	52,144
Recruitment and relocation	25,661	36,951
Automobile	864	1,888
Repairs, maintenance and service	28,177	31,194
Depreciation	363,846	504,347
Loan fees	5,000	5,000
Operating lease payments	5,952	106,303

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
For the Years Ended June 30, 2016 and 2015

	2016	2015
Program Operating Expenses (Continued):		
Loan servicing (continued)		
Other costs	209,989	260,364
Interest	183,610	<u>222,435</u>
Total loan servicing	13,659,633	13,852,853
Grants and public purpose program	1,677,069	<u>1,667,870</u>
Total program operating expenses	15,336,702	<u>15,520,723</u>
 Fundraising expenses	 169,614	 <u>194,913</u>
 General and administrative expenses:		
Salaries, payroll taxes and employee benefits	81,711	94,884
Board and officer	38,531	39,368
Insurance	20,251	19,699
Income tax expense	(97,135)	893
Other	44,136	<u>44,841</u>
Total general and administrative expenses	87,494	<u>199,685</u>
 Total expenses	 15,593,810	 <u>15,915,321</u>
 Change in unrestricted net assets	 792,870	 <u>681,018</u>
 TEMPORARILY RESTRICTED NET ASSETS		
Revenue and support:		
Contributions and grants	27,719	90,890
Net assets released from restrictions	(27,719)	<u>(92,791)</u>
Change in temporarily restricted net assets	-	<u>(1,901)</u>
 PERMANENTLY RESTRICTED NET ASSETS		
Contributions received	377	<u>378</u>
Change in permanently restricted net assets	377	<u>378</u>
Change in net assets	793,247	679,495
 Net assets at the beginning of the year	 2,103,217	 <u>1,423,722</u>
Net assets at the end of the year	\$ 2,896,464	\$ 2,103,217

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 793,247	\$ 679,495
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Sale (purchase) of educational loans	41,271	(22,524)
Repayments of educational loans	-	17,986
Contributions receivable	(377)	(378)
Loss on loan write-off	46,864	-
Non-cash adjustments to educational loans	(25,540)	21,392
Depreciation	393,704	539,690
Leasehold improvement amortization	-	9,917
Net loss on disposal of fixed assets	-	11,684
Change in investment values	(151)	(2)
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables	(269,992)	684,110
Interest receivable	25,925	(7,768)
Prepaid costs	15,977	136,530
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	818,822	(336,904)
Compensated absences	(176,145)	20,480
Deferred client income	(230,936)	230,937
Grants awarded	(24,000)	(38,001)
Funds held for servicing clients	(5,971,374)	2,683,092
Net cash flows from operating activities	<u>(4,562,705)</u>	<u>4,629,736</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(13,055)	(5,025)
Purchase of investments	(48,000)	(50,190)
Proceeds from sale of investments	525,968	49,000
Net cash flows from investing activities	<u>464,913</u>	<u>(6,215)</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, 2016 and 2015

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on line of credit	-	(500,000)
Repayments on notes/loans payable	(469,353)	(218,581)
Repayments on lease obligations	(41,151)	(79,177)
Net cash flows from financing activities	<u>(510,504)</u>	<u>(797,758)</u>
Net change in cash and cash equivalents	(4,608,296)	3,825,763
Cash and cash equivalents, beginning of year	<u>10,293,125</u>	<u>6,467,362</u>
Cash and cash equivalents, end of year	<u>\$ 5,684,829</u>	<u>\$ 10,293,125</u>
 Supplemental schedule of noncash investing and financing activities:		
Cash paid for interest	<u>\$ 216,662</u>	<u>\$ 246,375</u>
 Cash and cash equivalents are reported on the consolidated statement of financial position as follows:		
Cash and cash equivalents, current	\$ 3,448,087	\$ 2,494,961
Cash held for clients and partners	1,591,294	7,154,335
Endowment cash and cash equivalents	<u>645,448</u>	<u>643,829</u>
	<u>\$ 5,684,829</u>	<u>\$ 10,293,125</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, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

Student Assistance Foundation (herein referred to as SAF or the Corporation) is a Montana not-for-profit corporation incorporated in July of 1999 to provide education finance services to Montana students and support services for student financial aid industry participants. SAF was formed as part of a major restructuring plan adopted by the Montana Higher Education Student Assistance Corporation (MHESAC) Board of Directors in response to changes in the student loan industry and in an effort to expand financial aid benefits available to Montana students. As part of this plan, on February 1, 2000, the employees and operating assets of MHESAC were transferred to SAF, and MHESAC contracted with SAF for student loan servicing and management functions. SAF provided student loan servicing for up to 4 national clients during the year ended June 30, 2016, and up to 5 national clients during the year ended June 30, 2015. SAF provides financial support as well as a variety of counseling and information services to Montana students to pursue their post-secondary education. SAF has two affiliates: Montana Student Loan Funding, LLC (MSLF) a limited liability corporation with SAF as the sole member and Tru Student, Inc. (Tru Student), a wholly owned subsidiary. Tru Student provided student loan servicing for up to 10 national clients during the year ended June 30, 2016, and up to 13 national clients during the year ended June 30, 2015.

On June 28, 2003, MSLF was created as a limited liability corporation with SAF as the sole member. The corporation is a bankruptcy remote company that was formed to acquire and originate student loans. At June 30, 2016, MSLF is essentially an inactive company with no assets or liabilities.

On December 17, 2009, Tru Student was created as a for-profit corporation and was subsequently merged with TS Merger Corporation on June 11, 2010, but retained the Tru Student Inc. name. 1000 shares of stock were authorized with a par value of \$0.01 per share. 500 shares were issued and outstanding at June 30, 2016, and June 30, 2015. The corporation is a bankruptcy remote company that performs student loan servicing functions for private student loans and some activities related to consumer loans.

Bankruptcy remote status provides that all debts, obligations and liabilities are solely that of the established company and neither the members, special members nor any managers are obligated for those activities including insolvency of the bankruptcy remote vehicle. SAF owns 100% of the common stock issued by Tru Student. The accompanying consolidated financial statements include the accounts of Tru Student. All significant intercompany transactions and accounts have been eliminated.

Basis of Presentation

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

SAF is a not-for-profit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3). Income derived from loan servicing performed for Tru Student Federal Family Education Loan Program (FFELP) and rehabilitation activity is considered unrelated business income and is subject to taxation. The Corporation recognized tax refunds of \$98,515 and \$341 for the years ended June 30, 2016, and June 30, 2015, respectively.

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, 2016 and 2015, MSLF was a dormant company with no activity. Accordingly, no provision for income taxes for this activity is necessary in the accompanying financial statements.

Tru Student is a nonpublic for-profit corporation and accounts for income taxes in accordance with GAAP which requires a tax liability to be recorded for any income tax owed for continuing operations or other taxable activity and disclosure of the significant components of income tax expense. The Corporation recognized tax expense of \$1,380 for the year ended June 30, 2016, and \$1,234 for the year ended June 30, 2015. 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, 2016, Tru Student reported operating income of \$786,288. Tru Student reported an operating loss of \$1,484 at June 30, 2015. For both years, Tru Student had a deferred tax benefit resulting from unexpired cumulative net operating loss carryforwards. A valuation allowance equal to the deferred income tax benefit has been established due to the uncertainty of assumptions on financial results during the start-up phase of this entity. Management will continue to monitor the impact of this potential benefit as the long term strategic planning develops more fully. The net impact of the deferred income tax benefit and related valuation allowance results in no balances being reported in the accompanying financial statements for this activity.

There are no other significant deferred tax assets or liabilities as of June 30, 2016 or 2015.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued)

Generally, the returns of the Corporation and its affiliates are no longer subject to review by federal and Montana taxing authorities for years prior to the tax year ended June 30, 2013.

Accounting Estimates

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

Classification of Net Assets

The Corporation reports information regarding its financial position and activities according to three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets are reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation or the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Corporation had no temporarily restricted net assets at June 30, 2016 or 2015.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation, but permit the use of all or part of the income earned on any related investment for general or specific purposes. The Corporation had \$23,269 and \$22,892 permanently restricted net assets at June 30, 2016 and 2015, respectively.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. There were \$23,269 (net of \$1,731 discount) and \$22,892 (net of \$2,108 discount) of unconditional promises to give at June 30, 2016 and 2015, respectively. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give outstanding at June 30, 2016 or 2015. Payments received on conditional grants are reported as refundable grant advances until the conditions have been met.

Contributions Receivable

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

Gross amounts due in:	<u>2016</u>	<u>2015</u>
One year	\$ 5,000	\$ -
Two to five years	20,000	25,000
Less discount to present value	<u>(1,731)</u>	<u>(2,108)</u>
Total Contributions Receivable	<u>\$ 23,269</u>	<u>\$ 22,892</u>

The remaining discount will be recognized as contribution income in fiscal years 2017 through 2021 as it is amortized using an effective yield over the duration of the pledged contribution period. The entire contribution receivable is due from one individual. In addition, the Corporation has been informed of the intention for a future bequest of undetermined value that has not been included in the financial statements as it is not considered an unconditional promise.

Marketing, Advertising and Outreach

The Corporation expenses public purpose program marketing, advertising and promotional costs as incurred. Advertising expense of \$26,308 and \$35,921 for the years ended June 30, 2016, and June 30, 2015, respectively, is included in grants and public purpose program expense. Loan servicing expense included a total of \$-0- and \$2,000 of marketing and advertising costs in 2016 and 2015, respectively.

Functional Allocation of Expenses

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

Fundraising Expenses

Fundraising expenses represent the Corporation's public benefit program solicitation efforts.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consist primarily of servicing and management fees due from MHESAC, loan servicing fees, and receivables from cost sharing arrangements with the Montana Guaranteed Student Loan Program (MGSLP) and Office of the Commissioner of Higher Education (OCHE). No allowance for uncollectible accounts was recorded for June 30, 2016, and June 30, 2015 for servicing fee related receivables as management believed that substantially all accounts are collectible.

Property and Equipment

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

Depreciation expense for the years ended June 30 follows:

	<u>2016</u>	<u>2015</u>
Loan Servicing	\$ 228,741	\$ 318,355
Included in Affiliated Client Expenses	135,105	176,075
Included in Grants and Public Purpose Program Expenses	29,858	45,260
	<u>\$ 393,704</u>	<u>\$ 539,690</u>

Investments

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

Interest on Educational Loans

The United States Department of Education makes quarterly interest payments on subsidized Stafford and subsidized Consolidation loans until the borrower is required to begin repayment under the provisions of the Higher Education Act. For Stafford loans, repayment generally begins 6 to 9 months after the student completes his/her course of study, leaves school or fails to carry a minimum academic load. Repayment begins immediately upon full disbursement for Consolidation, PLUS and SLS loans disbursed prior to July 1, 2008.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest on Educational Loans (Continued)

PLUS loan borrowers with loans disbursed on or after July 1, 2008, may choose to begin repayment 6 months after the student, for whom the parent borrowed the funds, ceases to be enrolled at least half-time. In addition, the United States Department of Education pays the interest for subsidized Stafford and subsidized Consolidation loans during the time a borrower is in an authorized deferment period. Authorized deferment periods are specific situations and statuses determined by the United States Department of Education.

Special Allowance Payments

The United States Department of Education provides a special allowance or subsidy to lenders participating in FFELP if the interest rate is below the guaranteed interest rate. Conversely, if the interest rate is above the guaranteed interest rate, the excess portion of the borrower payment is remitted to the Federal government. This allowance is paid on the average quarterly unpaid principal balance of student loans, based on an annual rate equal to the average rate of 91-day U.S. Treasury Bills, 3-month Commercial Paper Rates or One-Month LIBOR for that quarter increased by various rates, depending on loan type and origination date. If the average yield rate is lower than the interest rate paid by the borrower, then the excess portion of the borrower payment is rebated to the federal government. As of June 30, 2016 and 2015, rebates of \$730 and \$837, respectively, were netted in interest on educational loans revenue on the financial statements.

Income Based Repayment (IBR) Plan

During the year ended June 30, 2010, the Income Based Repayment (IBR) Plan was enacted as part of the College Cost Reduction and Access Act of 2007. IBR is a repayment plan option for borrowers with loans in the Direct Loan Program or FFELP. The IBR plan may result in additional subsidy payments by the federal government on behalf of borrowers and a potential discharge of remaining debt balances at the end of 25 years.

Prepaid Costs

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

Loan Measurement & Allowance for Uncollectible Loans

Loans held by the corporation are measured at the outstanding principal amount net of any allowance for credit losses or uncollectible amounts. Estimates for uncollectible amounts are based on outstanding principal amounts and portfolio default rates. (See Note 4 for details on Education Loan Receivable and Uncollectible Loans).

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications were made to the 2015 financial statements in order to conform to the 2016 presentation. The reclassifications had no effect on the change in net assets or total assets previously reported.

NOTE 2. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash deposits. SAF 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, 2016, the carrying amount of those deposits was \$5,682,053 and the bank balance was \$6,195,582 with \$5,434,544 in excess of FDIC insured limits. At June 30, 2015, the carrying amount of those deposits was \$10,768,995 and the bank balance was \$10,949,270 with \$10,119,936 in excess of FDIC insured limits.

NOTE 3. INVESTMENTS

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

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

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016 and 2015

NOTE 3. INVESTMENTS (CONTINUED)

For the years ended June 30, 2016 and 2015, there is no significant difference between cost and fair value for certificate of deposits. The fair value of land held for investment was \$1,456,000 at June 30, 2016 and 2015, with a related cost of \$1,005,198. The fair value measurement used for this valuation was Level 3 – significant unobservable inputs for situations in which there is little, if any, market activity in the form of a real estate valuation. Certificates of deposit are not subject to investment categorization requirements.

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

	<u>2016</u>	<u>2015</u>
Certificates of deposit	\$ 73,182	\$ 550,999
Land held for investment	<u>1,456,000</u>	<u>1,456,000</u>
Total Investments	<u>\$ 1,529,182</u>	<u>\$ 2,006,999</u>

Components of investment income include the following:

Interest and dividends	<u>\$ 4,459</u>	<u>\$ 3,398</u>
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NOTE 4. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES

The educational loans receivable are classified as student/interim or repayment status. Student/interim status represents the period from the date the educational loan is made until a student is out of school, including the grace period and any authorized deferment periods, at which time repayment status commences.

In 2016, the loans being serviced internally were sold and those serviced through a collection agency were deemed uncollectible and written off.

Educational loans are summarized as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Repayment status	\$ -	\$ 92,905
Less allowance for uncollectible loans	-	<u>(30,310)</u>
Total	<u>\$ -</u>	<u>\$ 62,595</u>

All loans at June 30, 2015, were Stafford loans.

In addition to the special allowance paid by the federal government on certain loans, payments of principal and interest are made by borrowers using the various rates and terms for loans outstanding. Interest on performing loans is accrued on the outstanding principal balance.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

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

Depending on factors specified in the Higher Education Act, educational loans have either fixed or variable interest rates to the borrower and various maximum repayment terms. Fixed interest rates on Consolidation loans are based upon the weighted average interest rates of the loans consolidated rounded up to the nearest one-eighth. Consolidation loans disbursed on or after November 13, 1997, have a maximum interest rate of 8.25%.

Variable interest rates are based upon either the 91 day or one year constant maturity Treasury bill, subject to maximum interest rates ranging from 7.00% to 12.00%. Fixed interest rates range from 3.4% to 8.5% depending on the actual year disbursed and the loan type.

SLS, PLUS, and FISL loans have a maximum repayment term of 10 years. Stafford loans have maximum repayment terms of 10 or 25 years depending on the borrower's original disbursement date and cumulative balance. Consolidation loans have maximum repayment terms of 10 to 30 years depending on the original balance.

Allowance for Uncollectible Loans

Under contracts with the Montana Guaranteed Student Loan Program (MGSLP), other non-Montana guarantors, and the United States Department of Education, the loan portfolio is guaranteed reimbursement of principal and accrued interest on defaulted educational loans for which the applicable due diligence procedures have been performed.

The Corporation receives 100% reimbursement on loans disbursed prior to October 1, 1993. Loans disbursed from October 1, 1993 until June 30, 2006, are reimbursed at 98% and loans disbursed after June 30, 2006, are reimbursed at 97%. The Corporation recognizes an allowance for loan losses in an amount believed to be sufficient to absorb losses inherent in the loan portfolio. This provision is based on the current default rates of each segment of the portfolio funding source that is applied to the nonguaranteed portion of the loan portfolio balance.

Defaulted loans are eligible for claims reimbursement after 270 days of delinquency. At this time, default prevention due diligence is conducted in an attempt to prevent the need for claim submission. The corporation files claim prior to the 360th day of delinquency, the deadline required by the guarantor. Interest is accrued on delinquent loans up to the date of claim payment by the guarantor, if applicable.

For the years ended June 30, 2016, and June 30, 2015, Student Assistance Foundation's loan portfolio was \$0 and \$92,905 respectively. A default rate of 50% was used for loans serviced through a collection agency and a default rate of 10% was used for loans being serviced internally resulting in a provision for uncollectible educational loans of \$30,310 being recorded in 2015. This was reversed in 2016 when the internally collected loans were sold and the collection agency loans were written off.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016 and 2015

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

Allowance for Uncollectible Loans (Continued)

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

	<u>2016</u>	<u>2015</u>
100% Guaranteed	\$ -	\$ 719
97% Guaranteed	-	17,114
Uninsured	-	75,072
Total Portfolio	<u>\$ -</u>	<u>\$ 92,905</u>

No changes were implemented in accounting policies or methodologies during the year ended June 30, 2016 and 2015.

NOTE 5. LONG-TERM DEBT

At June 30, 2016 and 2015, long term debt consisted of the following:

	<u>2016</u>	<u>2015</u>
Note payable to Valley Bank for building, bearing interest at the rate of 5.00% for first 60 payments payable in monthly installments of \$30,716 and a rate to be reset based on the five-year rate plus 2.5% for the remaining 180 payments in installments necessary to satisfy the loan by its scheduled maturity; secured by real property.	\$ 3,910,786	\$ 4,079,381
Note payable to First Interstate Bank for land, bearing interest at the rate of 6.00% with payments of \$6,528 through March 2016 and a balloon payment for the remainder; secured by land.	-	300,758
Total notes payable	<u>3,910,786</u>	4,380,139
Less current maturities	<u>(184,114)</u>	(468,636)
Long-term notes payable	<u>\$ 3,726,672</u>	<u>\$ 3,911,503</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

Future maturity requirements of long-term debt for the five years subsequent to June 30, 2016 and thereafter are as follows:

2017	\$ 184,114
2018	193,945
2019	202,673
2020	211,404
2021	211,307
Thereafter	<u>2,897,343</u>
	<u>\$ 3,910,786</u>

NOTE 6. CAPITAL LEASES

At June 30, 2016, the Corporation held no computer equipment under a capital lease. The related liability under the capital lease at June 30, 2016 and 2015, was \$-0- and \$41,151 respectively.

NOTE 7. OPERATING LEASE

At June 30, 2016, the Corporation has one lease for equipment that is classified as an operating lease. During 2015, there was an office lease that was not renewed in 2016. Total rent expense on such leases for the fiscal years ended June 30, 2016 and 2015, was \$5,952 and \$106,303, respectively.

As of June 30, 2016, the future minimum lease payment under an operating lease with an initial or remaining term in excess of one year is as follows:

2017	\$ 5,952
2018	1,984

NOTE 8. ENDOWMENT

Student Assistance Foundation has established the SAF Permanent Endowment to provide funds for grants and scholarships and funding for additional programs that will enhance access to post-secondary education for Montana students and citizens in the future. The endowment may include both donor-restricted endowment funds and funds generated by SAF from program revenues. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 8. ENDOWMENT (CONTINUED)

During 2007, the State of Montana adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Accordingly, SAF classifies as permanently restricted net assets the original value of gifts donated to the endowment and accumulated earnings associated with a specific gift, if required by the donor.

In accordance with this policy, the Board made contributions of \$0 and \$62,000 in the years ended June 30, 2016, and 2015, respectively, and earnings of \$1,619 and \$830 were added during the years ended 2016 and 2015, respectively. By Board action, \$448,000 was temporarily released to fund Access Grants during the year ended June 30, 2014. The Board directed the Endowment Fund would be reimbursed for this temporary distribution as follows:

2014	\$ 200,000
2015	125,000
2016	<u>123,000</u>
	<u>\$ 448,000</u>

The entire temporary distribution was reimbursed by June 30, 2016.

SAF considers the following factors in making a determination to expend donor-restricted endowment funds:

- Preservation of the funds
- Investment policies adopted

To provide an ongoing source of support for SAF's public benefit activities, distributions from the Endowment Fund shall be used to support SAF's programs and educational grants directly benefiting students and shall not be used to support SAF's operating expenses. The Endowment Fund must grow to a minimum level before payout commences. Once the Endowment Fund reaches the minimum level, the Endowment Fund will annually distribute the fund's net income not to exceed 4% of the Endowment Fund's assets based on an average of the preceding three years.

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016 and 2015

NOTE 8. ENDOWMENT (CONTINUED)

The following describes the composition of net assets of the endowment as of June 30, 2016 and 2015, respectively, and the changes in endowment net assets for the years then ended:

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balance, July 1, 2014	\$ 332,999	\$ 22,514	\$ 355,513
Temporary distribution repayment	248,000	-	248,000
Contributions	62,000	378	62,378
Investment Interest	<u>830</u>	<u>-</u>	<u>830</u>
Balance, June 30, 2015	643,829	22,892	666,721
Contributions	-	377	377
Investment Interest	<u>1,619</u>	<u>-</u>	<u>1,619</u>
Balance, June 30, 2016	<u>\$ 645,448</u>	<u>\$ 23,269</u>	<u>\$ 668,717</u>

NOTE 9. NET ASSETS

At June 30 net assets consist of the following:

Unrestricted:	<u>2016</u>	<u>2015</u>
Undesignated	\$ 2,227,747	\$ 1,436,496
Board designated for endowment	<u>645,448</u>	<u>643,829</u>
Total unrestricted	<u>2,873,195</u>	<u>2,080,325</u>
Permanently Restricted:		
Total permanently restricted	<u>23,269</u>	<u>22,892</u>
Total net assets	<u>\$ 2,896,464</u>	<u>\$ 2,103,217</u>

During the year ended June 30, 2016 and 2015, temporarily restricted net assets were released from restrictions as follows:

Expiration of donor restriction by expenditure for:	<u>2016</u>	<u>2015</u>
Circle of Success (Access Circle)	\$ 7,545	\$ 54,299
College Goal Montana	5,000	14,003
High School Business Challenge	(5,113)	5,875
Run Amuck	-	1,901
ETV Foster Care	<u>20,287</u>	<u>16,713</u>
Total temporarily restricted net assets released	<u>\$ 27,719</u>	<u>\$ 92,791</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 10. RETIREMENT PLAN

Effective February 1, 2000, the MHESAC 403(b) Tax Sheltered Investment Program was amended and renamed the Student Assistance Foundation of Montana 403(b) Tax Sheltered Investment Program. In June 2010, the Student Assistance Foundation of Montana 401(k) Plan was adopted and the 403(b) plan “frozen” with no additional contributions allowed to that plan. As with the 403(b) plan, the 401(k) plan is a defined contribution pension plan and covers all employees working at least 20 hours per week. Employees may contribute to the 401(k) plan immediately upon employment. After a six-month waiting period, the Corporation matches each participant’s contribution up to five percent of the participant’s salary.

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

SAF incurred pension costs of \$293,278 in the year ended June 30, 2016, and \$303,405 in the year ended June 30, 2015. Tru Student adopted the SAF 401(k) plan for Tru Student employees at inception. Tru Student incurred pension costs of \$25,302 in the year ended June 30, 2016, and \$31,740 in the year ended June 30, 2015.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Management and Servicing Agreements

SAF has entered into management and servicing agreements with MHESAC. SAF provides portfolio servicing for a term equal to the life of each of MHESAC’s related financings.

The cost of these services is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreements plus, for the period prior to February 1, 2003, fifteen percent of these costs. The servicing contract is for the life of the outstanding bonds.

For each successive three-year period the mark-up percentage of such cost is mutually agreed upon by MHESAC and SAF, but in no event will it be less than five percent. For the three year period beginning July 1, 2012, MHESAC and SAF agreed to continue the mark-up percentage at fifteen percent along with an efficiency incentive to provide a cost savings sharing opportunity and a maximum based on a percentage of the weighted average principal balance. The same terms were extended to December 31, 2016.

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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Servicing Agreements (Continued)

During the years ended June 30, 2016 and 2015, SAF billed MHESAC \$9,537,574 and \$10,751,984, respectively. At June 30, 2016 and 2015, the reconciliation for billed and actual management and servicing fees resulted in a balance receivable from MHESAC and a balance payable to MHESAC of \$442,048 and \$68,140 respectively. These balances are included in 2016 and 2015 client receivables and payables, respectively.

SAF has entered into servicing agreements with Tru Student. The cost of these services is a monthly fee based on the contractual agreements Tru Student has with their clients. During the years ended June 30, 2016 and 2015, SAF billed Tru Student \$1,859,521 and \$2,091,133 respectively. At June 30, 2016 and 2015, the reconciliation for billed and actual costs resulted in a balance payable to SAF of \$267,545 and \$349,225, respectively. Tru Student also paid rent for office space in the SAF building, administrative fees, IT service/equipment rental fees, allocated, indirect cost fee and common paymaster expenses. At June 30, 2016 and 2015, the reconciliation for billed and actual costs resulted in a balance payable to SAF of \$29,581 and \$59,959 respectively.

SAF paid Tru Student client relation fees, contract fees, and common paymaster expenses. At June 30, 2016 and 2015, the reconciliation for billed and actual costs resulted in a balance payable to Tru Student of \$12,198 and \$76,958 respectively.

All significant intercompany transactions and accounts have been eliminated.

Group Benefits Plan

SAF provides a medical and dental insurance coverage plan for its employees. Effective July 1, 2015, SAF opted for an insured plan of medical coverage with Pacific Source and vision coverage with Assurant. Assurant continues to provide dental and life insurance coverage which started on July 1, 2013. Tru Student adopted the SAF group benefit plan for its employees as well.

Unemployment

For unemployment claims, SAF is a reimbursable employer. Terminated staff who qualify for unemployment may be eligible for up to 28 weeks of benefits. The look back period for benefits is one year. At June 30, 2016, an estimated payable of \$106,989 was recorded in relation to probable unemployment benefits SAF expects to reimburse the Montana Unemployment Insurance Division related to employees who terminated near the end of the fiscal year.

Line of Credit

On December 10, 2010, SAF extended a bank line of credit with First Interstate Bank, originally secured on April 3, 2003, for operating purposes. The \$1,000,000 line was secured by a certificate of deposit. Interest on the line was charged at 5.0%. At June 30, 2016 and 2015, there was no balance outstanding on the line.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Line of Credit (Continued)

The credit agreement expired on December 1, 2015. The line of credit was extended on December 21, 2015, and expired on March 27, 2016. It was not extended beyond that date.

On August 18, 2011, two lines of credit were established for Tru Student with Valley Bank. The lines of credit totaling \$1,750,000 were established with an interest rate of 5.2%. One of the lines of credit was extended for \$500,000 on December 19, 2014. This line of credit expired on December 1, 2015. The line of credit was renewed on December 11, 2015, and expired on February 29, 2016. It was not extended beyond that date.

Remote Services Agreement

On February 1, 2001, SAF entered into an agreement with the Pennsylvania Higher Education Assistance Agency (PHEAA) for remote system access for the effective computer processing of loans serviced by SAF. The agreement requires PHEAA to maintain the remote system in accordance with Title IV of the Higher Education Act of 1965, as amended. Subsequent amendments to the original agreement on February 1, 2004, extend the term of the agreement through January 31, 2015, with a provision for automatic one year renewal unless either party provides a written notice of intent to terminate the agreement at least 180 days prior to the scheduled termination date.

Fees for access and maintenance of the remote system vary depending on volume and services provided. PHEAA also acts as back-up third party servicer for certain loans based on an agreement originally dated November 9, 2011.

NOTE 12. RELATED PARTY TRANSACTIONS

SAF Relationship with MHESAC

On February 1, 2000, SAF entered into an agreement with MHESAC to provide management and servicing functions to MHESAC as described in Note 11. During fiscal year 2016, SAF had one of its eight board members in common with MHESAC's seven board members. Effective February 1, 2000, MHESAC transferred, for fair value, all of its operations and non-financial assets, including personnel, all furniture and equipment, as well as its interest in the office building and land, to SAF.

SAF Relationship with Tru Student

On September 1, 2011, SAF executed an agreement with Tru Student providing for a 5-year operating loan of \$2,250,000 to Tru Student with an interest rate of 5.00%. A resolution was passed by the Tru Student and SAF Board of Directors in July 2012, amending the note repayment schedule to extend the interest only payment option through December 2013, with interest and principal payments commencing in January 2014.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)

SAF Relationship with Tru Student (Continued)

Through Tru Student and SAF Board of Directors action in April 2013, the note repayment schedule was amended to delay all interest or principal payments through December 2014, with interest and principal payments commencing in January 2015. Both boards took action in October 2013 to add \$600,000 to the principal operating loan.

On August 13, 2014, the SAF Board of Directors voted to invest additional funds into Tru Student in the amount of \$2,850,000. The activity was recorded as additional paid in capital for Tru Student and was used to satisfy its loan obligation to SAF. In addition, the SAF Board of Directors voted to forgive the accumulated interest of \$175,644 related to this loan owed by Tru Student. This inter-company activity is eliminated in the consolidated financial statements.

On September 1, 2011, SAF purchased 100 shares of Tru Student common stock with a par value of \$0.01 per share resulting in a total of 400 shares of stock being issued and outstanding. The common stock purchase totaled \$500,000 and resulted in an increase of additional paid in capital of \$499,999. Tru Student satisfied the outstanding advance owed SAF at June 30, 2011, with the proceeds from this transaction. On May 15, 2013, SAF purchased an additional 100 shares of Tru Student common stock with a par value of \$0.01 per share resulting in a total of 500 shares of stock being issued and outstanding. The common stock purchase totaled \$500,000 and resulted in an increase of additional paid in capital of \$499,999.

In 2010, SAF entered into an agreement with Tru Student to provide servicing functions to Tru Student as described in Note 11. SAF also has agreements with Tru Student to provide administrative and IT services. During fiscal year 2016, SAF had one of its eight board members in common with Tru Student's five board members.

Shared Cost Agreements

The Corporation has a sublease and shared cost agreement with MGSLP and OCHE, both agencies of the Board of Regents of Montana. The costs shared are primarily related to computer operations, personnel and building operations.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016 and 2015

NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)

Shared Cost Agreements (Continued)

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

	<u>2016</u>	<u>2015</u>
Sublease and Shared Costs		
Payments from:		
MGSLP	\$ 359,836	\$ 322,597
OCHE	273,065	265,427
Accounts receivable:		
MGSLP	21,153	27,429
OCHE	10,545	8,958

Total receivables from these agreements were \$31,698 at June 30, 2016, and \$36,387 at June 30, 2015.

NOTE 13. RISK MANAGEMENT

SAF faces a number of risks of loss, including a) damage to and loss of property, b) employee torts, c) professional liability, i.e. errors and omissions, and d) workers' compensation. A variety of methods are used to provide insurance for these risks. Commercial policies transferring all risks of loss except for relatively small deductible amounts are purchased for property damage, employee torts, and professional liabilities. SAF participates in a state-wide workers' compensation plan.

NOTE 14. MAJOR CUSTOMER

Fees from MHESAC accounted for 68% of SAF's total revenues for both years ended June 30, 2016 and 2015. There was \$443,042 receivable from and \$68,140 payable to MHESAC outstanding at June 30, 2016, and June 30, 2015, respectively.

NOTE 15. OTHER GRANT ACTIVITY

In November 2013, SAF was the recipient of a financial literacy grant of \$844,195 to provide services for the Family Economic Security (FES)-TANF Financial Services program. In January 2014, SAF entered into a contract beginning January 1, 2014, and ending June 30, 2015. This contract is renewable for three additional one-year terms not to extend beyond June 30, 2017. The contract was renewed from July 1, 2015, through June 30, 2016. This grant is used to deliver financial literacy education to eligible low-income high school students in six regions throughout the State. Revenue totaling \$209,880 was recognized in the year ended June 30, 2016, and \$236,318 in the year ended June 30, 2015.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

NOTE 15. OTHER GRANT ACTIVITY (CONTINUED)

In June 2014, SAF entered into a Memorandum of Agreement with The Office of the Commissioner of Higher Education (OCHE) by which grant funds were disbursed for the College Access Challenge Grant (CACG) Financial Literacy Education Program. SAF was the recipient of \$200,000 to be used to increase early awareness of postsecondary education.

This agreement was in effect from June 2014 through June 2015. No revenue was recognized in the year ended June 30, 2016. Revenue totaling \$177,883 was recognized in the year ended June 30, 2015, with the remaining funds being due back to OCHE.

Since fiscal year 2006, SAF has been the recipient of the Chaffee grant education and training voucher program grant. The grant provides for the delivery of Educational Training Vouchers (ETV) funds, development and delivery of college and life skills prep program and promotion of the use of ETV and other financial aid resources. Revenue totaling \$304,318 was recognized in the year ended June 30, 2016 and \$254,180 in the year ended June 30, 2015.

NOTE 16. SUBSEQUENT EVENTS

Group Benefits Plan

Effective July 1, 2016, SAF opted for dental and life insurance plans with Guardian. Tru Student adopted the Guardian plan for its employees as well.

Restructuring of Business Activity, Programs and Endowment

Effective July 1, 2016, the SAF Board adopted a major restructuring plan affecting three areas of SAF. The restructuring plan is designed to continue SAF's support of MHESAC in its role as a supporting organization and to continue the viability of SAF as a separate entity. First, SAF transferred responsibility and MHESAC accepted responsibility for the governance and direction of all SAF public purpose programs with the exception of the FES grant. The FES grant will remain with SAF through December 31, 2016, the expiration of its contract. SAF will manage and administer under contract, on behalf of MHESAC, the public purpose charitable programs previously conducted directly by SAF.

Second, the endowment funds held as board restricted in SAF were transferred as a donation to MHESAC in July 2016. This change is also related to MHESAC subsequent governance of the public purpose programs SAF had at June 30, 2016.

Third, by January 1, 2017, SAF management projects both SAF and Tru Student will completely be exited from the business of providing student loan servicing. However, SAF will continue as the Master Servicer of MHESACs student loan portfolio and will subcontract that servicing with a third-party servicer. SAF will continue 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, 2016 and 2015

NOTE 16. SUBSEQUENT EVENTS (CONTINUED)

Restructuring of Business Activity, Programs and Endowment (Continued)

As part of the restructuring, management has developed termination benefits packages for SAF and Tru Student employees. Total payroll costs associated with the restructuring depend in part on decisions made by employees and servicing clients regarding continued association with SAF. As of the date of this report, SAF has estimated a range of \$650,000 to \$820,000 in termination benefits.

Additional Events

Management has evaluated subsequent events through September 15, 2016, 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, 2016 with Comparative Totals for 2015

ASSETS	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2016	2015
CURRENT ASSETS					
Cash and cash equivalents	\$ 2,812,626	\$ 635,461	\$ -	\$ 3,448,087	\$ 2,494,961
Cash held for clients/partners	1,586,385	4,909	-	1,591,294	7,154,335
Accounts receivable:					
Student Assistance Foundation	-	12,198	(12,198)	-	-
Tru Student	297,126	-	(297,126)	-	-
Client & other receivables	1,095,788	179,642	-	1,275,430	1,000,749
Related parties	31,698	-	-	31,698	36,387
Interest receivable	68	-	-	68	25,993
Contributions receivable, current portion	5,000	-	-	5,000	-
Investments	6,130,959	-	(4,601,777)	1,529,182	2,006,999
Prepaid costs, net	248,829	-	-	248,829	264,806
Total current assets	<u>12,208,479</u>	<u>832,210</u>	<u>(4,911,101)</u>	<u>8,129,588</u>	<u>12,984,230</u>
PROPERTY AND EQUIPMENT, at cost					
Land and building	2,883,045	-	-	2,883,045	2,883,045
Building improvements	1,392,343	-	-	1,392,343	1,389,296
Equipment and furniture	3,983,294	580	-	3,983,874	3,977,780
	8,258,682	580	-	8,259,262	8,250,121
Less: accumulated depreciation	6,041,450	580	-	6,042,030	5,652,240
Total property and equipment	<u>2,217,232</u>	<u>-</u>	<u>-</u>	<u>2,217,232</u>	<u>2,597,881</u>
OTHER ASSETS					
Educational loans receivable					
Student loans receivable	-	-	-	-	92,905
Less: uncollectible accounts allowance	-	-	-	-	30,310
Total other assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,595</u>
OTHER RESTRICTED ASSETS					
Endowment cash and cash equivalents	645,448	-	-	645,448	643,829
Contributions receivable, net of current portion	18,269	-	-	18,269	22,892
Total other restricted assets	<u>663,717</u>	<u>-</u>	<u>-</u>	<u>663,717</u>	<u>666,721</u>
Total assets	<u>\$ 15,089,428</u>	<u>\$ 832,210</u>	<u>\$ (4,911,101)</u>	<u>\$ 11,010,537</u>	<u>\$ 16,311,427</u>

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
June 30, 2016 with Comparative Totals for 2015

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2016	2015
CURRENT LIABILITIES					
Other accounts payable and accrued expenses	\$ 1,881,853	\$ 369,719	\$ (309,324)	\$ 1,942,248	\$ 1,123,426
Funds held for loan servicing client	1,586,385	33	-	1,586,418	7,534,005
Funds held for sponsored organization	8,363	-	-	8,363	32,150
Grant program liability	-	-	-	-	24,000
Compensated absence liability	630,458	35,800	-	666,258	842,403
Current obligation under capital lease	-	-	-	-	41,151
Current maturities of notes payable	184,114	-	-	184,114	468,636
Deferred client income	-	-	-	-	230,936
Total current liabilities	<u>4,291,173</u>	<u>405,552</u>	<u>(309,324)</u>	<u>4,387,401</u>	<u>10,296,707</u>
LONG-TERM LIABILITIES					
Notes payable, net of current maturities	<u>3,726,672</u>	-	-	<u>3,726,672</u>	<u>3,911,503</u>
Total long-term liabilities	<u>3,726,672</u>	-	-	<u>3,726,672</u>	<u>3,911,503</u>
Total liabilities	<u>8,017,845</u>	<u>405,552</u>	<u>(309,324)</u>	<u>8,114,073</u>	<u>14,208,210</u>
NET ASSETS					
Capital stock, common, \$.01 par	-	5	(5)	-	-
Additional paid-in-capital	-	4,601,772	(4,601,772)	-	-
Unrestricted:					
Undesignated, unrestricted	6,402,866	(4,175,119)	-	2,227,747	1,436,496
Board designated for endowment	<u>645,448</u>	-	-	<u>645,448</u>	<u>643,829</u>
Total unrestricted	7,048,314	426,658	(4,601,777)	2,873,195	2,080,325
Permanently restricted	<u>23,269</u>	-	-	<u>23,269</u>	<u>22,892</u>
Total net assets	<u>7,071,583</u>	<u>426,658</u>	<u>(4,601,777)</u>	<u>2,896,464</u>	<u>2,103,217</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,089,428</u>	<u>\$ 832,210</u>	<u>\$ (4,911,101)</u>	<u>\$ 11,010,537</u>	<u>\$ 16,311,427</u>

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended June 30, 2016 with Comparative Totals for 2015

	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2016	2015
UNRESTRICTED NET ASSETS					
Revenue and Support:					
Management & servicing fee income	\$ 10,047,763	\$ -	\$ -	\$ 10,047,763	\$ 10,607,364
Interest on educational loans	1,754	-	-	1,754	4,352
Loan servicing income	3,134,270	3,766,130	(1,859,521)	5,040,879	4,379,382
Royalty income	234,952	-	-	234,952	235,418
Income from investments					
Investment Income	2,843	-	-	2,843	2,565
Interest on endowment	1,616	-	-	1,616	833
Realized loss on student loans	(46,864)	-	-	(46,864)	-
Intercompany contract revenue	58,400	62,129	(120,529)	-	-
Contributions and grants	561,396	-	-	561,396	760,764
Other income	654,905	-	(140,283)	514,622	512,870
	14,651,035	3,828,259	(2,120,333)	16,358,961	16,503,548
Net assets released from restrictions	27,719	-	-	27,719	92,791
Total unrestricted revenue and support	14,678,754	3,828,259	(2,120,333)	16,386,680	16,596,339
Program Operating Expenses:					
Loan Servicing					
Salaries, payroll taxes and employee benefits	8,417,719	737,288	-	9,155,007	9,044,468
Contract sub-servicing fees	1,370,673	1,966,784	(1,859,521)	1,477,936	1,282,112
Professional services	663,268	26,102	-	689,370	395,304
Marketing and outreach	-	-	-	-	2,000
Contract services and labor	102,871	108,473	(120,529)	90,815	256,240
Staff travel and training	50,487	117	-	50,604	69,323
Insurance	90,052	3,474	-	93,526	74,991
Office supplies and copier charges	11,651	910	-	12,561	15,766
Computer charges	509,982	104,302	(98,735)	515,549	557,552
Telecommunications and utilities	307,070	12,402	-	319,472	344,856
Mail, postage and courier	380,081	5,631	-	385,712	539,640
Printing	14,500	1,145	-	15,645	49,975
Dues, subscriptions and memberships	28,516	1,821	-	30,337	52,144
Recruitment and relocation	25,661	-	-	25,661	36,951
Automobile	790	74	-	864	1,888
Repairs, maintenance and service	25,836	10,679	(8,338)	28,177	31,194
Depreciation	351,002	12,844	-	363,846	504,347
Loan fees	5,000	-	-	5,000	5,000
Operating lease payments	5,952	-	-	5,952	106,303
Other costs	207,411	35,788	(33,210)	209,989	260,364
Interest	183,235	375	-	183,610	222,435
Total loan servicing	12,751,757	3,028,209	(2,120,333)	13,659,633	13,852,853
Grants and public purpose program	1,677,069	-	-	1,677,069	1,667,870
Total program operating expenses	14,428,826	3,028,209	(2,120,333)	15,336,702	15,520,723

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES (CONTINUED)
For the Year Ended June 30, 2016 with Comparative Totals for 2015

	Student Assistance Foundation	Tru Student	Consolidating Adjustments	Consolidated	
				2016	2015
Fundraising Expenses	169,614	-	-	169,614	194,913
General and Administrative Expenses:					
Salaries, payroll taxes and employee benefits	81,711	-	-	81,711	94,884
Board and officer	26,149	12,382	-	38,531	39,368
Insurance	20,251	-	-	20,251	19,699
Income taxes	(98,515)	1,380	-	(97,135)	893
Other	44,136	-	-	44,136	44,841
Total general and administrative expenses	<u>73,732</u>	<u>13,762</u>	-	87,494	<u>199,685</u>
 Total expenses	 <u>14,672,172</u>	 <u>3,041,971</u>	 <u>(2,120,333)</u>	 15,593,810	 <u>15,915,321</u>
Change in unrestricted net assets	<u>6,582</u>	<u>786,288</u>	-	792,870	<u>681,018</u>
 TEMPORARILY RESTRICTED NET ASSETS					
Revenue and Support:					
Contributions and grants	27,719	-	-	27,719	90,890
Net assets released from restrictions	<u>(27,719)</u>	-	-	(27,719)	<u>(92,791)</u>
 Change in temporarily restricted net assets	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>(1,901)</u>
 PERMANENTLY RESTRICTED NET ASSETS					
Contributions received	<u>377</u>	-	-	377	<u>378</u>
Change in permanently restricted net assets	<u>377</u>	-	-	377	<u>378</u>
 Change in net assets	 6,959	 786,288	 -	 793,247	 679,495
Net assets at the beginning of the year	<u>7,064,624</u>	<u>(359,630)</u>	<u>(4,601,777)</u>	2,103,217	<u>1,423,722</u>
Net assets at the end of the year	<u>\$ 7,071,583</u>	<u>\$ 426,658</u>	<u>\$ (4,601,777)</u>	\$ 2,896,464	<u>\$ 2,103,217</u>

See Independent Auditor's Report on Accompanying Information.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES
SCHEDULE OF CONSOLIDATED GRANT AND PUBLIC PROGRAMS EXPENSE
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating & overhead expenses		
Program administration	\$ 483,589	\$ 499,569
Campus outreach		
Outreach staff & offices	388,435	281,570
Outreach program		
College Access Challenge Grant	-	128,173
College Goal Montana	42,855	42,315
FES Grant - Montana Money Magic	214,748	265,714
Foster Care Program	354,578	309,509
Grants awarded		
Circle of Success	44,414	62,000
Graduation Matters	4,750	50,070
Youth Serve Montana	98,500	(10,000)
Scholarships		
High School Business Challenge	10,625	16,500
Miscellaneous Scholarships	-	500
Sponsorships		
Exploration Works	1,500	1,000
Governor's Office of Community Service	1,500	1,000
Governor's Office of Indian Affairs	5,000	-
Grand Street Theatre	5,000	-
Helena Education Foundation	1,000	-
Helena Family YMCA	4,050	2,500
Helena Symphony	500	1,000
Leadership Montana	1,000	-
Miscellaneous Sponsorships	3,900	3,400
Montana Association for Career and Technical Education	550	-
Montana Association of Student Aid Administrators	-	1,050
Montana Association of Student Councils	1,000	-
Montana College Access Network	2,500	-
Montana Credit Unions for Community Development	-	2,000
Montana Financial Education Coalition	1,575	-
Montana Nonprofit Association	1,000	-
Montana Post Secondary Educational Opportunity Council	-	8,000
Office of Public Instruction	2,500	-
Orphan Girl Productions	1,000	-
University of Montana, Not in Our State	-	1,000
United Way of Missoula	1,000	1,000
	<u>\$ 1,677,069</u>	<u>\$ 1,667,870</u>

See Independent Auditor's Report on Accompanying Information.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Student Assistance Foundation of Montana and Affiliates (the Corporation) (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Helena, Montana
September 15, 2016



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