

STUDENT ASSISTANCE
FOUNDATION OF MONTANA

AND AFFILIATE

CONSOLIDATED FINANCIAL
REPORT

JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statements of financial position of Student Assistance Foundation of Montana and Affiliate (the Corporation) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Student Assistance Foundation of Montana and Affiliate as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

A handwritten signature in black ink that reads "Anderson Zurmuehlen & Co., P.C." with a stylized flourish at the end.

Helena, Montana
September 17, 2009

FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,842,067	\$ 3,430,325
Accounts receivable:		
Lender services	3,110	24,970
Other client & miscellaneous receivables	1,334,633	334,552
Related parties	46,696	35,200
Less: Allowance for uncollectible accounts	-	(5,548)
Interest receivable	3,106,839	2,981,892
Investments	1,835,120	1,646,946
Prepaid costs, net	408,511	423,369
Total current assets	10,576,976	8,871,706
PROPERTY AND EQUIPMENT, at cost		
Land and building	2,883,045	2,883,045
Building improvements	1,098,201	1,008,601
Equipment and furniture	3,251,935	2,651,915
	7,233,181	6,543,561
Less: accumulated depreciation	3,633,876	3,307,435
Total property and equipment	3,599,305	3,236,126
OTHER RESTRICTED ASSETS		
Cash and cash equivalents	2,812,122	4,449,626
Endowment cash and cash equivalents	60,567	-
Educational loans receivable		
Student loans receivable (net)	217,741,613	224,759,887
Unrealized gain on loan valuation	-	6,293,277
Prepaid costs, net	3,000	4,349,309
Other	-	7,277
Total other restricted assets	220,617,302	239,859,376
Total Assets	\$ 234,793,583	\$ 251,967,209

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

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,799,162	\$ 1,923,335
Funds held for loan servicing client	2,302,084	3,247,321
Special allowance payment payable	1,264,090	-
Accrued interest payable	122,555	533,937
Grant program liability	1,219,292	1,218,792
Compensated absence liability	1,035,203	982,423
Current obligation under capital lease	68,707	-
Current maturities of notes payable	1,022,788	720,441
Current maturities of MSLF line of credit:		
MSLF line of credit payable	227,151,598	235,251,598
Less fair value adjustment	(5,075,050)	-
Total current liabilities	<u>230,910,429</u>	<u>243,877,847</u>
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	2,235,179	3,264,804
Obligation under capital lease	214,260	-
Total long-term liabilities	<u>2,449,439</u>	<u>3,264,804</u>
Total Liabilities	<u>233,359,868</u>	<u>247,142,651</u>
NET ASSETS		
Unrestricted, undesignated	1,372,098	4,824,558
Board-designated for endowment	60,567	-
Temporarily restricted	1,050	-
Total net assets	<u>1,433,715</u>	<u>4,824,558</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 234,793,583</u>	<u>\$ 251,967,209</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2009 and 2008

	2009	2008
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Management & servicing fee income	\$ 17,148,224	\$ 16,454,409
Interest on educational loans	8,856,386	13,103,742
Loan servicing income	2,610,098	2,107,054
Lender services income	301,432	398,584
Income from investments		
Investment income	54,549	139,799
Interest on endowment	567	-
Unrealized gain on land valuation	177,000	194,858
Unrealized gain (loss) on loan valuation	(6,293,277)	4,287,859
Premium from sale of loans	-	81,081
Unrealized gain on MSLF line of credit	1,066,204	-
Contributions & grants received	45,454	33,127
Insurance recoveries	-	24,588
Other income	558,479	509,563
	24,525,116	37,334,664
Net assets released from restrictions	282,145	424,400
Total unrestricted revenue and support	24,807,261	37,759,064
Program Operating Expenses:		
Loan servicing		
Salaries, payroll taxes and employee benefits	10,083,132	10,663,973
Contract sub-servicing fees	1,853,040	2,893,825
Professional services	428,266	424,640
Advertising	43,425	32,014
Marketing and outreach	5,103	40,778
Contract labor	131,531	116,471
Staff travel and training	254,107	328,490
Insurance	77,062	90,691
Office supplies and copier charges	64,975	56,075
Computer charges	605,359	593,013
Telecommunications and utilities	273,816	313,297
Mail, postage and courier	580,697	575,585
Printing	107,766	258,459
Dues, subscriptions and memberships	78,390	87,021
Recruitment and relocation	1,842	7,782
Automobile expense	1,222	3,417
Repairs, maintenance and service	66,828	56,993
Depreciation	432,070	461,816
Amortization of prepaid costs	121,024	333,109
Conversion costs	2,058,929	2,004,900

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

	<u>2009</u>	<u>2008</u>
Program Operating Expenses (Continued):		
Loan servicing (continued)		
Loan fees	1,296,857	856,815
Operating lease payments	397,266	484,691
Other costs	284,876	383,773
Interest expense	5,464,707	9,976,078
Grants and public purpose program	2,791,268	3,092,321
Lender services expenses	184,696	262,428
Total program operating expenses	<u>27,688,254</u>	<u>34,398,455</u>
 Fundraising Expenses	 <u>143,447</u>	 <u>247,018</u>
 General and Administrative Expenses:		
Salaries, payroll taxes and employee benefits	57,875	159,536
Board and officer	39,292	29,970
Professional services	21,250	855
Insurance	9,075	4,538
Other	44,790	74,013
Total general and administrative expenses	<u>172,282</u>	<u>268,912</u>
 Total expenses	 <u>28,003,983</u>	 <u>34,914,385</u>
Increase (decrease) in unrestricted net assets before extraordinary items and cumulative effect	(3,196,722)	2,844,679
Extraordinary items	(4,204,017)	(1,247,212)
Cumulative effect of initial fair valuation of MSLF line of credit	4,008,846	-
Increase (decrease) in unrestricted net assets	<u>(3,391,893)</u>	<u>1,597,467</u>
 TEMPORARILY RESTRICTED NET ASSETS		
Revenue and Support:		
Contributions received	283,195	424,400
Net assets released from restrictions	<u>(282,145)</u>	<u>(424,400)</u>
Increase in temporarily restricted net assets	<u>1,050</u>	<u>-</u>
 Increase (decrease) in net assets	 <u>(3,390,843)</u>	 <u>1,597,467</u>
Net assets at the beginning of the year	<u>4,824,558</u>	<u>3,227,091</u>
Net assets at the end of the year	<u>\$ 1,433,715</u>	<u>\$ 4,824,558</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (3,390,843)	\$ 1,597,467
Adjustments to reconcile net assets to net cash used in operating activities:		
Purchase of educational loans	(87,385)	(101,698,747)
Repayments of educational loans	10,037,142	17,026,673
Non-cash adjustments to educational loans	(2,931,483)	(1,916,721)
Sale of educational loans	-	2,895,764
Unrealized gain on MSLF line of credit	(1,066,204)	-
Cumulative effect of initial fair valuation of MSLF line of credit	(4,008,846)	-
Valuation of educational loans	6,293,277	(4,287,915)
Depreciation	490,815	558,544
Amortization	121,024	333,109
Extraordinary items	4,204,017	1,247,212
Gain on sale of fixed assets	(176)	(47,107)
Change in investment values	(177,000)	(194,858)
Change in deferred compensation investment value	-	(2,535)
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables	(995,265)	709,867
Interest receivable	(124,947)	(536,597)
Prepaid costs	36,125	(1,997,153)
Other assets	7,277	71,593
Increase (decrease) in current liabilities:		
Accounts and accrued expenses payable	729,034	(438,604)
Compensated absence	52,780	88,701
Funds held for servicing clients	(945,236)	201,122
Net cash provided by (used in) operating activities	8,244,106	(86,390,185)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(522,856)	(111,547)
Proceeds from sale of fixed assets	4,719	184,853
Purchase of investments	(11,174)	(99,910)
Proceeds from sale of investments	-	302,055
Net cash provided by (used in) investing activities	(529,311)	275,451

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

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	-	91,000,000
Repayments on line of credit	(8,100,000)	(2,950,379)
Proceeds from issuance of notes/loans payable	2,378,000	6,817,369
Repayments on notes/loans payable	(2,988,556)	(6,805,400)
Repayments on lease obligations	(52,712)	-
Principal payments on real estate note payable	(116,722)	(93,601)
Net cash provided by (used in) financing activities	<u>(8,879,990)</u>	<u>87,967,989</u>
Net increase (decrease) in cash and cash equivalents	(1,165,195)	1,853,255
Cash and cash equivalents, beginning of year	<u>7,879,951</u>	<u>6,026,696</u>
Cash and cash equivalents, end of year	<u>\$ 6,714,756</u>	<u>\$ 7,879,951</u>
 Supplemental schedule of noncash investing and financing activities:		
Fixed assets acquired by capital lease	\$ 335,680	\$ -
Cash paid for interest	5,909,555	10,037,568
 Cash and cash equivalents are reported on the consolidated statement to financial position as follows:		
Cash and cash equivalents, current	\$ 3,842,067	\$ 3,430,325
Cash and cash equivalents, other	<u>2,872,689</u>	<u>4,449,626</u>
	<u>\$ 6,714,756</u>	<u>\$ 7,879,951</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

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 also provides student loan servicing to 35 other lenders and 10 national clients. SAF provides financial support as well as a variety of counseling and information services to Montana students in post-secondary education.

On June 28, 2003 Montana Student Loan Funding, LLC (MSLF) was created as a limited liability corporation with SAF as the sole member. The corporation is a bankruptcy remote company that will acquire and originate student loans and has a perpetual life. Bankruptcy remote status provides that all debts, obligations and liabilities are solely that of the established company and neither the members, special members or any managers are obligated for those activities including insolvency of the bankruptcy remote vehicle. Previously, the loan activity conducted by MSLF was for the specific purpose of an eventual sale to MHESAC with no obligation by MHESAC to acquire the loans until it was able to obtain financing for that specific purpose. Due to changes in the economic environment, it is not MHESAC's intent to obtain financing or purchase the MSLF loan portfolio in the foreseeable future. See Notes 4 and 13. The accompanying consolidated financial statements include the accounts of MSLF. All significant intercompany transactions and accounts have been eliminated.

Income Tax Status:

SAF is a not-for-profit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3).

MSLF is a Limited Liability Company and is a single member disregarded entity that was created to support the activities of MHESAC, a tax-exempt entity under Internal Revenue Code Section 501(c)(3). All income is considered related to the underlying purpose of providing support to MHESAC and is therefore considered exempt from taxation. Accordingly, no provision for income taxes is necessary in the accompanying financial statements.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (continued):

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 addresses the accounting for uncertainties in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. FASB has deferred until fiscal years beginning after December 15, 2008, the effective date of FIN 48 for nonpublic entities by issuing FASB Staff Position 48-3. The determination of tax exempt status is considered to be a tax position taken with respect to the provisions of FIN 48.

The Corporation's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence. It is the opinion of management that the Corporation has no uncertain tax positions that would be subject to recognition under FIN 48.

Accounting Estimates:

The preparation of financial statements in conformity with United States generally accepted accounting principles 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.

Financial Statement Presentation:

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, 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, 2008 and \$1,050 at June 20, 2009. (See Note 10)

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (continued):

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation, but permit the use of all or part of the income earned on any related investment for general or specific purposes. The Corporation had no permanently restricted net assets at June 30, 2009 or 2008.

Method of Accounting:

The accompanying consolidated financial statements are presented on the accrual basis of accounting.

Contributions:

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

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 related from restrictions.

Promises to Give:

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. There were no unconditional promises to give at June 30, 2009 and 2008.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. (See Note 8)

Marketing, Advertising and Outreach:

The Corporation expenses program marketing, advertising and promotional costs as incurred. Advertising expense was \$17,916 and \$128,184 at June 30, 2009 and 2008, 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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2009 and 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fundraising Expenses:

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

Cash and Cash Equivalents:

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). An allowance for uncollectible accounts was recorded for June 30, 2009 and 2008 in the amount of \$0 and \$5,548 for servicing fee related receivables, respectively.

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.

SAF purchased the land and building at 2500 Broadway Street from MHESAC. The building is depreciated using the straight-line method over an estimated life of 40 years.

Depreciation expense incurred for the years ended June 30, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
Loan Servicing	\$ 432,070	\$ 461,816
Included in Affiliated Client Expenses	26,110	62,447
Included in Grants and Public Purpose Program Expenses	<u>32,635</u>	<u>34,281</u>
	<u>\$ 490,815</u>	<u>\$ 558,544</u>

Amortization expense incurred for loan servicing for the years ended June 30, 2009 and 2008 was \$121,024 and \$333,109, respectively.

At June 30, 2008, the Construction Work in Progress balance of \$1,247,212 was written off as an extraordinary loss as there were no plans to continue with the building project in the foreseeable future.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments:

Investments consist of mutual funds, certificates of deposit, bonds, corporate issues and land that is held for investment. These investments are carried at fair value. Interest and dividends subject to donor restrictions are reported as increases in temporarily restricted net assets. When the restrictions are met, they are reclassified to unrestricted net assets. Unless gains and losses on donor-restricted investments are specifically restricted by the donor, they are reported as increases or decreases in unrestricted net assets.

Interest on Educational Loans:

The United States Department of Education makes quarterly interest payments on subsidized loans until the borrower is required to begin repayment under the provisions of the Higher Education Act. For Stafford loans repayment generally begins 6 to 9 months after the student completes his/her course of study, leaves school or fails to carry a minimum academic load. Repayment begins immediately upon full disbursement for Consolidation, PLUS and SLS loans disbursed prior to July 1, 2008. PLUS loan borrowers with loans disbursed on or after July 1, 2008 may choose to begin repayment 6 months after the student ceases to be enrolled at least half-time. In addition, the USDE pays the interest for subsidized loans during the time a borrower is in an authorized deferment period. Authorized deferment periods are specific situations and statuses determined by the USDE.

Special Allowance Payments:

The United State Department of Education provides a special allowance or subsidy to lenders participating in the Federal Family Education Loan Program if the interest rate is below the guaranteed interest rate. Conversely, if the interest rate is above the guaranteed interest, the excess portion of the borrower payment is remitted to the Federal government. This allowance is paid on the average quarterly unpaid principal balance of student loans, based on an annual rate equal to the average rate of 91-day U.S. Treasury Bills or 3-month Commercial Paper Rates for that quarter increased by various rates, depending on loan origination date. If the average yield rate is lower than the interest rate paid by the borrower, then the excess portion of the borrower payment is rebated to the federal government. As of June 30, 2009 and 2008, rebates of (\$3,083,064) and \$646,476, respectively, were netted in special allowance revenue on the financial statements.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Costs:

Costs of acquiring educational loans are capitalized and amortized using the effective interest method over the average life of the loan portfolio. Due to a termination event within the line of credit utilized to acquire loans, the value of the balance of the un-amortized amount of this activity has effectively been eliminated and has been written off as of June 30, 2009. (See Notes 5 and 17.) Other prepaid costs are amortized over the period benefited.

Allowance for Uncollectible Loans:

The educational loans receivable are loan portfolios purchased from various banks and other financial institutions and originated or consolidated in the national market. Under contracts with the Montana Guaranteed Student Loan Program (MGSLP) and United States Department of Education, MSLF 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 after that date are reimbursed at 97%. A provision for uncollectible educational loans of \$1,620 has been made for these loans for the year ended June 30, 2009 based on default rates and balances during the fiscal period.

Assets Restricted by MSLF Agreement:

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

Reclassifications:

Certain reclassifications were made to the 2008 financial statements in order to conform to the 2009 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 Company to concentrations of credit risk consist principally of cash deposits. SAF & MSLF maintain cash deposits at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2009 and 2008

NOTE 2. CONCENTRATION OF CREDIT RISK (CONTINUED)

At June 30, 2009, the carrying amount of those deposits was \$3,826,960 and the bank balance was \$4,442,168 with \$3,852,455 in excess of FDIC insured limits. At June 30, 2008, the carrying amount of those deposits was \$3,355,704 and the bank balance was \$1,738,300 with \$1,447,815 in excess of FDIC insured limits.

NOTE 3. INVESTMENTS

Investments are reported at fair value for which the years ended June 30, 2009 and 2008 approximate cost with no significant difference between cost and fair value for certificate of deposits. The fair value for land held for investment is \$1,377,000, with a related cost of \$1,005,198. The fair value measurement used for this valuation was a Level 2 – significant other observable input in the form of a real estate market valuation. The land is classified as an investment and valued at fair value under the provisions of FASB Statement No. 157, Fair Value Measures. Certificates of deposit are not subject to SFAS 157 categorization.

At June 30, 2009 and 2008, the Corporation had investments consisting of the following:

	<u>2009</u>	<u>2008</u>
Certificate of deposit	\$ 458,120	\$ 446,946
Land held for investment	<u>1,377,000</u>	<u>1,200,000</u>
Total Investments	<u>\$ 1,835,120</u>	<u>\$ 1,646,946</u>

Components of investment income include the following:

	<u>2009</u>	<u>2008</u>
Unrealized gain on land held for investment	<u>\$ 177,000</u>	<u>\$ 194,858</u>
Interest and dividends	<u>\$ 55,116</u>	<u>\$ 139,799</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 4. EDUCATIONAL LOANS RECEIVABLE

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

Educational loans are summarized as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Student/interim status	\$ 12,952,493	\$ 19,895,462
Repayment status	204,790,740	204,864,425
Less allowance for uncollectibles	<u>(1,620)</u>	<u>-</u>
Total	<u>\$ 217,741,613</u>	<u>\$ 224,759,887</u>

Following is a breakdown of the different loan types held by MSLF at June 30, 2009 and 2008 (gross loan amounts):

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Stafford	\$ 21,962,087	\$ 22,602,223
PLUS	4,309,983	4,507,117
Consolidation	191,471,163	197,650,547
Less allowance for uncollectibles	<u>(1,620)</u>	<u>-</u>
Total	<u>\$ 217,741,613</u>	<u>\$ 224,759,887</u>

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

Depending on factors specified in the Higher Education Act, educational loans have either fixed or variable interest rates to the borrower and various maximum repayment terms. Fixed interest rates on Consolidation loans are based upon the weighted average interest rates of the loans consolidated rounded up to the nearest one-eighth. Consolidation loans disbursed on or after November 13, 1997 have a maximum interest rate of 8.25%. Variable interest rates are based upon either the 91 day or one year constant maturity Treasury bill, subject to maximum interest rates ranging from 7.00% to 12.00%. All Stafford and PLUS loans disbursed on or after July 1, 1994 and before July 1, 2006 are variable rate and have maximum interest rates of 8.25% and 9.00%, respectively. Stafford loans disbursed after July 1, 2006 have a fixed rate to the borrower of 6.80%. PLUS loans disbursed after July 1, 2006 have a fixed rate to the borrower of 8.50%. SLS, PLUS, and FISL loans have a maximum repayment term of 10 years. Stafford loans have maximum repayment terms of 10 or 25 years depending on the borrower's original disbursement date. Consolidation loans have maximum repayment terms of 10 to 30 years depending on the original balance.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 4. EDUCATIONAL LOANS RECEIVABLE (CONTINUED)

MHESAC previously acquired two large portfolios in 2005 and 2006 from MSLF. On March 24, 2008, MHESAC purchased \$2,895,764 of the accumulated loan portfolio of MSLF and paid a premium of \$81,081 in addition to the principal amount of the loans and the related unamortized costs of acquiring the loans. The loans sold had a Montana nexus and were therefore more appropriately held by MHESAC. Due to dramatic changes in the economic environment and MSLF's financial position in the indenture, it is no longer MHESAC's intent to obtain financing or purchase the MSLF loan portfolio. SAF continues to service these loans. See Note 13 for more details on the current relationship between MSLF and MHESAC.

NOTE 5. LONG-TERM DEBT

At June 30, 2009 and 2008, long term debt consisted of the following:

	<u>2009</u>	<u>2008</u>
Note payable to MHESAC, bearing interest at the rate of 8.22%; payable in monthly installments of \$28,526 through February 2019; secured by real property.	\$ 2,223,919	\$ 2,340,640
Note payable to First Interstate Bank for land, bearing interest at the rate of 3.25% paying interest only through March 2007 and then payments through March 2010; secured by land.	622,308	700,641
Note payable to First Interstate Bank, bearing interest at the rate of 5.00%; payable in monthly installments of \$11,727 through May 2010; secured by communication system assets.	129,627	260,306

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 5. LONG-TERM DEBT (CONTINUED)

	<u>2009</u>	<u>2008</u>
Note payable to Montana Business Assistance Connection, bearing interest at the rate of 6.0%; payable in monthly installments of \$10,150.60 through December 2011; unsecured.	282,113	383,658
Advance on \$1 million line of credit payable to First Interstate Bank, bearing interest at the rate of 4.50%, secured by certificate of deposit	-	300,000
Total notes payable	<u>3,257,967</u>	<u>3,985,245</u>
Less current maturities	<u>(1,022,788)</u>	<u>(720,441)</u>
Long-term notes payable	<u>\$ 2,235,179</u>	<u>\$ 3,264,804</u>

Future maturity requirements of long-term debt for the five years subsequent to June 30, 2009 are as follows:

2010	\$ 1,022,788
2011	291,623
2012	251,942
2013	209,144
2014	227,256
Thereafter	1,255,214

MSLF:

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 5. LONG-TERM DEBT (CONTINUED)

MSLF (Continued):

Citicorp requested the margin between the portfolio carrying amount and the portfolio valuation be deposited in the trust account to cure the coverage condition. MSLF management chose not to satisfy this request due to economic feasibility. A subsequent notification on September 9, 2008 indicated a termination event had occurred under the existing agreement and Citicorp could exercise all rights and remedies under the agreement. These remedies include charging an additional 2% interest rate above the alternate base rate on total outstanding advances, conducting additional portfolio valuations and exercising all enforcement rights with respect to the collateral.

The indenture was placed in a coverage condition event of termination status with Citicorp electing to continue the relationship and implementing an increase in "on-going" pricing and accruing additional interest that will become payable upon full repayment of the principal. The probability of the additional deferred interest being paid is remote; therefore, no accrual has been recorded in the financial statements of MSLF. The unrecorded deferred charges total \$4,586,273.

Citicorp has not elected to pursue any other remedy activities to date. They have, however, retained all of their rights under the existing agreement leaving the obligation at status quo while disallowing any additional advances until Citicorp determines a course of action under the terms of the agreement. The credit line on June 30, 2009 was \$227,151,598. The maximum amount is now restricted to the current amount of the outstanding credit line. An unrealized gain of \$5,075,050 has been recorded to reflect the difference between the outstanding line of credit and the value of the net collateral assets that secures the debt at June 30, 2009. In addition, the net balance of unamortized prepaid costs funded from the line of credit of \$4,204,017 were written off during the year ended June 30, 2009, as the termination event effectively eliminated the value of the asset.

The interest rate is reset on the first of each month and is the commercial paper rate established by Citicorp on behalf of its conduit lenders.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2009 and 2008

NOTE 5. LONG-TERM DEBT (CONTINUED)

MSLF (Continued):

The balance of advances drawn on the line of credit as of June 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Citicorp line of credit; bearing variable interest of .647% at June 30, 2009 and 2.72% at June 30, 2008; with a maturity date of August 5, 2008 (annual renewals discontinued effective July 23, 2008); secured by student loans	<u>\$ 227,151,598</u>	<u>\$ 235,251,598</u>

NOTE 6. CAPITAL LEASES

At June 30, 2009, the Corporation held furniture and computer equipment under several capital leases containing purchase options under which the company may purchase the furniture and equipment for \$1 for each of the four leases. Since SAF intends to exercise this option, the equipment and furniture and the related liabilities under the capital leases are recorded at acquisition at the present value of the future payments due under the lease. The discount rates used to determine the present value ranged from 4.00% to 8.25%. The related liability under capital lease at June 30, 2009 was \$282,967 and is due in monthly installments of \$6,999.

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2009:

2010		\$ 83,990
2011		76,014
2012		68,040
2013		68,040
2014		<u>23,926</u>
Total minimum lease payments		320,010
Less the amount representing interest		37,043
Less current portion		<u>68,707</u>
Present value of net minimum lease payments		<u>\$ 214,260</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 7. OPERATING LEASES

The Corporation has leases for furniture and equipment with various providers. Leased property not having elements of ownership are classified as operating leases. Twenty leases at June 30, 2009 and June 30, 2008 were classified as operating leases. Total expenses on such leases for the fiscal year ended June 30, 2009 and 2008 were \$431,106 and \$544,350, respectively.

As of June 30, 2009 future minimum lease payments under operating leases with a remaining term in excess of one year are as follows:

2010	\$ 109,711
2011	15,967
2012	12,193
2013	5,298

NOTE 8. CONDITIONAL PROMISES TO GIVE

A conditional promise to give from the Lumina Foundation for Education for College Goal Sunday events and support has been made in the form of a grant with awards disbursed over a three year period. The first award of \$30,000 was received in fiscal year 2008 and the second award of \$10,000 was received in fiscal year 2009. The final award of \$10,000 will be received in fiscal year 2010 and has not been recognized as the conditions have not been met.

NOTE 9. 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 includes both donor-restricted endowment funds and funds generated by SAF from program revenues. As required by generally accepted accounting principles, 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 AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 9. 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.

An initial contribution in the amount of \$60,000 was made by the Board in accordance with this policy, earnings of \$567 have also been designated for the endowment. 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 a specified percentage of the Endowment Fund's assets based on an average of the preceding three years.

At least annually, and more frequently if warranted, the Programs and Development Committee shall determine the asset allocation between equity, bonds and cash based on market outlook. The Programs and Development Committee will review the Endowment Fund's statements from the institution(s) holding the Endowment Fund assets. The committee will verify these statements monthly to confirm adherence to the proposed asset allocation and will re-balance the Endowment Fund as necessary.

The performance of the Programs and Development Committee strategy shall be measured against the S&P 500 index for stocks and measured against Lehman Brothers for bonds or other appropriate broad based equity or bond indices. Measurement shall be reviewed annually and measured over a 3-year period.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 10. NET ASSETS

At June 30 net assets consist of the following:

Unrestricted:	<u>2009</u>	<u>2008</u>
Undesignated	\$ 1,372,098	\$ 4,824,558
Board designated for endowment	60,567	-
Total unrestricted	<u>1,432,665</u>	<u>4,824,558</u>
Temporarily Restricted:		
HSBC	1,050	-
Total temporarily restricted	<u>\$ 1,050</u>	<u>\$ -</u>
Total net assets	<u>\$ 1,433,715</u>	<u>\$ 4,824,558</u>

During the year ended June 30, 2009 and 2008, temporarily restricted net assets were released from restrictions as follows:

Expiration of donor restriction by expenditure for:	<u>2009</u>	<u>2008</u>
Circle of Success (Access Circle)	\$ 35,280	\$ 47,185
College Goal Sunday	23,078	142,416
Health Science Achievement	4,500	-
MCIS	7,500	12,625
Scholarships	-	2,000
Kids Fair	-	4,660
Financial Aid Professional of the Year	1,000	-
ETV Foster Care	210,787	5,514
Total temporarily restricted net assets released	<u>\$ 282,145</u>	<u>\$ 424,400</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 11. 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. This plan is a defined contribution pension plan and covers all employees working at least 20 hours per week. Employees may contribute to the 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 \$472,878 in the year ended June 30, 2009 and \$515,468 in the year ended June 30, 2008.

NOTE 12. 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 life of each of MHESAC's related financings. Management services will be provided to MHESAC for an 18-year term beginning February 1, 2000. The cost of these services is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreements plus, for the period prior to February 1, 2003, fifteen percent of these costs.

For each successive three-year period the mark-up percentage of such cost is mutually agreed upon by MHESAC and SAF, but in no event will it be less than five percent. For the period beginning February 1, 2006 and ending June 30, 2009, MHESAC and SAF agreed to continue the mark-up percentage at fifteen percent. In addition, an efficiency incentive was added to provide a cost savings sharing opportunity. By contract, the fees are payable in advance for each month. Therefore, an estimate is made of anticipated cost levels and SAF bills MHESAC on that basis with a final adjustment to the advance billing based on actual expenses incurred. During the years ended June 30, 2009 and 2008, SAF billed MHESAC \$15,452,148 and \$16,954,096, respectively. At June 30, 2009 and 2008, the reconciliation for billed and actual costs resulted in a receivable from MHESAC of \$328,123 and balance payable to MHESAC of \$133,310, respectively.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

On August 1, 2003, SAF entered into a servicing agreement with MSLF to provide student loan portfolio servicing in accordance with procedures established by the Higher Education Act and Guarantee Program regulations for a term that will extend as long as any warehoused loans or other secured obligation remains outstanding, unless the agreement is otherwise terminated in accordance with the terms stated. The cost of these services is a monthly fee based on an amount equal to .065% of the average outstanding principal balance of all financed FFELP loans during the immediate preceding month. MSLF also pays rent for office space in the SAF building. SAF received \$731,366 and \$1,785,403 in servicing fees from MSLF during the years ended June 30, 2009 and 2008, respectively. There were intercompany payables of \$140,718 and \$145,044 as of June 30, 2009 and 2008, respectively. All significant intercompany transactions and accounts have been eliminated.

Group Benefits Plan:

SAF provides a medical and dental insurance coverage plan for its employees. Effective July 1, 2007, SAF opted for an insured plan to include medical and vision coverage with Allegiance, and dental and life insurance with Lincoln Financial.

Line of Credit:

On April 6, 2007, SAF extended a bank line of credit with First Interstate Bank, originally secured on April 3, 2003 for operating purposes. The \$1,000,000 line is secured by a certificate of deposit. Interest on the line is charged at 4.5%. On June 30, 2008 there was an outstanding balance of \$300,000 and a zero balance at June 30, 2009. The credit agreement expires on November 1, 2009.

MSLF secured a line of credit with Citicorp on August 5, 2003 for the express purpose of acquiring and originating student loans. As of June 30, 2009, MSLF had drawn \$227,151,598 to acquire student loans. Note 5 details the requirements of the line of credit and the current termination event status.

Remote Services Agreement:

On February 1, 2001, SAF entered into an agreement with the Pennsylvania Higher Education Assistance Agency (PHEAA) for remote system access for the effective computer processing of loans serviced by SAF. The agreement requires PHEAA to maintain the remote system in accordance with Title IV of the Higher Education Act of 1965, as amended. A subsequent amendment to the original agreement on February 1, 2004 extends the term of the agreement for ten years from the date of the amendment with provisions for automatic one year renewal options. Fees for access and maintenance of the remote system vary depending on volume and services provided.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 13. RELATED PARTY TRANSACTIONS

SAF Relationship with MHESAC:

On February 1, 2000, SAF entered into an agreement with Montana Higher Education Student Assistance Corporation (MHESAC) to provide management and servicing functions to MHESAC as described in Note 12. SAF has three of its nine board members in common with MHESAC's seven board members. In fiscal year 2009, the Regent Member who typically serves on both boards elected only to serve on the MHESAC Board. A student appointment was made for the one year vacancy on the SAF Board. Effective February 1, 2000, MHESAC transferred, for fair value, all of its operations and non-financial assets, including personnel, all furniture and equipment, as well as its interest in the office building and land, to SAF. These assets were transferred in exchange for notes more fully described in Note 5.

MSLF Relationship with MHESAC:

Previously, the loan activity conducted by MSLF was for the specific purpose of an eventual sale to MHESAC with no obligation by MHESAC to acquire the loans until it was able to obtain financing for that specific purpose as defined by a purchase agreement between the two companies. The agreement recognized that the purchase of the loans would occur at such time as market conditions permitted MHESAC to permanently finance such loans through the issuance of bonds or notes which are economically feasible and justifiable to MHESAC. During fiscal year 2009 it became clear that MHESAC will not be able to finance these loans in the foreseeable future. The value of the loans has more appropriately been adjusted to reflect this turn of events. The loans represented an income generating asset that had a determinable value based on the indenture and purchase agreement between MSLF and MHESAC. Due to dramatic changes in the economic environment and MSLF's financial position in the indenture, it is no longer MHESAC's intent to obtain financing or purchase the loan portfolio in the foreseeable future. The premium amount calculated and reported in prior years related to an anticipated sale has been reversed with a resulting loss on valuation of the transaction of \$6,293,277.

Shared Cost Agreements:

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2009 and 2008

NOTE 13. 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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Sublease and Shared Costs		
Payments from:		
MGSLP	\$ 634,663	\$ 566,952
OCHE	139,869	-
Accounts receivable:		
Payments due from:		
MGSLP	34,600	34,990
OCHE	12,096	-

Total net receivables/payables from these agreements, including the balance due from MHESAC disclosed in Note 12, was \$346,458 at June 30, 2009 and \$35,200 at June 30, 2008.

NOTE 14. 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 15. MAJOR CUSTOMER

Fees from MHESAC accounted for 73% and 76% of SAF's total revenues for the years ended June 30, 2009 and 2008, respectively. Accounts receivable relating to these revenues accounted for 23.7% of SAF's total receivables for the year ended June 30, 2009. There was no receivable related to these revenues at June 30, 2008.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective July 1, 2009, the Corporation adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). The guidance establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and related disclosure requirements. Fair value is defined by SFAS 157 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. SFAS 157 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 established by SFAS 157 prioritizes valuation inputs into three broad levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Significant observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or inputs other than quoted prices that are observable or can be corroborated by observable market data. This level input must be observable for substantially the full term of the assets or liabilities

Level 3 – Significant unobservable inputs for situations in which there is little, if any, market activity

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments:

Certificates of deposit are included in investments but not subject to SFAS 157 categorization. The fair value measurement used for land held for investment is a real estate market valuation.

Educational Loans Receivable:

The fair value of educational loans receivable is based on the principal to principal market in which resales are negotiated independently, with no intermediary. Within this market, educational loan portfolios with characteristics similar to MSLF's are traded at the carrying amount as of June 30, 2009.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Notes Payable:

At the date of inception, the rate for the real estate note payable was determined by averaging the corporate borrowing rate for comparable companies for notes of similar maturities. Other notes payable are carried at current balances due. Management considers fair value of these instruments to approximate cost.

MSLF line of credit:

Fair value for the MSLF line of credit is based on the contractual value of the underlying collateral for the loan. Effective July 1, 2009, the Corporation adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115 (SFAS 159). The guidance permits entities to measure many financial instruments and certain other items at fair value. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The Corporation has elected to apply this guidance to the MSLF line of credit.

As required by SFAS 159, the Corporation has reported the effect of the first fair value measurement at July 1, 2008 as a cumulative-effect adjustment in the statement of activities. The subsequent June 30, 2009 valuation results are included as an unrealized gain in the support and revenues section of the statement of activities. The table below summarizes the change in fair value:

Beginning Balance – July 1, 2008	\$ 235,251,598
Cumulative effect of initial valuation	(4,008,846)
Net change from repayments of loan	(8,100,000)
Unrealized gain on June 30, 2009 valuation	<u>(1,066,204)</u>
Ending Balance, June 30, 2009	<u>\$ 222,076,548</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2009 and 2008

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Summary of Financial Instruments:

The following table summarizes fair value of the various financial instruments measured on a recurring basis as of June 30, 2009:

<u>Financial Instrument</u>	Fair and carrying <u>Value</u>	Significant Other Observable Inputs (<u>Level 2</u>)	Significant Unobservable Inputs (<u>Level 3</u>)
Land Held for Investment	\$ 1,377,000	\$ 1,377,000	\$ -
Educational Loans Receivable	217,741,613	217,741,613	-
Notes Payable	3,257,967	-	3,257,967
MSLF line of credit	222,076,548	222,076,548	-

Following is a reconciliation of beginning and ending values for Level 3 items:

	Notes <u>Payable</u>
Fair Value at July 1, 2008	\$ 3,985,245
Receipts/Inflows	2,378,000
Payments/Outflows	<u>(3,105,278)</u>
Fair Value at June 30, 2009	<u>\$ 3,257,967</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2009 and 2008

NOTE 17. EXTRAORDINARY ITEMS

Construction Work In Progress:

In March, 2005, SAF purchased a tract of land for the purpose of constructing a new facility for its business operations. The Company has ceased construction activities on the new facility and does not intend to proceed with the project. As such, the costs that were incurred in planning for the new building that were accumulated as construction work in progress in prior years have been removed and reported as an extraordinary loss in the amount of \$1,247,212 for the year ended June 30, 2008.

Prepaid Costs for Acquiring Educational Loans:

On September 4, 2008, Citicorp advised MSLF that the Line of Credit utilized to acquire student loans was not extended under the annual renewal option of the agreement and provided a notification that the coverage condition was not satisfied in relationship to the required portfolio valuation of the collateral (educational loans and related assets and liabilities).

Due to this termination event within the line of credit the value of the net balance of the un-amortized amount of prepaid loan acquisition costs has effectively been eliminated and have been removed and reported as an extraordinary loss of \$4,204,017 as of June 30, 2009.

NOTE 18. SUBSEQUENT EVENT

Management has evaluated subsequent events through September 17, 2009, the date which the financial statements were available for issue.

ACCOMPANYING INFORMATION



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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

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

Our report of the basic consolidated financial statements of Student Assistance Foundation of Montana and affiliate for 2009 appears on page 1. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating schedules presented on pages 33 to 36 and the schedule of grant and public programs expense on page 37 is presented for purposes of additional analysis of the consolidated financial statements only and not intended to present the financial position, results of operations, and cash flows of the individual entities.

Accordingly, we do not express an opinion on the consolidating schedules or the schedule of grant and public program expense of the individual entities. However, in our opinion, the consolidating and supplemental information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Helena, Montana
September 17, 2009

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**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2009 with Comparative Totals for 2008**

	Student Assistance Foundation	Montana Student Loan Funding	Consolidating Adjustments	Consolidated	
				2009	2008
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 3,826,674	\$ 15,393	\$ -	\$ 3,842,067	\$ 3,430,325
Accounts receivable:					
Lender services	3,110	-	-	3,110	24,970
Montana Student Loan Funding	349,670	-	(349,670)	-	-
Other client & miscellaneous receivables	1,334,633	-	-	1,334,633	334,552
Related parties	46,696	-	-	46,696	35,200
Less: allowance for uncollectible accounts	-	-	-	-	(5,548)
Due from MSLF	1,737,163	-	(1,737,163)	-	-
Interest receivable	-	3,106,839	-	3,106,839	2,981,892
Investments	1,835,120	-	-	1,835,120	1,646,946
Prepaid costs, net	408,511	-	-	408,511	423,369
Funds held for loan servicing client	-	79,960	(79,960)	-	-
Total current assets	<u>9,541,577</u>	<u>3,202,192</u>	<u>(2,166,793)</u>	<u>10,576,976</u>	<u>8,871,706</u>
PROPERTY AND EQUIPMENT, at cost					
Land and building	2,883,045	-	-	2,883,045	2,883,045
Building improvements	1,098,201	-	-	1,098,201	1,008,601
Equipment and furniture	3,251,935	-	-	3,251,935	2,651,915
	7,233,181	-	-	7,233,181	6,543,561
Less: accumulated depreciation	<u>3,633,876</u>	<u>-</u>	<u>-</u>	<u>3,633,876</u>	<u>3,307,435</u>
Total property and equipment	<u>3,599,305</u>	<u>-</u>	<u>-</u>	<u>3,599,305</u>	<u>3,236,126</u>
OTHER RESTRICTED ASSETS					
Cash and cash equivalents	-	2,812,122	-	2,812,122	4,449,626
Endowment cash and cash equivalents	60,567	-	-	60,567	-
Educational Loans receivable					
Student loan receivable	-	217,743,233	-	217,743,233	224,759,887
Unrealized gain on loan valuation	-	-	-	-	6,293,277
Less: allowance for uncollectible accounts	-	(1,620)	-	(1,620)	-
Prepaid costs, net	-	3,000	-	3,000	4,349,309
Other	-	-	-	-	7,277
Total other restricted assets	<u>60,567</u>	<u>220,556,735</u>	<u>-</u>	<u>220,617,302</u>	<u>239,859,376</u>
Total assets	<u>\$ 13,201,449</u>	<u>\$ 223,758,927</u>	<u>\$ (2,166,793)</u>	<u>\$ 234,793,583</u>	<u>\$ 251,967,209</u>

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
June 30, 2009 with Comparative Totals for 2008**

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Montana Student Loan Funding	Consolidating Adjustments	Consolidated	
				2009	2008
CURRENT LIABILITIES					
Other accounts payable and accrued expenses	\$ 1,506,428	\$ 895,634	\$ (602,900)	\$ 1,799,162	\$ 1,923,335
Funds held for loan servicing client	2,382,044	-	(79,960)	2,302,084	3,247,321
Special allowance payment payable	-	1,264,090	-	1,264,090	-
Accrued interest payable	-	122,555	-	122,555	533,937
Grant program liability	1,219,292	-	-	1,219,292	1,218,792
Due to parent corporation	-	1,483,933	(1,483,933)	-	-
Compensated absence liability	1,035,203	-	-	1,035,203	982,423
Current obligation under capital lease	68,707	-	-	68,707	-
Current maturities of notes payable	1,022,788	-	-	1,022,788	720,441
Current maturities of MSLF line of credit:					
MSLF line of credit	-	227,151,598	-	227,151,598	235,251,598
Less fair value adjustment	-	(5,075,050)	-	(5,075,050)	-
Total current liabilities	<u>7,234,462</u>	<u>225,842,760</u>	<u>(2,166,793)</u>	<u>230,910,429</u>	<u>243,877,847</u>
LONG-TERM LIABILITIES					
Notes payable, net of current maturities	2,235,179	-	-	2,235,179	3,264,804
Obligation under capital lease	<u>214,260</u>	<u>-</u>	<u>-</u>	<u>214,260</u>	<u>-</u>
Total long-term liabilities	<u>2,449,439</u>	<u>-</u>	<u>-</u>	<u>2,449,439</u>	<u>3,264,804</u>
Total liabilities	<u>9,683,901</u>	<u>225,842,760</u>	<u>(2,166,793)</u>	<u>233,359,868</u>	<u>247,142,651</u>
NET ASSETS					
Undesignated, unrestricted	3,455,931	(2,083,833)	-	1,372,098	4,824,558
Board designated for endowment	60,567	-	-	60,567	-
Temporarily restricted	<u>1,050</u>	<u>-</u>	<u>-</u>	<u>1,050</u>	<u>-</u>
Total net assets	<u>3,517,548</u>	<u>(2,083,833)</u>	<u>-</u>	<u>1,433,715</u>	<u>4,824,558</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,201,449</u>	<u>\$ 223,758,927</u>	<u>\$ (2,166,793)</u>	<u>\$ 234,793,583</u>	<u>\$ 251,967,209</u>

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended June 30, 2009 with Comparative Totals for 2008**

	Student Assistance Foundation	Montana Student Loan Funding	Consolidating Adjustments	Consolidated	
				2009	2008
UNRESTRICTED NET ASSETS					
Revenue and Support:					
Management & servicing fee income	\$ 17,148,224	\$ -	\$ -	\$ 17,148,224	\$ 16,454,409
Interest on educational loans	-	8,856,386	-	8,856,386	13,103,742
Loan servicing income	3,341,464	-	(731,366)	2,610,098	2,107,054
Lender services income	301,432	-	-	301,432	398,584
Income from investments					
Investment Income	12,092	42,457	-	54,549	139,799
Interest on endowment	567	-	-	567	-
Unrealized gain on land valuation	177,000	-	-	177,000	194,858
Unrealized gain (loss) on loan valuation	-	(6,293,277)	-	(6,293,277)	4,287,859
Premium from sale of loans	-	-	-	-	81,081
Unrealized gain on MSLF line of credit	-	1,066,204	-	1,066,204	-
Contributions grants received	45,454	-	-	45,454	33,127
Insurance recoveries	-	-	-	-	24,588
Other income	559,259	-	(780)	558,479	509,563
	<u>21,585,492</u>	<u>3,671,770</u>	<u>(732,146)</u>	<u>24,525,116</u>	<u>37,334,664</u>
Net assets released from restrictions	<u>282,145</u>	<u>-</u>	<u>-</u>	<u>282,145</u>	<u>424,400</u>
Total unrestricted revenue and support	<u>21,867,637</u>	<u>3,671,770</u>	<u>(732,146)</u>	<u>24,807,261</u>	<u>37,759,064</u>
Program Operating Expenses:					
Loan Servicing					
Salaries, payroll taxes and employee benefits	10,083,132	-	-	10,083,132	10,663,973
Contract sub-servicing fees	1,116,425	736,615	-	1,853,040	2,893,825
Professional services	428,266	-	-	428,266	424,640
Advertising	43,425	-	-	43,425	32,014
Marketing and outreach	5,103	-	-	5,103	40,778
Contract labor	131,531	-	-	131,531	116,471
Staff travel and training	254,107	-	-	254,107	328,490
Insurance	77,062	-	-	77,062	90,691
Office supplies and copier charges	64,975	-	-	64,975	56,075
Computer charges	605,359	-	-	605,359	593,013
Telecommunications and utilities	273,816	-	-	273,816	313,297
Mail, postage and courier	580,613	84	-	580,697	575,585
Printing	107,766	-	-	107,766	258,459
Dues, subscriptions and memberships	78,390	-	-	78,390	87,021
Recruitment and relocation	1,842	-	-	1,842	7,782
Automobile expense	1,222	-	-	1,222	3,417
Repairs, maintenance and service	66,828	-	-	66,828	56,993
Depreciation	432,070	-	-	432,070	461,816
Amortization of prepaid costs	-	121,024	-	121,024	333,109
Conversion costs	-	2,058,929	-	2,058,929	2,004,900
Loan fees	-	1,296,857	-	1,296,857	856,815
Operating lease payments	397,266	-	-	397,266	484,691
Other costs	242,576	43,080	(780)	284,876	383,773
Interest expense	242,816	5,221,891	-	5,464,707	9,976,078
Grants and public purpose program	2,791,268	-	-	2,791,268	3,092,321
Servicing costs allocated to MSLF	731,366	-	(731,366)	-	-
Lender services expenses	184,696	-	-	184,696	262,428
	<u>18,941,920</u>	<u>9,478,480</u>	<u>(732,146)</u>	<u>27,688,254</u>	<u>34,398,455</u>

	Student Assistance Foundation	Montana Student Loan Funding	Consolidating Adjustments	Consolidated	
				2009	2008
Fundraising Expenses	<u>143,447</u>	<u>-</u>	<u>-</u>	<u>143,447</u>	<u>247,018</u>
General and Administrative Expenses:					
Salaries, payroll taxes and employee benefits	57,875	-	-	57,875	159,536
Board and officer	31,492	7,800	-	39,292	29,970
Professional services	21,250	-	-	21,250	855
Insurance	9,075	-	-	9,075	4,538
Advertising	-	-	-	-	-
Other	<u>44,790</u>	<u>-</u>	<u>-</u>	<u>44,790</u>	<u>74,013</u>
Total general and administrative expenses	<u>164,482</u>	<u>7,800</u>	<u>-</u>	<u>172,282</u>	<u>268,912</u>
Total expenses	<u>19,249,849</u>	<u>9,486,280</u>	<u>(732,146)</u>	<u>28,003,983</u>	<u>34,914,385</u>
Increase (decrease) in unrestricted net assets before extraordinary items and cumulative effect	2,617,788	(5,814,510)	-	(3,196,722)	2,844,679
Extraordinary items	-	(4,204,017)	-	(4,204,017)	(1,247,212)
Cumulative effect of initial fair valuation of MSLF line of credit	<u>-</u>	<u>4,008,846</u>	<u>-</u>	<u>4,008,846</u>	<u>-</u>
Increase (decrease) in unrestricted net assets	<u>2,617,788</u>	<u>(6,009,681)</u>	<u>-</u>	<u>(3,391,893)</u>	<u>1,597,467</u>
TEMPORARILY RESTRICTED NET ASSETS					
Revenue and Support:					
Contributions received	283,195	-	-	283,195	424,400
Net assets released from restrictions	<u>(282,145)</u>	<u>-</u>	<u>-</u>	<u>(282,145)</u>	<u>(424,400)</u>
Increase in temporarily restricted net assets	<u>1,050</u>	<u>-</u>	<u>-</u>	<u>1,050</u>	<u>-</u>
Increase(decrease) in net assets	2,618,838	(6,009,681)	-	(3,390,843)	1,597,467
Net assets at the beginning of the year	<u>898,710</u>	<u>3,925,848</u>	<u>-</u>	<u>4,824,558</u>	<u>3,227,091</u>
Net assets at the end of the year	<u>\$ 3,517,548</u>	<u>\$ (2,083,833)</u>	<u>\$ -</u>	<u>\$ 1,433,715</u>	<u>\$ 4,824,558</u>

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATE
SCHEDULE OF CONSOLIDATED GRANT AND PUBLIC PROGRAMS EXPENSE
For the Years Ended June 30, 2009 and 2008**

	2009	2008
Operating & overhead expenses		
Program administration	\$ 383,785	\$ 416,470
Campus outreach		
Outreach staff & offices	502,044	483,343
Outreach program		
MCIS program	175,835	177,556
College Goal Sunday	99,800	204,735
Foster Care Program	220,409	238,774
SAT/ACT practice tests	15,000	15,000
Montana College Access	7,082	3,700
Grants awarded		
Scholarships	-	17,500
Gear up contributions	5,000	52,000
AmeriCorps Youth Scholarship	70,000	-
Access grants	1,217,292	1,217,292
High School Business Challenge	4,500	3,500
Helena Symphony Youth Concert	5,000	-
Mapping Your Future	-	3,000
Financial Aid Training Grants	2,000	-
MBAC - Plan to Succeed	-	1,000
Jobs for Montana's Graduates	500	18,000
Step Up and Serve Scholarships	-	7,000
S Clark Pyfer Fund	-	10,000
Miscellaneous Grants	800	2,000
Circle of Success	56,000	108,000
Webwriters - scorers	4,721	4,157
Sponsorships		
Vista	1,000	-
Career Training Institute	-	15,000
Conferences	-	4,775
Youth Symphony Program	-	10,000
Montana Indian Educators Association	-	3,400
Helena Family YMCA	-	1,000
Newspapers in Education	-	5,000
American Indian Business Leaders	-	5,000
MPSEOC	10,000	20,000
Destination Imagination	-	1,000
Helena Education Foundation	5,000	10,000
High School Business Challenge	-	9,484
Hope Mountain - 2008 Youth Leadership	-	10,000
Miscellaneous	-	9,135
Webwriters - web site	5,500	5,500
	\$ 2,791,268	\$ 3,092,321