MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION

FINANCIAL REPORT

JUNE 30, 2013

MHESAC

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Montana Higher Education
Student Assistance Corporation
Helena, Montana

We have audited the accompanying statement of net position of the Montana Higher Education Student Assistance Corporation (the Corporation) as of June 30, 2013, and the related statements of revenue, expense and changes in fund net position, and cash flows as and for the year then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Corporation's 2012 financial statements, and our report dated September 13, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The combining schedules of assets, liabilities and fund net position under restricted bond indentures and revenue, expense and change in fund net position under restricted bond indentures (the combining schedules) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Anderson ZurMuehlen & Co., P.C.

Helena, Montana
September 13, 2013

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013 and Comparative Totals for June 30, 2012

This section of the Montana Higher Education Student Assistance Corporation's (MHESAC or the Corporation) annual financial report presents our discussion and analysis of the Corporation's financial performance during the years ended June 30, 2013 and 2012. Please read the following in conjunction with the Corporation's financial statements and accompanying notes.

MHESAC is a Montana not-for-profit corporation that was incorporated in 1980. MHESAC is designated as the sole and exclusive not-for-profit corporation in the State to provide a student loan secondary market to support the Federal Family Education Loan Program (FFELP). MHESAC is supported entirely through earnings on the student loans that it owns. MHESAC's current activities include FFELP student loan servicing and bond management to finance the capital for its FFELP student loan activities and rebates and rate reductions to student loan borrowers as part of its commitment to helping Montana students lower the cost of financing their education. As a not-for-profit entity that has the ability to issue tax-exempt debt, MHESAC is classified as a "governmental nonprofit" entity for accounting purposes.

Financial Reporting Methodology Overview

This annual report consists of MHESAC's basic financial statements and Management's Discussion and Analysis. As discussed in Note 1, Summary of Significant Accounting Policies, GASB 34 requires a discussion of results of operations and financial position and a presentation of financial statements in a manner similar to private business. MHESAC follows proprietary fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The basic financial statements include the statement of net position, which reports the assets owned by MHESAC, its liabilities or what it owes to others and total fund net position as of its fiscal year end; the statement of revenues, expenses and changes in fund net position, which reports the operating net income plus non-operating revenue and expenses to arrive at a change in fund net position; and a statement of cash flows, which describes the sources and uses of MHESAC's cash during the year.

It is important to note that MHESAC has both restricted and unrestricted assets and fund net position. Restricted refers to the assets and net position whose use is restricted by the bond indentures or escrow agreements. The restricted assets must be used in accordance with stipulations in the governing bond indenture or escrow agreement. They cannot be used for any other purpose. Unrestricted assets and fund net position are items that are not restricted in their use, located in what we call the general operating fund. These unrestricted assets were either acquired outside of the bond indentures or escrow agreements through general operating fund operations or from previously restricted funds that have now been released to the general operating fund via indenture satisfaction such as full redemption of outstanding bond issues.

During the fiscal year ending June 30, 2012, MHESAC chose to be an early adopter of GASB 65 for items previously reported as assets. This implementation meant that MHESAC would expense certain items such as the cost of debt issuance and loan acquisition costs. Previously, MHESAC reported these costs as prepaid assets, amortizing them over the life of the bonds and loans. The application of GASB 65 required a restatement of prior periods to reflect the recognition of those expenses in the year they were incurred requiring a restatement of beginning fund balance for 2012 in the financial statements.

Financial Position Summary

Following is an analysis of MHESAC's financial position at June 30, 2013 with comparative information at June 30, 2012 (000s omitted):

Assets	***6/30/2013***	*6/30/2012*
Cash and cash equivalents	**$ 37,711**	$ 48,483
Investments	**600**	600
Educational loans receivable, net	**1,260,704**	1,406,163
Other assets	**17,026**	21,511
Total Assets	**$1,316,041**	$1,476,757
Liabilities and Net Position		
Current liabilities	**$ 408,032**	$ 310,890
Long term debt and obligations	**801,247**	1,057,156
Arbitrage rebate and excess interest liability	**-**	2,020
Total liabilities	**1,209,279**	1,370,066
Fund Net Position		
Restricted fund net position	**73,545**	72,789
Unrestricted fund net position	**33,217**	33,902
Total fund net position	**106,762**	106,691
Total liabilities and fund net position	**$1,316,041**	$1,476,757

At June 30, 2013 MHESAC had cash and cash equivalents of over $37.7 million of which approximately $5.3 million is unrestricted and $32.4 million is restricted under the bond indenture or escrow agreements. The cash equivalents in the restricted fund are made up of cash temporarily held by the trustee in short-term investments until the funds are used for debt service. Additionally, cash is held by the trustee for reserve and administration purposes in short-term investments that by definition are cash equivalents.

Following is a breakdown of the different student loan types held by MHESAC at June 30, 2013 (gross loan amounts):

Stafford	$ 290,463,144
PLUS	21,096,412
Consolidation	949,765,131
Other	95,721
Total	$1,261,420,408

During the fiscal year MHESAC decreased the reserve for bad debts which reflects a relative decrease in exposure to bad debt because the student loan portfolio decreased. The reserve, which is netted against the student loans receivable for financial statement presentation decreased from $768,917 to $716,942.

Results of Operations Summary

MHESAC is reporting operating income of $71,000 for the fiscal year ended June 30, 2013. Note the following analysis of operating revenue and expense sources followed by non-operating revenues (expenses) (000s omitted):

Operating Revenue Sources

	FY Ended 06/30/2013	FY Ended 06/30/2012
Interest on investments	**$ 300**	$ 768
Interest on student loans	**41,455**	44,103
Gain on bond repurchase	**-**	18,485
Revenue from bond restructuring	**-**	56,003
Other income	**-**	45
Total operating revenue	**$ 41,755**	$ 119,404

Operating Expense Sources

	FY Ended 06/30/2013	FY Ended 06/30/2012
Bond and note interest	**$ 17,099**	$ 4,170
Bond fees	**229**	839
Loan fees	**10,712**	9,918
Management & servicing cost	**13,611**	12,663
Other costs	**33**	34
Total operating expenses	**41,684**	27,624
Operating profit	**71**	91,780
Non-Operating Revenues		
Arbitrage rebate	**-**	2,209
Excess interest rebate	**-**	280
Total non-operating revenues	**-**	2,489
Increase in net fund position	**71**	94,269
Fund net position, beginning of year	**106,691**	12,422
Fund net position, end of year	**$ 106,762**	$ 106,691

Arbitrage and excess interest rebate revenues in the amount of $2,208,769 and $279,856, respectively, for fiscal year 2012 have been classified as non-operating activity. This is consistent with the treatment for the same items in prior years. Management has concluded that this activity is interrelated and directly affected by other activities that are reported as non-operating and should be reported similarly as the fluctuations caused by changes in other non-operating activity may be misleading as a component of operating income.

The following is an overview of changes in financial data from FY 12 to FY 13:

- Cash and equivalents decreased by $10,772,000
- Net student loan receivables decreased by $145,459,000
- Debt consisting of net bonds outstanding decreased by $158,678,000
- MHESAC's net position increased by $71,000
- Total operating revenues decreased by $77,649,000
- Total operating expenses increased by $14,060,000

What the comparative financial statements tell us is that MHESAC's financial health was strengthened to a great degree during fiscal year 2012 when it restructured its debt portfolio. While the new debt is not as advantageous in a low interest rate environment as the auction rate bonds that were restructured, the indenture is now structured to survive the life of the bonds and the expected rise in future interest rates. The results for fiscal year 2013 show results that are slightly better than break-even which is what can be expected for the remainder of the life of the bond trust.

Operating revenues from the student loans are variable in nature and were based on the one-month LIBOR rate during fiscal year 2013. At the beginning of the year, the LIBOR rate was 0.246% and at the end of the year it was 0.1947%. As a result, interest earned on student loans was slightly lower in fiscal year 2013 as compared to the previous year for two reasons: first, the return was lower due to the slight decrease in the index rate over the course of the year, and second due to the portfolio decline that was experienced as the student loans continue to amortize.

Long-term Debt Activity

MHESAC had previously issued both tax-exempt and taxable bonds to raise capital for its student loan origination and acquisition activities as more fully described in the accompanying notes to the financial statements. During fiscal year 2012, MHESAC had the opportunity to restructure its debt with the goal of taking out all auction bonds that had been illiquid since 2008 and all fixed rate bonds that paid a significantly higher than market interest rate and structure MHESAC's debt so that any vulnerability to rising interest rates is mitigated. The 2012 Bonds that were issued in the amount of $1,164,800,000 met those goals. $1,145,300,000 of the bonds that were issued were senior bonds and carry a AA+ rating from Standard & Poor's and a AAA rating by Fitch. The subordinate bonds issued, in the amount of $19,500,000 are unrated and are held by MHESAC. The floating rate notes in Series 2005B and 2006A remain outstanding and carry a AAA rating by Moody's and Fitch and a AA+ rating from Standard & Poor's. The 2006C subordinate bonds in the amount of $18,000,000 are unrated. Currently, all outstanding bonds are taxable bonds and carry variable interest rates based on either 1-month or 3-month LIBOR rates plus some spread depending on the life of the bond.

In the fiscal year that ended June 30, 2013, MHESAC redeemed outstanding bonds with all cash available and allowable by the indenture through targeted redemptions. Scheduled redemptions made totaled $161,322,000.

An analysis of the change to bonds outstanding follows:

	Current Portion	Long-term Portion
Bonds outstanding at 7/01/12	$ 304,306,943	$ 1,107,875,057
Scheduled targeted payments of 2005, 2006 and 2012 Series bonds	(161,322,000)	-
Reclassification to current	258,553,349	(258,553,349)
Bonds outstanding at 6/30/13	$ 401,538,292	$ 849,321,708
Unamortized bond discount	-	(28,575,352)
Net bonds outstanding	$ 401,538,292	$ 820,746,356

It should be noted that $19,500,000 of the 2012 bonds issued are unrated subordinate bonds and are owned by the MHESAC general operating fund. They have therefore been eliminated in the financial statements.

Significant Events

The Student Aid and Fiscal Responsibility Act (SAFRA), which was included in the health care reconciliation bill that was signed into law on March 30, 2010, effectively eliminated the Federal Family Education Loan Program (FFELP) that MHESAC participated in. Effective July 1, 2010, all new federal student loans were provided by the Direct Loan program rather than by the private sector participants. Therefore, MHESAC is no longer originating or acquiring new loans. MHESAC will continue to service its existing FFELP student loan portfolio during the remaining life of those loans which can be up to thirty years.

Effective April 1, 2012, MHESAC elected to change the index that was used for the formula for special allowance payments (SAP) to be received from or paid to the federal government. Prior to this election, SAP was calculated based on a formula that involved the 90-day commercial paper rate. MHESAC made the election to switch to a formula based on the 1-month LIBOR rate in order to better match the indices used for calculation of student loan earnings and associated debt. During fiscal year 2013, the 1-month LIBOR rate averaged 0.21% and the 90-day commercial paper rate averaged 0.17%. This resulted in a return on student loans that was 0.04% higher than if the election had not been made. Based on a simple average of the loans outstanding, this election resulted in approximately $530,000 in additional loan return during fiscal year 2013.

FINANCIAL STATEMENTS

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF NET POSITION
June 30, 2013 with Comparative Totals for 2012
(expressed in thousands)

ASSETS	**2013**	2012
CURRENT ASSETS		
Cash and cash equivalents	**$ 5,306**	$ 5,636
Investments	**600**	600
Accrued interest receivable	**132**	100
Prepaid costs, net of accumulated amortization	**9**	8
Other assets	**144**	1,202
Total Current Assets	**6,191**	7,546
RESTRICTED ASSETS		
Cash and cash equivalents	**32,405**	42,847
Educational loans receivable, net	**1,253,108**	1,399,144
Accrued interest receivable	**15,851**	18,928
Prepaid costs, net of accumulated amortization	**26**	-
Other Assets	**864**	1,273
Total Restricted Assets	**1,302,254**	1,462,192
OTHER ASSETS		
Educational loans receivable, net	**7,596**	7,019
Total Other Assets	**7,596**	7,019
TOTAL ASSETS	**$ 1,316,041**	$ 1,476,757

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

LIABILITIES AND FUND NET POSITION	2013	2012
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 6,004**	$ 6,119
Accrued interest payable	**490**	464
Educational loan revenue bonds payable - current portion	**401,538**	304,307
Total Current Liabilities	**408,032**	310,890
LONG-TERM DEBT		
Educational loan revenue bonds payable	**801,247**	1,057,156
Total Long-Term Debt	**801,247**	1,057,156
OTHER LIABILITIES		
Contingent arbitrage rebate liability	**-**	2,020
Total Other Liabilities	**-**	2,020
TOTAL LIABILITIES	**1,209,279**	1,370,066
FUND NET POSITION		
Restricted fund net position	**73,545**	72,789
Unrestricted fund net position	**33,217**	33,902
Total Fund Net Position	**106,762**	106,691
TOTAL LIABILITIES AND FUND NET POSITION	**$ 1,316,041**	$ 1,476,757

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN FUND NET POSITION
June 30, 2013 with Comparative Totals for 2012
(expressed in thousands)

	2013	2012
OPERATING REVENUE		
Interest on investments and cash equivalents	**$ 300**	$ 768
Interest on educational loans (net of expense for uncollectible accounts of $74,300 in 2012 and ($41,669) in 2013)	**41,455**	44,103
Income from financing restructure	**-**	56,003
Gain on bond repurchase	**-**	18,485
Miscellaneous Income	**-**	29
Interest on real estate note	**-**	16
Total Operating Revenue	**41,755**	119,404
OPERATING EXPENSE		
Financing expenses:		
Bond and note interest	**17,099**	4,170
Auction agent/broker fees	**-**	523
Bond fees	**229**	316
Loan fees	**10,712**	9,918
Contracted management fees	**2,585**	2,407
Contracted loan servicing fees	**11,026**	10,256
Administrative Expenses	**33**	34
Total Operating Expense	**41,684**	27,624
Operating Income	**71**	91,780
NONOPERATING REVENUES		
Arbitrage rebate	**-**	2,209
Excess interest rebate	**-**	280
Nonoperating Revenues	**-**	2,489
INCREASE IN FUND NET POSITION	**71**	94,269
FUND NET POSITION, BEGINNING OF YEAR	**106,691**	12,422
FUND NET POSITION, END OF YEAR	**$ 106,762**	$ 106,691

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF CASH FLOWS
June 30, 2013 with Comparative Totals for 2012
(expressed in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received on student loans	$ 28,874	$ 26,047
Interest received on investments	299	885
Interest received on real estate and operating notes	-	16
Bond and note interest paid	(14,524)	(8,519)
Auction agent/broker fees paid	-	(575)
Bond fees paid	(215)	(253)
Loan fees paid	(10,509)	(9,843)
Contracted management & servicing fees paid	(13,294)	(12,757)
Administrative expenses paid	(34)	(33)
Restructure revenue	-	1,050
Other operating income	-	29
Net cash flows from operating activities	(9,403)	(3,953)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of educational loans	(5,790)	(117,250)
Repayments of educational loans	167,763	126,751
Repayments of loans on sale of assets	-	1,884
Purchase of investments	(600)	(210,356)
Proceeds from sale of investments	600	331,993
Net cash flows from investing activities	161,973	133,022
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Issuance of bonds	-	1,133,581
Arbitrage rebate paid	(2,020)	(90)
Repayment of bonds	(161,322)	(1,226,292)
Revenue from restructuring	-	600
Net cash flows from financing activities	(163,342)	(92,201)
Net increase (decrease) in cash and equivalents	(10,772)	36,868
Cash and cash equivalents, beginning of year	48,483	11,615
Cash and cash equivalents, end of year	$ 37,711	$ 48,483

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

	2013	2012
A reconciliation of cash and cash equivalents as shown on the balance sheet for MHESAC follows:		
Cash	**$ 5,306**	$ 5,636
Restricted assets	**32,405**	42,847
Cash and cash equivalents	**$ 37,711**	$ 48,483

A reconciliation of operating income to net cash flows from operating activities follows:

	2013	2012
Operating income	**$ 71**	$ 91,780
Adjustments to reconcile operating income to net cash flows from operations:		
Restructure revenue	**-**	(54,353)
Uncollectible accounts	**42**	(74)
Gain on reacquisition of bonds	**-**	(18,485)
Discounted bond accretion	**2,643**	407
Change in assets and liabilities:		
Interest receivable	**(13,455)**	(16,344)
Other assets	**1,384**	(1,722)
Accounts payable and accrued expenses	**(114)**	(71)
Accrued interest payable	**26**	(5,091)
Net cash flows from operating activities	**$ (9,403)**	$ (3,953)

Supplemental Information:

Non-cash Investing and Financing Activity:

	2013	2012
Accrued interest capitalized	**$ 16,454**	$ 17,817
Student loan borrower rebates granted	**288**	297
	$ 16,742	$ 18,114

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:
Montana Higher Education Student Assistance Corporation (herein referred to as MHESAC or the Corporation) is a Montana not-for-profit corporation incorporated in 1980. The governor of the State of Montana has designated MHESAC as the sole and exclusive not-for-profit corporation in the State to provide a statewide student loan acquisition program in connection with the guaranteed student loan program provided by the Higher Education Act and Section 103(e) of the Internal Revenue Code. The Corporation was organized exclusively for the purposes of lending and providing funds for the acquisition of student loans and performing procedures for servicing loans. Effective July 1, 2010, the Federal Family Education Loan program (FFELP) was eliminated and replaced by the Federal Direct Loan program. MHESAC will no longer acquire or provide capital for new FFELP student loans. On February 1, 2000, the Corporation sold all its operating assets and transferred its employees to Student Assistance Foundation of Montana (SAF), a Montana not-for-profit corporation. The Corporation and SAF entered into management and servicing agreements, pursuant to which SAF agrees (1) to provide the Corporation with all necessary management and administrative services, including those required to operate the Corporation’s student loan program and to perform the Corporation’s responsibilities under the Indenture, and (2) to service all student loans owned by MHESAC.

Income Tax Status:
MHESAC is a not-for-profit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes is necessary in the accompanying financial statements.

Generally, the Corporation’s returns are no longer subject to review by federal taxing authorities for years prior to the tax year ended June 30, 2010.

Measurement Focus, Basis of Accounting and Basis of Presentation:
As a non-profit entity that has the ability to issue tax-exempt debt, MHESAC is classified as a “governmental nonprofit” entity in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The Corporation implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” for financial reporting effective for fiscal years beginning July 1, 2002. As provided by this standard, MHESAC follows proprietary fund accounting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued):
In accordance with GAAP, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Statement of Net Position is presented in a classified format and separates unrestricted and restricted assets. The Statement of Revenues, Expenses and Changes in Fund Net Position is formatted to report operating and non-operating revenues and expenses. The Statement of Cash Flows is presented using the direct method. MHESAC considers the following revenue components to be operating income: interest income derived from investments, cash equivalents and educational loans, gains on bond repurchases, gains on loan sales, interest on real estate notes and operating notes as well as other miscellaneous income.

Management's Discussion and Analysis ("MD&A") is considered to be required supplemental information and precedes the financial statements.

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. Significant estimates include a contingent liability for arbitrage rebate, more fully described below. This may vary depending on the adopted methodology and is subject to regulatory change. During the year-ended June 30, 2012, the Corporation refinanced its tax-exempt debt with a taxable issue and will no longer be subject to excess interest or arbitrage rebate regulations going forward.

Cash and Cash Equivalents:
Cash and cash equivalents includes all checking accounts, money market accounts and highly liquid securities with a maturity of three months or less at the date of purchase. MHESAC maintains deposits at one financial institution. Accounts at this financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 for interest-bearing and non-interest bearing accounts. At June 30, 2013, the book balance amount of MHESAC deposits was $4,625,595 with a bank balance of $4,625,595 with $4,375,595 exceeding FDIC limits.

The cash and cash equivalents in the restricted fund are comprised of cash and liquid investments held by the trustee for the bond financings and cash held in escrow for the general operating fund that is being held in short-term or liquid investments pursuant to the Escrow Agreement among MHESAC, Student Assistance Foundation and the Escrow Agent, dated May 4, 2012.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments:
The Corporation invests in highly liquid investments such as U.S. government obligations. At June 30, 2013, there were no investments in the restricted funds and unrestricted investment cost approximated 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. 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 the 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 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, 2013, rebates of $19,956,518 were netted in interest on educational loans on the financial statements.

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 the Federal Family Education Loan Program (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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Allowance Payments (Continued):
Effective April 1, 2012, MHESAC has elected to have the special allowance payment on student loans (SAP) calculated based on the one-month LIBOR index rather than 90-day commercial paper index. This was done to provide better matching of interest rate mechanisms on the student loans and the bonds.

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 3 for details on Education Loan Receivable and Uncollectible Loans).

Restricted Assets:
In connection with the issuance of the Series 2012 Bonds, assets were placed in escrow in order to assure that the Corporation will have sufficient funds to pay servicing and management fees over the life of the indenture. Specified cash and student loans (including, without limitation, all principal, interest, special allowance payments and guarantee or insurance payments with respect thereto) received by MHESAC have been deposited in an escrow account. Loans restricted in the escrow total $25,171,017 net of an allowance for uncollectible accounts of $16,132. Cash of $5,107,540, accrued interest receivable of $37,057, repayment interest receivable of $271,089 and other assets of $34,850 were restricted in the escrow fund as of June 30, 2013.

Other restricted assets represent revenue bond funds that are required to be expended only as prescribed by the bond indenture. Due to the limited obligation nature of this debt, the funds and accounts established by the indenture are pledged as collateral for the bonds under the indenture.

Contingent Excess Interest Liability:
MHESAC is bound by IRS regulations that require tax exempt bond issuers to rebate educational loan earnings that exceed specified limits. Such excess earnings may be rebated to the U.S. Treasury or to educational loan borrowers. The 2012 bond refinancing and payment in full of all tax exempt bonds eliminated all Excess Interest Liability of the corporation as of June 30, 2012.

Internal Revenue Service regulations require that tax-exempt bond issuers rebate investment earnings that exceed specified limits to the U.S. Treasury. Limits vary depending on the bond issue date. Such excess earnings are determined annually and the cumulative excess is payable on every fifth anniversary date of the bonds' issuance and on final maturity of the bonds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent Arbitrage Rebate Liability:
At June 30, 2012, the Corporation's arbitrage rebate liability was $2,020,093. The final payment of this liability was remitted to the Internal Revenue Service on July 25, 2012. All tax exempt bonds were retired in the 2012 bond refinancing, eliminating the applicability of arbitrage rebate regulations going forward.

Reclassifications:
Certain reclassifications were made to the 2012 financial statements to conform to the 2013 presentation. These reclassifications had no effect on fund net position, total assets or the change in fund net position previously reported.

NOTE 2. INVESTMENTS

Since the restricted funds are governed by bond indentures, the Corporation adheres to the requirements specified within the bond indenture for investment activity of those funds. The Corporation has adopted a formal internal policy related to the investment of the general operating fund activity that is in accordance with the Internal Revenue Code and the prudent expert principle.

The general operating fund owns $19,500,000 of the 2012 bonds issued under the MHESAC indenture. This activity is eliminated in the consolidated financial statements.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Corporation or bond trustee, and are held by either the counterparty or the counterparty's trust department or agent but not in the Corporation's or bond trustee's name.

The Corporation does not have any custodial credit risk as all securities are held in its name. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit risk.

Investments issued or guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit risk disclosure requirements.

Interest rate risk is the risk that interest rate changes will adversely affect the fair value of an investment. The Corporation utilizes the specific identification method in regard to interest rate risk as evidenced by the listing of each specific investment and the related interest rates in the chart below. Investment maturities are structured to meet cash

NOTE 2. INVESTMENTS (CONTINUED)

requirements for bond redemption schedules as outlined in the indenture.

The Corporation's investments are reported at fair value when they are classified as trading investments and are reported at amortized cost when they are classified as held-to-maturity investments.

The following summarizes investments held at June 30, 2013:

INVESTMENTS – CURRENT	AMOUNT	RATE	MATURITY
Federal Home Loan Bank Note	$ 599,557	.10%	02/28/2014
Wells Fargo MT Higher Ed 2012–B Security	19,500,000	1.408%	12/20/2044
	20,099,557		
Less intercompany holding:			
Wells Fargo MT Higher Ed 2012–B Security	(19,500,000)		
TOTAL INVESTMENTS	$ 599,557		

NOTE 3. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES

The educational loans receivable are loan portfolios purchased from various banks and other financial institutions as well as loans originated by MHESAC. Purchased and originated portfolios are accounted for in the same manner. Servicing of these loans is governed by regulations issued by the Department of Education under FFELP.

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. The educational loans receivable are disclosed in the financial statements net of allowances for uncollectible loans.

Educational loans are summarized as follows as of June 30, 2013:

Student/interim status	$ 330,323,072
Repayment status	931,097,336
Educational loans receivable	1,261,420,408
Allowance for uncollectible loans	(716,942)
Educational loans receivable, net	$ 1,260,703,466

NOTE 3. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES (CONTINUED)

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

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

Variable interest rates to the borrower 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. Unsubsidized Stafford loans disbursed after July 1, 2006 have a fixed rate to the borrower of 6.80%. Subsidized Stafford loans disbursed after July 1, 2006 and before July 1, 2008 have a fixed rate to the borrower of 6.80%. Subsidized Stafford loans disbursed after June 30, 2008 and before July 1, 2012 have a decreasing rate each year between 6.00% and 3.40%, depending on the actual year disbursed. . All Stafford loans disbursed after June 30, 2013 have a fixed rate 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 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, MHESAC 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 on or after October 1, 1993 until June 30, 2006 are reimbursed at 98% and loans disbursed on or 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 our 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. A provision for uncollectible educational loans has been made for the years ended June 30, 2013.

NOTE 3. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES (CONTINUED)

Allowance for Uncollectible Loans (Continued):
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. At June 30, 2013, loans in the amount of $13,290,067 were classified as delinquent more than 270 days, the stage at which a default claim can be filed.

As of June 30, 2013, MHESAC held a loan portfolio of $1,261,420,408. The average default rate of 2.34% results in a provision for uncollectible educational loans of $716,942 for the year ended June 30, 2013. Following is a reconciliation of the change in the allowance for uncollectible loans for the year ended June 30, 2013:

Balance, July 1, 2012	$ 768,917
Non-guaranteed write-offs	(10,306)
Adjustments per allowance policy	(41,669)
Balance, June 30, 2013	$ 716,942

Loan guarantor rates are considered segments for purposes of GAAP disclosure. Following is a breakdown by loan guarantor rates of the current loan portfolios held at June 30, 2013:

100% Guarantee	$ 1,514,570
98% Guarantee	717,138,856
97% Guarantee	542,503,066
Uninsured	263,916
TOTAL PORTFOLIO	$ 1,261,420,408

No changes were implemented in the accounting policies or methodologies during the year ended June 30, 2013 regarding calculation of the allowance for uncollectible loans.

Special Servicer Consolidation Loan Program:
The Department of Education offered a special servicer consolidation loan program to eligible borrowers from January 1, 2012 through June 30, 2012. Eligible borrowers with both FFELP loans and eligible commercially-held Federal Direct Student Loan Program loans were permitted to have their existing FFELP loans reissued into the Federal Direct Student Loan Program during the period from January 1, 2012 through June 30, 2012. Borrowers received up to a 0.5% interest rate reduction on the reissued FFELP loan with the terms and conditions of the borrowers' existing FFELP student loans continuing. Holders of such FFELP loans were paid 100% of the outstanding principal and interest balance on any loans reissued.

NOTE 3. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES (CONTINUED)

Special Servicer Consolidation Loan Program (Continued):
As a result of this special servicer consolidation loan program, MHESAC had transferred approximately $28 million in student loans to designated servicing companies for the six month period ending June 30, 2012. Approximately $18 million of additional loans met the June 30th application deadline and were processed and sold to the Federal Direct Loan Program subsequent to June 30, 2012.

NOTE 4. RELATED PARTY TRANSACTIONS

MHESAC has entered into agreements with Student Assistance Foundation of Montana (SAF) to provide management and loan servicing to MHESAC. SAF has one of its nine Board members in common with the Corporation's seven Board members. Effective February 1, 2000, the Corporation 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, to SAF. On August 3, 2011 the note for the sale of land and building between MHESAC and SAF was paid in full in the amount of $1,868,513.

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. 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. 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. During the year ended June 30, 2012, MSLF transferred the loan portfolio to Citicorp in a consensual relinquishment to satisfy its obligations. MHESAC subsequently acquired this portfolio in an unrelated transaction.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE

Educational Loan Revenue Bonds Payable:
The bonds outstanding are summarized in the table below.

Bonds outstanding at June 30, 2012	$ 1,380,963,468
Bond discount amortization during the year	2,643,180
Bonds redeemed during the year	(161,322,000)
Bonds outstanding	1,222,284,648
Less: internal 2012 bond holding	(19,500,000)
Bonds outstanding at June 30, 2013	$ 1,202,784,648

A description of significant terms and conditions of each Student Loan Revenue Bond issue outstanding at June 30, 2013 follows:

Issue	Year End Interest Rate	Original Issue Amount	June 30, 2013
Taxable Floating Rate Bonds:			
2005 Series B Bonds	0.392%	$ 114,880,000	$ 83,320,000
2006 Series A Bonds	0.372%	226,775,000	109,104,000
2006 Series C Bonds **	1.392%	30,000,000	18,000,000
2012 Series A-1 Bonds	.792%	191,000,000	66,636,000
2012 Series A-2 Bonds	1.192%	649,000,000	649,000,000
2012 Series A-3 Bonds	1.242%	305,300,000	305,300,000
2012 Series B-1 **	1.392%	19,500,000	19,500,000
Total Bonds		1,536,455,000	1,250,860,000
Less Discount		(31,626,846)	(28,575,352)
TOTAL BONDS		$ 1,504,829,154	$ 1,222,284,648

The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. All of the outstanding bonds are taxable.

** These bonds are classified as subordinate bonds and all other bonds reported have payment and certain other priorities over these bonds.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Issue	Original Issue Date	Average Interest Rate from Issuance Date to Current	Maturity Date	Interest Due Status	Variable Rate Basis	June 30, 2013
2005 Senior Series B	5/26/2005	2.43%	6/20/2030	Quarterly	3 month LIBOR + 12 basis points	$ 83,320,000
2006 Senior Series A	5/3/2006	2.34%	3/20/2024	Quarterly	3 month LIBOR + 10 basis points	109,104,000
2006 Subordinate Series C	5/3/2006	1.42%	12/20/2044	monthly	1 month LIBOR + 120 basis points	18,000,000
2012 Senior Series A1	5/4/2012	0.85%	9/20/2022	monthly	1 month LIBOR + 60 basis points	66,636,000
2012 Senior Series A-2	5/4/2012	1.22%	5/20/2030	monthly	1 month LIBOR + 100 basis points	649,000,000
2012 Senior Series A-3	5/4/2012	1.27%	7/20/2043	monthly	1 month LIBOR + 105 basis points	305,300,000
2012 Subordinate Series B-1	5/4/2012	1.42%	12/20/2044	monthly	1 month LIBOR + 120 basis points	19,500,000
						$ 1,250,860,000

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Additional Information on Series 2005 – 2006 Bonds:

2005 Series B Student Loan Revenue Bonds
The 2005 Series B Bonds have targeted principal balance reduction schedules as follows:

2005 B Senior Bonds

Targeted Principal Reduction Date	Targeted Principal Reduction Amount	Targeted Principal Reduction Date	Targeted Principal Reduction Amount
September 20, 2013	$ 3,666,000	June 20, 2017	$ 2,776,000
December 20, 2013	3,623,000	September 20, 2017	2,731,000
March 20, 2014	3,577,000	December 20, 2017	2,699,000
June 20, 2014	3,503,000	March 20, 2018	2,670,000
September 20, 2014	3,416,000	June 20, 2018	2,640,000
December 20, 2014	3,374,000	September 20, 2018	2,610,000
March 20, 2015	3,335,000	December 20, 2018	2,580,000
June 20, 2015	3,089,000	March 20, 2019	2,551,000
September 20, 2015	3,029,000	June 20, 2019	2,523,000
December 20, 2015	2,989,000	September 20, 2019	2,494,000
March 20, 2016	2,954,000	December 20, 2019	2,465,000
June 20, 2016	2,919,000	March 20, 2020	2,437,000
September 20, 2016	2,884,000	June 20, 2020	2,345,000
December 20, 2016	2,850,000	September 20, 2020	1,773,000
March 20, 2017	2,818,000		

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Additional Information on Series 2005 – 2006 Bonds (Continued):

2006 Series A Student Loan Revenue Bonds
The 2006 Series A Bonds have a targeted principal balance reduction schedule as follows:

2006 A Senior Bonds

Targeted Principal Reduction Date	Targeted Principal Reduction Amount	Targeted Principal Reduction Date	Targeted Principal Reduction Amount
September 20, 2013	$ 6,846,000	March 20, 2016	$ 6,809,000
December 20, 2013	6,969,000	June 20, 2016	6,639,000
March 20, 2014	6,967,000	September 20, 2016	6,228,000
June 20, 2014	6,966,000	December 20, 2016	6,166,000
September 20, 2014	6,923,000	March 20, 2017	6,005,000
December 20, 2014	6,990,000	June 20, 2017	5,672,000
March 20, 2015	6,928,000	September 20, 2017	2,109,000
June 20, 2015	7,043,000		
September 20, 2015	6,910,000		
December 20, 2015	6,934,000		

Additional Information on Series 2012 Bonds:
The 2012 Series A1, A2, A3 and B1 Student Loan Revenue Bonds, issued May 4, 2012, were taxable issues with the proceeds used to purchase loans from the other financings to provide funds to retire all outstanding bond issues of the indenture except the 2005 Series B, the 2006 Series A bonds, and a portion of the 2006 Series C bonds as well as to purchase an external loan portfolio. See Redemptions section below for details. The Series 2012-A2 and Series 2012-A3 were issued at a discount of $8,701,565 and $22,924,281, respectively.

MHESAC owns $19,500,000 of the 2012 series subordinate bonds as an investment and this amount is eliminated from the financial statements.

Series 2012 -A1 Student Loan Revenue Bonds
The targeted principal reduction amount for the Series 2012 A-1 Bonds were not fully met for June 20, 2013. The anticipated principal reduction amount for July 20, 2013 includes $66,636,000 in carry over principal reduction. This will be paid before principal payments on the 2012 A-2 or 2012 A-3 bonds will be made.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Additional Information on Series 2012 Bonds (Continued):

Series 2012 –A2 Student Loan Revenue Bonds

The Series 2012-A2 Bonds have a targeted principal balance reduction schedule as follows:

Series 2012-A2 Senior Bonds

Targeted Principal Reduction Date	Targeted Principal Reduction Amount	Targeted Principal Reduction Date	Targeted Principal Reduction Amount
July 20, 2013	$101,039,878	May 20, 2015	$13,853,049
August 20, 2013	20,241,019	June 20, 2015	6,401,435
September 20, 2013	13,384,513	July 20, 2015	15,928,181
October 20, 2013	23,347,332	August 20, 2015	12,977,371
November 20, 2013	19,201,629	September 20, 2015	5,385,060
December 20, 2013	12,107,042	October 20, 2015	14,970,456
January 20, 2014	22,031,852	November 20, 2015	12,239,865
February 20, 2014	19,008,051	December 20, 2015	4,603,386
March 20, 2014	11,791,352	January 20, 2016	14,067,230
April 20, 2014	21,838,284	February 20, 2016	11,544,513
May 20, 2014	17,943,750	March 20, 2016	3,942,792
June 20, 2014	10,850,583	April 20, 2016	13,233,845
July 20, 2014	20,535,721	May 20, 2016	10,840,479
August 20, 2014	16,773,531	June 20, 2016	3,587,267
September 20, 2014	9,587,644	July 20, 2016	12,411,469
October 20, 2014	19,353,450	August 20, 2016	10,202,210
November 20, 2014	15,842,406	September 20, 2016	2,899,013
December 20, 2014	8,497,837	October 20, 2016	11,648,115
January 20, 2015	18,208,800	November 20, 2014	9,609,716
February 20, 2015	14,827,625	December 20, 2016	2,349,795
March 20, 2015	7,264,774	January 20, 2017	10,933,296
April 20, 2015	17,047,574	February 20, 2017	4,646,812

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Additional Information on Series 2012 Bonds (Continued):

Series 2012 –A2 Student Loan Revenue Bonds

The targeted principal reduction amount for the Series 2012 A-2 Bonds were not fully met for June 20, 2013. The anticipated principal reduction amount for July 20, 2013 includes $76,348,943 in carry over principal reduction.

Series 2012 –A3 Student Loan Revenue Bonds

The Series 2012-A3 Bonds have a targeted principal balance reduction schedule as follows:

Series 2012-A3 Senior Bonds

Targeted Principal Reduction Date	Targeted Principal Reduction Amount	Targeted Principal Reduction Date	Targeted Principal Reduction Amount
February 20, 2017	$ 4,420,655	December 20, 2018	$ 4,041,085
March 20, 2017	2,031,967	January 20, 2019	6,447,586
April 20, 2017	10,260,336	February 20, 2019	5,463,939
May 20, 2017	8,467,935	March 20, 2019	3,638,337
June 20, 2017	4,960,051	April 20, 2019	6,030,601
July 20, 2017	9,574,988	May 20, 2019	5,083,170
August 20, 2017	7,903,171	June 20, 2019	3,247,277
September 20, 2017	6,447,112	July 20, 2019	5,501,777
October 20, 2017	8,926,668	August 20, 2019	4,656,822
November 20, 2017	7,431,253	September 20, 2019	2,787,011
December 20, 2017	5,880,390	October 20, 2019	5,090,526
January 20, 2018	8,370,507	November 20, 2019	4,332,478
February 20, 2018	6,999,771	December 20, 2019	2,405,662
March 20, 2018	5,369,596	January 20, 2020	4,732,617
April 20, 2018	7,847,358	February 20, 2020	4,050,268
May 20, 2018	6,558,695	March 20, 2020	2,182,795
June 20, 2018	4,907,581	April 20, 2020	4,430,949
July 20, 2018	7,347,293	May 20, 2020	3,793,029
August 20, 2018	6,169,118	June 20, 2020	2,464,205
September 20, 2018	4,466,081	July 20, 2020	4,137,556
October 20, 2018	6,884,938	August 20, 2020	3,561,109
November 20, 2018	5,807,462	September 20, 2020	3,959,934

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Additional Information on Series 2012 Bonds (Continued):

Series 2012 –A3 Student Loan Revenue Bonds (Continued)
Series 2012-A3 Senior Bonds (Continued)

Targeted Principal Reduction Date	Targeted Principal Reduction Amount	Targeted Principal Reduction Date	Targeted Principal Reduction Amount
October 20, 2020	$ 3,867,935	November 20, 2021	$ 2,331,823
November 20, 2020	3,345,148	December 20, 2021	2,545,363
December 20, 2020	3,694,038	January 20, 2022	2,468,867
January 20, 2021	3,605,591	February 20, 2022	2,162,661
February 20, 2021	3,134,857	March 20, 2022	2,356,852
March 20, 2021	3,401,402	April 20, 2022	2,302,981
April 20, 2021	3,320,162	May 20, 2022	2,018,126
May 20, 2021	2,768,533	June 20, 2022	2,182,983
June 20, 2021	3,047,140	July 20, 2022	2,131,166
July 20, 2021	2,965,778	August 20, 2022	1,869,680
August 20, 2021	2,517,167	September 20, 2022	2,011,468
September 20, 2021	2,770,358	October 20, 2022	731,128
October 20, 2021	2,677,134		

Acquisition and Retirements:
During the year ended June 30, 2013, the Corporation had targeted payments, scheduled redemptions and extinguishment of student loan revenue bonds. These redemptions are summarized in the tables below:

Scheduled Redemptions:

Bond Series	*Redemption Date*	*Redemption Amount*
2005 Series B	09/20/2012	$ 3,906,000
2006 Series A	09/20/2012	6,682,000
2005 Series B	12/20/2012	3,849,000
2006 Series A	12/20/2012	6,839,000
2005 Series B	03/20/2013	3,788,000
2006 Series A	03/20/2013	6,893,000
2005 Series B	06/20/2013	3,715,000
2006 Series A	06/20/2013	6,890,000

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Acquisition and Retirements (Continued):

Scheduled Redemptions (Continued):

Bond Series	*Redemption Date*	*Redemption Amount*
2012 Series A1	07/20/2012	9,503,000
2012 Series A1	08/20/2012	23,231,000
2012 Series A1	09/20/2012	16,259,000
2012 Series A1	10/20/2012	2,509,000
2012 Series A1	11/20/2012	14,118,000
2012 Series A1	12/20/2012	8,168,000
2012 Series A1	01/20/2013	188,000
2012 Series A1	02/20/2013	9,389,000
2012 Series A1	03/20/2013	12,441,000
2012 Series A1	04/20/2013	1,362,000
2012 Series A1	05/20/2013	12,617,000
2012 Series A1	06/20/2013	8,975,000

Summary of Maturities:
The following is a summary of stated maturities on long-term debt. Interest is calculated using the average bond interest rate since bond issuance dates:

Year Ending June 30	Revenue Bonds Payable	Interest	Total
2014	$ 401,538,292	$ 17,497,707	$ 419,035,999
2015	209,291,846	12,347,963	221,639,809
2016	162,503,441	9,316,535	171,819,976
2017	130,240,366	6,497,573	136,737,939
2018	99,066,089	3,772,887	102,838,976
2019-2023	210,719,966	6,715,882	217,435,848
2024-2028	-	2,666,100	2,666,100
2029-2033	-	2,666,100	2,666,100
2034-2038	-	2,666,100	2,666,100
2039-2043	18,000,000	2,003,940	20,003,940
2044-2045	19,500,000	392,275	19,892,275
Total	$1,250,860,000	$66,543,062	$ 1,317,403,062

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Compliance:
The bond indenture contains several covenants. These covenants include minimum reserve requirements, restrictions and limitations related to administrative expenses and requirements for the purchase of educational loans. The Corporation is substantially in compliance with the covenants of the bond indenture outstanding at June 30, 2013.

Per the indenture, when the average of the Monthly Senior Trigger Percentage on each of the 6 months preceding monthly payment dates is less than 101.45% or if the average of the Monthly Subordinate Trigger Percentage on each of the 6 monthly payment date is less than 90.00%, then no interest will be paid to the subordinate bonds. In January and February of 2013, the trigger percentages were not met. Interest is accrued monthly using One-Month LIBOR plus 1.2%, until all bonds are paid. The amount of carryover in the 2006C subordinate and the 2012 B subordinate at June 30, 2013 is $43,875 and $47,531, respectively.

Bond Ratings:
On September 28, 2010, MHESAC was notified that Fitch Ratings, one of the three rating agencies that issue ratings on MHESAC bonds, lowered its rating of all subordinate bonds from A/LS3 to B/LS3, with a stable outlook. At that time, Fitch again affirmed the AAA rating of all senior bonds. The impact of the ratings action was a change in the mechanism for calculating the periodic interest rate on the auction rate subordinate bonds resulting in higher interest until those bonds were redeemed in May 2012. As of June 30, 2013 all outstanding MHESAC Senior bonds are rated AAA by Fitch Ratings and are rated AA+ by Standard & Poor's Ratings Services. The 2005B and 2006A bonds are also rated Aaa by Moody's. The outstanding subordinate bonds are unrated.

NOTE 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation follows the guidance established for measuring fair value under GAAP and related disclosure requirements. As such fair value is considered 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.

NOTE 6. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value hierarchy 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 are the assets and liabilities measured on a recurring basis as of and for the year ended June 30, 2013. There were no transfers between Levels 1, 2 or 3 in 2013. There were no financial instruments classified as Level 1 or Level 3 at June 30, 2013.

Financial Instrument	Carrying Value	Fair Value	Significant Other Observable Inputs (Level 2)
2013:			
Assets:			
Investment Securities			
Federal Home Loan Bank Notes	$ 599,557	$ 559,557	$ 599,557

The following valuation methods are used to determine the fair value of the above items on a recurring basis, which did not change in 2013.

Investment Securities and Contracts:
Fair value for securities and balances of investment contracts are based on market prices provided by the Bond Trustee managing the investments or the contract provider (market approach).

NOTE 6. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

GAAP also requires disclosure of estimated fair values for other financial instruments recognized at amounts other than fair value and the methods used to determine those values at June 30, 2013:

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 37,710,463	$ 37,710,463
Interest receivable	15,999,369	15,999,369
Educational loans receivable	1,261,420,408	1,285,857,878
Total financial assets	$ 1,315,130,240	$ 1,339,567,710
Financial liabilities:		
Interest payable	$ 406,584	$ 406,584
Educational bonds payable	1,222,284,648	1,221,412,742
Total financial liabilities	$ 1,222,691,232	$ 1,221,819,326

The following is a description of the methods used to estimate the above fair values:

Cash and Cash Equivalents:
The carrying amount for cash and cash equivalents is considered to approximate fair value at June 30, 2013.

Interest Receivable and Payable:
The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2013, given their short-term nature.

Educational Loans Receivable:
The fair value was estimated by reference to sale information from the limited marketplace and by discounting the future cash flows using current rates of return on similar assets (market approach). A number of significant inputs into the models are internally derived and not observable to market participants. External verification of cash flow values for a recent loan portfolio acquisition supports the inputs and methodology of this valuation.

Educational Bonds Payable:
The Corporation's subordinate bonds consist of floating rate debt at June 30, 2013. The estimated fair value of bonds was determined by discounting the cash flows using current market rates (income approach). The fair value of floating rate senior Educational Loan Revenue Bonds is based on the brokered market for those bonds at June 30, 2013 (market approach).

NOTE 7. COMMITMENTS AND CONTINGENCIES

Management and Servicing Agreements:
MHESAC has entered into management and servicing agreements with Student Assistance Foundation of Montana (SAF). SAF will provide portfolio servicing for a term equal to the 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 will be 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 those costs.

For each successive three-year period the mark-up percentage of such costs will be 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.

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 year ended June 30, 2013, SAF billed MHESAC $13,297,019. At June 30, 2013, the reconciliation for billed and actual costs resulted in a balance payable to SAF of $337,186. This balance is included in Accounts Payable balances.

Supplemental Indenture:
As part of the Nineteenth Supplemental Indenture of Trust executed on July 15, 2011, the indenture trustee was appointed as back-up administrator of MHESAC in the event Student Assistance Foundation of Montana (SAF) is unable to perform its administrative duties. As back-up administrator the trustee will be entitled to a back-up administrator fee. SAF remains the trust administrator and servicer.

NOTE 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 13, 2013, the date which the financial statements were available for issue and did not identify any further events to disclose.

ACCOMPANYING INFORMATION

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
COMBINING SCHEDULE OF ASSETS, LIABILITIES AND FUND NET POSITION UNDER RESTRICTED BOND INDENTURES
June 30, 2013
(expressed in thousands)

	2005 REVENUE BONDS	2006-1 REVENUE BONDS	2012 REVENUE BONDS	GRAND TOTAL
ASSETS				
Cash and cash equivalents	$ 3,913	$ 7,146	$ 16,238	$ 27,297
Educational loans receivable, net	138,332	169,800	919,805	1,227,937
Accrued interest receivable	782	956	13,806	15,544
Inter-fund Activity	(30,913)	(22,338)	53,251	-
Prepaid costs, net	2	3	21	26
Other assets	30	102	697	829
Total assets	$ 112,146	$ 155,669	$ 1,003,818	$ 1,271,633
LIABILITIES AND FUND NET POSITION				
LIABILITIES				
Accounts payable and accrued expenses	$ 145	$ 218	$ 5,294	$ 5,657
Accrued interest payable	10	12	476	498
Educational loan revenue bonds payable	83,320	127,104	1,011,861	1,222,285
Total liabilities	83,475	127,334	1,017,631	1,228,440
FUND NET POSITION				
Restricted fund net position (deficit)	28,671	28,335	(13,813)	43,193
Total liabilities and fund net position	$ 112,146	$ 155,669	$ 1,003,818	$ 1,271,633

See Independent Auditor's Report.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
COMBINING SCHEDULE OF REVENUE, EXPENSE AND CHANGE IN
FUND NET POSITION UNDER RESTRICTED BOND INDENTURES
June 30, 2013
(expressed in thousands)

	2005 REVENUE BONDS	2006-1 REVENUE BONDS	2012 REVENUE BONDS	GRAND TOTAL
REVENUE				
Interest income on investments and cash equivalents	$ 3	$ 5	$ 17	$ 25
Interest on educational loans	4,720	5,353	30,719	40,792
	4,723	5,358	30,736	40,817
EXPENSE				
Bond and note interest	446	577	16,084	17,107
Bond fees	20	32	174	226
Loan fees	1,513	1,849	7,220	10,582
Contracted management fees	30	36	200	266
Contracted loan servicing fees	861	1,057	5,811	7,729
	2,870	3,551	29,489	35,910
Excess of revenue over expense before transfers	1,853	1,807	1,247	4,907
Transfers from other funds	-	2	-	2
Excess (deficiency) of revenue over expense	1,853	1,809	1,247	4,909
FUND NET POSITION (DEFICIT) BEGINNING OF YEAR	26,818	26,526	(15,059)	38,285
FUND NET POSITION (DEFICIT), END OF YEAR	$ 28,671	$ 28,335	$ (13,812)	$ 43,194