MONTANA HIGHER EDUCATION

STUDENT ASSISTANCE CORPORATION

FINANCIAL REPORT

JUNE 30, 2009

C O N T E N T S

anderson ZURMUEHLEN

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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 balance sheet of the Montana Higher Education Student Assistance Corporation (the Corporation) as of June 30, 2009, and the related statements of revenue, expense and changes in fund net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2008 is presented for comparative purposes and was extracted from the financial statements presented by fund for that year, on which an unqualified opinion dated August 30, 2008, was expressed.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly the financial position of the Montana Higher Education Student Assistance Corporation as of June 30, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Anderson ZurMuehlen & Co., P.C.

Helena, Montana
September 11, 2009

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2009 and Comparative Totals for June 30, 2008

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, 2009 and 2008. 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 activities include FFELP student loan acquisition, origination and servicing; bond issuance to raise 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 issues 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 balance sheet, which reports the assets owned by MHESAC, its liabilities or what it owes to others and total fund net assets as of its fiscal year end; the statement of revenues, expenses and changes in fund net assets, which reports the operating net income plus non-operating revenue and expenses to arrive at a change in fund net assets; 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 assets. Restricted refers to the assets and net assets whose use is restricted by the bond indentures. The restricted assets must be used in accordance with stipulations in the governing bond indenture. They cannot be used for any other purpose. Unrestricted assets and fund net assets are items that are not restricted in their use, what we call the general fund. These unrestricted assets were either acquired outside of the bond indentures through general fund operations or from previously restricted funds that have now been released to the general fund via indenture satisfaction such as full redemption of outstanding bond issues.

Financial Position Summary

Following is an analysis of MHESAC's financial position at June 30, 2009 with comparative information at June 30, 2008 (000's omitted):

Assets:	**6/30/2009**	6/30/2008
Cash and cash equivalents	**$ 139,442**	$ 175,666
Investments	**88,386**	197,638
Educational loans receivable, net	**1,575,654**	1,478,638
Other assets	**66,486**	71,808
Total Assets	**$ 1,869,968**	$ 1,923,750
Liabilities and Net Assets:		
Current liabilities	**$ 67,560**	$ 49,426
Long term debt and obligations	**1,773,187**	1,830,662
Other liabilities		
Fair value of swap agreements	**450**	1,987
Arbitrage rebate and excess interest liability	**7,043**	11,484
Total other liabilities	**7,493**	13,471
Total liabilities	**1,848,240**	1,893,559
Net assets		
Restricted net assets	**(2,009)**	4,356
Unrestricted net assets	**23,737**	25,835
Total net assets	**21,728**	30,191
Total liabilities and net assets	**$ 1,869,968**	$ 1,923,750

At June 30, 2009 MHESAC had cash and cash equivalents of over $139 million of which approximately $2.2 million is unrestricted and $137.2 million is restricted under the bond and note indentures. The cash equivalents in the restricted fund are made of cash temporarily held by the trustee in short-term investments until the funds can be invested in the guaranteed investment contracts and the funds from the 2007 bond financing that are being held in liquid investments. The indentures define how cash is to be handled within the restricted funds and there are guaranteed investment contracts associated with most bond issues that invest all funds until needed for debt payments, loan acquisitions or servicing and management costs.

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

	Montana	Non-Montana	Total
Stafford	$ 441,938,963	$ 16,350,549	$ 458,289,512
PLUS	40,116,638	2,824,080	42,940,718
Consolidation	632,220,508	442,480,859	1,074,701,367
Other	327,595	-	327,595
Total	$ 1,114,603,704	$ 461,655,488	$1,576,259,192

During the fiscal year ended June 30, 2008, the re-insurance rate from the Department of Education on the loans guaranteed by the Federal Family Loan Program was reduced from 99% to 97%. Accordingly, MHESAC increased the reserve for bad debts during the year. The reserve, which is netted against the student loans receivable for financial statement presentation increased from $589,666 to $604,279 to reflect the greater exposure to the risk of default on the loans due to the increase in the portfolio.

Results of Operations Summary

MHESAC is reporting an operating loss of $12,927,000 for the fiscal year ended June 30, 2009. Note the following analysis of operating revenue and expense sources followed by non-operating revenues (expenses) (000s omitted):

Operating Revenue Sources

	FY Ended 06/30/09	FY Ended 06/30/08
Interest on investments	**$ 6,163**	$ 17,639
Interest on student loans	**67,401**	95,432
Gain on bond repurchase	**109**	-
Other income	**191**	216
Total operating revenue	**73,864**	113,287

Results of Operations Summary (Continued)

Operating Expense Sources

	FY Ended 06/30/09		FY Ended 06/30/08
Bond and note interest		**49,186**		87,596
Bond fees		**2,511**		2,823
Loan fees		**18,274**		16,631
Management & servicing cost		**15,914**		16,456
Other costs		**906**		1,137
Total operating expenses		**86,791**		124,643
Operating loss		**(12,927)**		(11,356)
Non-Operating Revenues (Expenses)				
Arbitrage rebate	**$**	**(430)**	$	(345)
Excess interest rebate		**3,358**		4,631
Change in fair value of interest rate swaps		**1,536**		(1,176)
Total non-operating revenues (expenses)		**4,464**		3,110
Decrease in net assets		**(8,463)**		(8,246)
Fund net assets, beginning of year		**30,191**		38,437
Fund net assets, end of year	**$**	**21,728**	$	30,191

Arbitrage and excess interest rebate revenue and expenses in the amount of $430,000 (expense) and $3,358,000 (income), respectively, for fiscal year 2009 have been classified as non-operating activity. This is consistent with the treatment for the same expenses 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 08 to FY 09:

- Cash and equivalents decreased by $36,224,000
- Net student loan receivables increased by $97,016,000
- Investments decreased by $109,252,000
- Long term debt consisting of bonds outstanding decreased by $57,475,000

Results of Operations Summary (Continued)

- The liability for the fair market value of the swaps decreased by $1,537,000
- MHESAC's net assets decreased by $8,463,000
- Total operating revenues decreased by $39,424,000
- Total operating expenses decreased by $37,854,000

What the financial statements tell us is that MHESAC's financial health was weakened during fiscal year 2009 in terms of its operating activities. This happened through a combination of decreasing operating revenues, the continuing bond market crisis and the ongoing impact of changes to federal regulations in the FFELP program.

Operating revenues from the student loans are variable in nature and are based on the commercial paper rate. As the commercial paper rate decreased over the course of the fiscal year, so too did the revenue generated on those assets.

During the year, MHESAC's auction bonds continued to fail in their periodic auction. What this means is that bondholders wishing to sell their position in MHESAC bonds could not sell because there were no buyers in the market. When this happens, the auction is deemed to have failed.

All of the twenty-two series of tax-exempt auction bonds failed on their reset dates during the fiscal year. MHESAC experienced the first tax-exempt auction failures on February 11, 2008 and every auction thereafter failed. When the tax-exempt auctions fail, the bond resets at a prescribed rate, called Maximum Bond Rate that during the reporting period was based on 175% of either the SIFMA index or the after-tax equivalent of the AA commercial paper rate.

The first taxable auction bonds failed on February 13, 2008 and all have failed since then. The Max Rate on the senior taxable bonds is 30-day LIBOR plus 1.5% and for the subordinate taxable bonds is 30-day LIBOR plus 2.5%. These are the rates that the bonds are accruing based on the Max Rate formula.

However, there is another rate called the Net Loan Rate that defines how interest on taxable auction bonds will actually be paid out. Those rates were between 0.0% and 1.36% at June 30, 2009. The difference between the two rates is accrued for carry-forward and eventual payout to the bondholder.

MHESAC continues to work toward restructuring its auction rate bonds but to date has not had any progress based on the illiquidity that continues to impact the bond markets in general.

The Variable Rate Demand Obligations (VRDOs) that were issued in December 2007 were backstopped by a liquidity facility in the form of a standby bond purchase agreement. Essentially, if a bondholder puts a VRDO for sale on a reset date, and there are no other interested buyers at that time, the liquidity provider, Depfa Bank, will guarantee liquidity to the bondholder. On September 30, 2008, Moody's downgraded Depfa Bank. The result was that all bondholders put their bonds for sale requiring Depfa to buy them. The bonds then became bank bonds and revert to a set of rules prescribed in the bond indenture. The rate on these bonds now is based on LIBOR and there are provisions for different rates in the future. The documents also call for a mandatory 30 year amortization on the bonds with payments being made every June 1 and December 1.

As noted above, the liability for the fair value of the swaps decreased in FY 2009 after a significant increase in FY 2008. This was due to the decrease of market interest rates during FY 2009 and the limited remaining life of the swaps. We feel this merits additional discussion because although it is a non-cash item, it has significant impact on the financial statements. MHESAC entered into interest rate swap agreements to hedge the risks relating to the changes in interest rates on auction rate bonds that are secured by fixed rate loans thereby matching our assets and related liabilities and locking in a spread on the underlying student loans. Accounting principles require us to value the swaps at fair value at the balance sheet date. This value is called the "mark to market" value and it fluctuates each month as assumptions about future interest rates change. It is important to point out that this "mark to market" value is what MHESAC would receive or pay to terminate the swap agreements at the reporting date. At June 30, 2009, this liability is $450,512 and represents a decrease in the liability which was $1,986,855 at June 30, 2008. This liability would only be realized if the swap agreements were terminated.

Long-term Debt Activity

MHESAC issues 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. All bonds issued and outstanding are rated by at least two of the national rating agencies. The senior bonds all carry a "AAA" rating and all subordinate bonds carry an "A" rating.

During the year there were no changes in the ratings of MHESAC's bonds. During the fiscal year Fitch affirmed the ratings on all MHESAC bonds.

In the fiscal year that ended June 30, 2009, MHESAC redeemed some outstanding bonds through both scheduled redemptions and special redemptions. MHESAC also retired some bonds after buying them back on the open market. Scheduled redemptions totaled $35,841,000. Special redemptions totaled $1,200,000. Redemptions of the bank bonds (VRDOs) were $5,840,000. Bonds totaling $700,000 were purchased on the market and retired. In total, bonds redeemed and retired were $43,581,000. An analysis of the change to bonds outstanding follows:

	Current Portion	Long-term Portion
Bonds outstanding at 7/01/08	$ 41,731,000	$ 1,830,661,627
Scheduled redemption and targeted payments of 1995,1998, 1999, 2000, 2005 and 2006 Series bonds	(35,841,000)	-
Special redemption of 2000, 2001, 2002, and 2003 Series bonds	-	(1,200,000)
Redemption of 2007 VRDOs from amortization provision for bank bonds.	-	(5,840,000)
Buyback of 2001 Series bonds	-	(700,000)
Accretion of zero coupon bonds	-	188,219
Reclassification to current	49,923,000	(49,923,000)
Bonds outstanding at 6/30/09	$ 55,813,000	$ 1,773,186,846

Following is a table showing the face amount of total bonds outstanding by bond type and the amounts that were auction rate bonds:

	6/30/2009 Par Value	% of Total	6/30/2008 Par Value	% of Total
Auction Rate Bonds:				
Tax-Exempt	$1,151,200,000	62.9%	$1,151,200,000	61.5%
Taxable	96,500,000	5.3%	98,400,000	5.3%
Fixed Rate Bonds				
Tax-Exempt	47,545,000	2.7%	51,825,000	2.7%
Floating Rate Notes				
Taxable	364,652,000	19.9%	396,213,000	21.2%
Variable Rate Demand Obligations				
Tax-Exempt	169,160,000	9.2%	175,000,000	9.3%

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
BALANCE SHEETS
June 30, 2009 and comparative totals for 2008
(expressed in thousands)

ASSETS	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	$ 2,203	$ 1,081
Investments	884	855
Accrued interest receivable	200	300
Real estate loan receivable, related party	163	117
Prepaid costs, net of accumulated amortization	468	703
Other assets	8	3
Total current assets	3,926	3,059
RESTRICTED ASSETS		
Cash and cash equivalents	137,239	174,585
Investments	87,502	196,783
Educational loans receivable, net	1,569,768	1,472,170
Accrued interest receivable	22,761	23,627
Prepaid costs, net of accumulated amortization	28,051	30,745
Other assets	922	1,353
	1,846,243	1,899,263
OTHER ASSETS		
Educational loans receivable, net	5,886	6,470
Deferred bond issuance costs, net of accumulated amortization of $5,617,775 in 2009 and $4,734,264 in 2008	11,852	12,735
Real estate loan receivable, related party	2,061	2,223
	19,799	21,428
TOTAL ASSETS	$ 1,869,968	$ 1,923,750

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

LIABILITIES AND NET FUND ASSETS	**2009**	2008
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 6,634**	$ 2,670
Accrued interest payable	**4,870**	4,811
Other liabilities	**243**	214
Educational loan revenue bonds payable - current portion	**55,813**	41,731
Total current liabilities	**67,560**	49,426
LONG-TERM DEBT		
Educational loan revenue bonds payable	**1,773,187**	1,830,662
	1,773,187	1,830,662
OTHER LIABILITIES		
Fair value of swap agreements	**450**	1,987
Contingent arbitrage rebate liability	**5,200**	5,804
Contingent excess interest liability	**1,843**	5,680
	7,493	13,471
TOTAL LIABILITIES	**1,848,240**	1,893,559
FUND NET ASSETS		
Restricted net assets	**(2,009)**	4,359
Unrestricted net assets	**23,737**	25,832
	21,728	30,191
TOTAL LIABILITIES AND FUND NET ASSETS	**$ 1,869,968**	$ 1,923,750

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2009 and comparative totals for 2008
(expressed in thousands)

	2009	2008
OPERATING REVENUE		
Interest on investments and cash equivalents	$ 6,163	$ 17,639
Interest on educational loans (net of expense for uncollectible accounts of $16,210 in 2009 and $452,323 in 2008)	67,401	95,432
Gain on bond repurchase	109	-
Interest on real estate note	191	216
	73,864	113,287
OPERATING EXPENSE		
Financing expenses:		
Bond and note interest	49,186	87,596
Amortization of bond issuance costs	884	1,114
Auction agent/broker fees	1,923	2,306
Bond fees	588	517
Loan fees	18,274	16,631
Contracted management fees	2,925	6,748
Contracted loan servicing fees	12,989	9,708
Administrative expenses	22	23
	86,791	124,643
Operating loss	(12,927)	(11,356)
NONOPERATING REVENUES (EXPENSES)		
Arbitrage rebate	(430)	(345)
Excess interest rebate	3,358	4,631
Change in fair value of interest rate swaps	1,536	(1,176)
Nonoperating Revenues (Expenses)	4,464	3,110
DECREASE IN NET ASSETS	(8,463)	(8,246)
FUND NET ASSETS, BEGINNING OF YEAR	30,191	38,437
FUND NET ASSETS, END OF YEAR	$ 21,728	$ 30,191

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2009 and comparative totals for 2008
(expressed in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received on student loans	$ 53,924	$ 86,678
Interest received on investments	6,916	18,952
Interest received on real estate and operating notes	191	216
Bond and note interest paid	(46,632)	(86,668)
Cash paid to interest rate swap counterparties	(2,470)	(882)
Auction agent/broker fees paid	(1,954)	(2,046)
Bond fees paid	(409)	(682)
Loan fees paid	(15,399)	(18,371)
Contracted management & servicing fees paid	(15,453)	(16,954)
Administrative expenses paid	(82)	(52)
Net cash used in operating activities	(21,368)	(19,809)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of educational loans	(181,845)	(230,277)
Repayments of educational loans	102,126	157,366
Repayments of loans on sale of assets	117	93
Purchase of investments	(390,003)	(651,612)
Proceeds from sale of investments	499,256	826,806
Net cash provided by investing activities	29,651	102,376
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Issuance of bonds	-	175,000
Arbitrage rebate paid	(1,033)	-
Repayment of bonds	(43,473)	(102,892)
Repayment of notes	-	(5,000)
Payment of bond issuance costs	(1)	(1,344)
Net cash provided by (used in) financing activities	(44,507)	65,764
Net increase (decrease) in cash and equivalents	(36,224)	148,331
Cash and cash equivalents, beginning of year	175,666	27,335
Cash and cash equivalents, end of year	$ 139,442	$ 175,666

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

	2009	2008
A reconciliation of cash and cash equivalents as shown on the balance sheet for MHESAC follows:		
Cash	$ 2,203	$ 1,081
Restricted assets	137,239	174,585
Cash and cash equivalents	$ 139,442	$ 175,666

A reconciliation of operating income to cash provided by operating activities follows:

	2009	2008
Cash Flows From Operating Activities:		
Operating loss	$ (12,927)	$ (11,356)
Adjustments to reconcile operating loss to net cash provided by operations:		
Amortization of bond issuance costs	884	1,114
Uncollectible accounts expense	(16)	(452)
Zero coupon bond accretion	188	310
Change in assets and liabilities:		
Interest receivable	(16,780)	(8,423)
Other assets	3,308	(1,960)
Accounts payable and accrued expenses	3,915	1,070
Accrued interest payable	60	(112)
Net cash used in operating activities	$ (21,368)	$ (19,809)

	2009	2008
Supplemental Information:		
Non-cash Investing and Financing Activity:		
Accrued interest capitalized	$ 17,741	$ 15,187
Value of swap	1,536	(1,176)
Student loan borrower rebates granted	481	462
	$ 19,758	$ 14,473

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 is organized exclusively for the purposes of lending and providing funds for the acquisition of student loans and performing procedures for servicing 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 acquisition program and to perform the Corporation's responsibilities under the Indentures, 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation:
As a non-profit entity that issues tax-exempt debt, MHESAC is classified as a "governmental nonprofit" entity. The Corporation implemented the Governmental Accounting Standards Board (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.

MHESAC follows proprietary fund reporting. Accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual method of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Private-sector standards, including FASB Statements and Interpretations issued after November 30, 1989, are generally followed, provided they do not conflict with or contradict guidance of the GASB. The Balance Sheet is presented in a classified format and separates unrestricted and restricted assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets 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, educational loans, 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 accounting principles generally accepted in the United States of America 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. The fair value of the interest rate swap agreements are based on estimates about future LIBOR, SIFMA and bond auction rates, the indices to which the variable rates are tied. Due to current interest rate fluctuations, it is at least reasonably possible that actual indices will differ from the estimates used, resulting in a significant change in the swap agreement valuation in the near term.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Estimates (Continued):
Other significant estimates include contingent liabilities for excess interest on student loans and arbitrage rebate, both more fully described below. Both may vary depending on adopted methodology and are subject to regulatory change. It is reasonably possible these estimates could change in the near term.

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. At June 30, 2009, the book balance amount of those deposits was $2,087,381 with a bank balance of $2,089,473 of which $1,839,473 exceeded federal depository insurance. The cash equivalents in the restricted fund are comprised of cash temporarily held by the trustee in short-term investments until the funds can be invested in the guaranteed investment contracts and the funds from the 2007 bond financing that are being held in liquid investments.

Investments:
Investment instruments held in the temporarily restricted funds are restricted by the bond indentures. The Corporation invests in highly liquid investments such as U. S. government obligations and investment contracts. Credit risk on investment agreements is based on the agreement providers' ability to repay funds loaned by MHESAC for investment under the agreements. These agreements contain collateral provisions to mitigate such risk. Investment instruments are reported at fair value. Fair value exceeds cost of investments by $29,030 resulting in an unrealized gain on investments being reported in the Statement of Revenue, Expense and Changes in Fund Balance as a component of investment income for the year ended June 30, 2009.

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 loans, SLS loans and PLUS 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Allowance Payments:
The United States Department of Education provides a special allowance or subsidy to lenders participating in the Federal Family Education Loan Program. 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 yield 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. A minimum yield of 9.5% exists on certain loans purchased with tax-exempt funds. As of June 30, 2009, rebates of $12,890,094 were netted in Special Allowance revenue on the financial statements.

Allowance for Uncollectible Loans:
The educational loans receivable are loan portfolios purchased from various banks and other financial institutions as well as loans originated by MHESAC. 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 after that date are reimbursed at 97%. A provision for uncollectible educational loans has been made for the years ended June 30, 2009 and 2008.

Deferred Bond Issuance Costs:
Bond issuance costs are capitalized and are amortized using the effective interest method over the life of the bonds. Unamortized bond issuance costs associated with bonds redeemed prior to maturity dates are expensed at the time of redemption.

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. It is MHESAC's intention to rebate all excess earnings to borrowers. The liability is booked at current value.

The financial statements reflect a calculation based on loans currently owned and present a liability at the balance sheet date. Indenture requirements mandate that sufficient funds or loans are reserved to cover the liability at its estimated future value. (See Note 6)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Instruments:
The Corporation holds and issues derivative financial instruments for the purpose of hedging the risks relating to the changes in interest rates. The Corporation documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The type of hedge that the Corporation uses are interest rate swaps. The purpose of these instruments is to hedge the fair value of fixed rate debt in MHESAC fixed rate financings and cash flows of variable rate debt in MHESAC variable rate financings.

The Corporation believes the use of these swaps hedges a minimum spread between the bond interest cost and any fixed rate component of the return on student loans securing those bonds. The Corporation holds and issues such derivatives only for the purpose of hedging such risks, not for speculation. At June 30, 2009, hedging relationships exist for bond indebtedness.

All derivatives have been designated and qualify as cash flow hedging instruments and are reported at fair value. Accounting principles require us to value the swaps at fair value at the balance sheet date. This value is called the “mark to market” value and fluctuates each month as assumptions about future interest rates change. It is important to point out that this “mark to market” value is what MHESAC would receive or pay to terminate the swap agreements at the reporting date. As a non-profit entity, the Corporation has recorded the instruments at fair value but is not permitted to fully implement cash flow hedge accounting. The gain or loss on the hedge is reported as a component of non-operating income. Net payments under the swap agreements are reported as a component of bond interest expense in the statement of revenue, expense and changes in fund net assets. See note 7 for additional terms of the instruments.

GASB adopted Statement No. 53, Accounting and Financial Reporting for Derivative Instruments in June 2008. Statement No. 53 is applicable for periods starting after June 15, 2009 with early implementation encouraged. MHESAC already follows the fair valuation and disclosure requirements of the guidance and for consistency will report the change in value as a non-operating income. The remaining instruments at June 30, 2009 will expire during fiscal year 2010.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent Arbitrage Rebate Liability:
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. At June 30, 2009, the Corporation's arbitrage rebate liability was $5,200,592.

Restricted Fund Net Assets:
Restricted fund net assets represent revenue bond funds that are required to be expended only as prescribed by individual bond indentures. Due to the limited obligation nature of this debt, the funds and accounts established by the indentures are pledged as collateral for the bonds under the individual indentures.

NOTE 2. INVESTMENTS

Since the restricted funds are governed by a bond indenture, the Corporation adheres to the requirements specified within the bond indenture for investment activity of those funds. The Corporation has not adopted a formal internal policy related to the investment of the minimal General Fund investing activity. Pledged revenues and other amounts in the pledged funds and accounts that are not invested in financed student loans are used to acquire investment agreements with one or more investment agreement providers. The quality rating of the obligations of the provider of the investment contracts must be maintained at a level defined by each agreement using standard ratings by Standard and Poor’s, Moody’s or Fitch. The bond trustee monitors compliance with the established quality ratings and the provider is required to provide prompt notice if any credit event occurs that adversely affects the minimum quality rating.

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. In addition, investment contracts are not considered securities for purposes of credit risk classification.

NOTE 2. INVESTMENTS (CONTINUED)

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 requirements for bond redemption schedules as outlined in the indenture.

The Corporation's investments are reported at fair value. The following summarizes investments held at June 30, 2009:

INVESTMENTS – CURRENT	AMOUNT	RATE	MATURITY
Freddie Mac Note	$ 366,775	5.25%	07/18/11
Federal Home Loan Bank Note	517,256	5.25%	02/06/12
	$ 884,031		
INVESTMENTS – RESTRICTED			
Investment Agreements:			
Bayerische Landesbank Girozentrale			
1995 Float Funds	36,166,317	0.17%	12/01/15
1995 Reserve Fund	7,351,433	0.22%	12/01/15
1998A Reserve and Float Funds	7,770,464	2.11%	12/01/31
1998B Reserve and Float Funds	2,711,906	5.53%	12/01/31
1999B Float Funds	397,280	6.20%	12/01/32
1999B Reserve Funds	1,017,500	6.35%	12/01/32
2000D Reserve Funds	409,000	6.27%	12/01/10
2000A&B Reserve Funds	5,000,000	2.16%	12/01/33
2000A&B Float Funds	3,129,671	2.16%	12/01/33
2000D Float Funds	256,007	5.91%	12/01/10
2000C Reserve Funds	560,000	0.02%	12/01/33
2000C Float Funds	93,979	0.02%	12/01/33
2001A Reserve Funds	4,247,750	1.45%	11/30/15
2001A Float Funds	783,014	1.14%	11/30/15
2001B Reserve Funds	1,212,250	4.71%	08/26/09
2001B Float Funds	223,461	4.11%	08/26/09
2001C Reserve Funds	883,500	0.23%	11/30/15
2001C Float Funds	127,038	0.14%	11/30/15
2004A,B&C Float Funds	1,125,561	1.14%	11/27/15
Bayerische Landesbank Girozentrale Total	73,466,131		

NOTE 2. INVESTMENTS (CONTINUED)

INVESTMENTS – RESTRICTED (CONTINUED)

Investment Agreements (Continued):			
Bayerische Hypo-Und Vereinsbank			
1999A Reserve Funds	4,075,000	1.81%	12/01/32
1999A Float Funds	1,591,073	1.31%	12/01/32
Bayerische Hypo-Und Vereinsbank Total	5,666,073		
Trinity Funding Company			
2002A,B,C&E Float Funds	591,795	0.27%	11/30/35
2002D Float Funds	55,364	0.27%	11/30/35
2005 Float Funds	676,597	0.51%	06/19/30
2006A Float Funds	505,530	0.46%	03/19/24
2006B&C Float Funds	233,399	0.16%	01/30/38
2006D,E,F&G Float Funds	2,293,143	0.31%	01/29/38
2006D,E,F&G Acquisition Funds	331,445	0.31%	11/30/09
Trinity Funding Company Total	4,687,273		
Grand Central Funding			
2003A,B&D Float Funds – Variable	3,610,618	1.30%	11/28/36
2003C Float Funds	70,764	0.24%	11/28/36
Grand Central Funding Total	3,681,382		
TOTAL INVESTMENTS	$ 88,384,890		

Investment Provider Ratings:	S&P	Moody's	Fitch
Bayerische Landesbank Girozentrale	BBB+/A-2	A1/P-1	A+/F1+
Bayerische Hypo-Und Vereinsbank	A/A-1	A1/P-1	A+/F1+
Trinity Funding Company	AA+/A-1+	Aa2/P-1	Not rated
Grand Central Funding	Not rated	Aaa/P-1	AAA/F1+

NOTE 3. 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. The educational loans receivable are disclosed in the financial statements net of allowances for uncollectible loans.

NOTE 3. EDUCATIONAL LOANS RECEIVABLE (CONTINUED)

Educational loans are summarized as follows:

	June 30, 2009	June 30, 2008
Student/interim status	$ 672,673,921	$ 567,063,641
Repayment status	903,585,271	912,164,278
Educational loans receivable	$ 1,576,259,192	$ 1,479,227,919
Allowance for uncollectible loans	(604,279)	(589,666)
Educational loans receivable, net	$ 1,575,654,913	$ 1,478,638,253

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 and various maximum repayment terms. As of June 30, 2009, fixed interest rates on Stafford, PLUS, SLS, and FISL loans in the portfolio varied from 6% to 12%. 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 are based upon either the 91 day or one year constant maturity Treasury bill, subject to maximum interest rates ranging from 7% to 12%. 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%, respectively. Stafford loans disbursed after July 1, 2006 have a fixed rate to the borrower of 6.8%, except subsidized Stafford loans issued between July 1, 2008 and June 30, 2009, which bear interest at the fixed rate of 6%. PLUS loans disbursed after July 1, 2006 have a fixed rate to the borrower of 8.5%. 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 original balance.

NOTE 4. RELATED PARTY TRANSACTIONS

MHESAC has entered into agreements with Student Assistance Foundation of Montana (SAF) to provide management and servicing to MHESAC. SAF has three 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. The note for the sale of land and building bears interest at a fixed rate of 8.22% and is an 18 year note.

Following are details of the financial transactions between MHESAC and SAF:

Sale of real estate and building for which note was received	$ 2,900,000
Principal payments received through June 30, 2009	(676,081)
Balance due MHESAC on real estate note	$ 2,223,919
Less current portion	(163,047)
Long-term receivable balance at June 30, 2009	$ 2,060,872

On June 28, 2003, Montana Student Loan Funding, LLC (MSLF) was created as a limited liability corporation with SAF as the sole member. The MSLF is a bankruptcy remote company that will acquire and originate student loans and has a perpetual life. 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. The indenture required a purchase of student loans at a purchase price to include 100% of the outstanding unpaid principal balance on the loan on the loan purchase date plus accrued borrower interest. In addition, the purchase price would include a premium mutually agreed upon between MSLF and MHESAC designed to recover acquisition costs incurred and provide a nominal level of profit on the activity to MSLF.

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 not MHESAC's intent to obtain financing or purchase the MSLF loan portfolio.

NOTE 4. RELATED PARTY TRANSACTIONS (CONTINUED)

Prepaid costs of $1,637,373 associated with potential acquisition of these loans were expensed by MHESAC as of June 30, 2009. The portfolio balance MSLF held at June 30, 2009 was $218 million.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE

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

Bonds outstanding at 6/30/08	$ 1,872,392,627
Bonds issued during the year	-
Bonds accreted during the year	188,219
Bonds redeemed during the year	(42,881,000)
Bond buybacks during the year	(700,000)
Bonds outstanding at 6/30/09	$ 1,828,999,846

A description of significant terms and conditions of each Student Loan Revenue Bond issue outstanding at June 30, 2009 follows:

Issue	Year End Interest Rate	Original issue Amount	June 30, 2009
Tax Exempt Fixed Rate Bonds:			
1998 Series B Bonds	4.75-5.50%	$ 27,970,000	$ 23,965,000
1999 Series B Bonds	5.40-6.40%	20,350,000	18,715,000
2000 Series B Bonds	5.05-5.10%	8,180,000	2,670,000
1995 Series E Bonds	-	5,000,432	2,137,846
Total Tax Exempt Fixed Rate Bonds		61,500,432	47,487,846

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Issue	Year End Interest Rate	Original issue Amount	June 30, 2009
Tax Exempt Auction Rate Bonds:			
1995 Series A Bonds	0.613%	56,700,000	34,600,000
1995 Series B Bonds	0.683%	56,600,000	34,500,000
1995 Series C Bonds	0.595%	56,600,000	34,500,000
1998 Series A Bonds	0.630%	79,800,000	76,700,000
1999 Series A Bonds	0.613%	81,500,000	81,500,000
2000 Series A Bonds	0.735%	50,000,000	50,000,000
2000 Series B Bonds	0.683%	50,000,000	50,000,000
2001 Series A Bonds	0.630%	84,200,000	84,200,000
2001 Series B Bonds	0.630%	25,000,000	25,000,000
2002 Series A Bonds	0.630%	53,800,000	53,800,000
2002 Series B Bonds	0.630%	29,000,000	29,000,000
2002 Series E Bonds	0.630%	15,000,000	15,000,000
2003 Series A Bonds	0.595%	80,200,000	80,200,000
2003 Series B Bonds	0.630%	80,100,000	80,100,000
2003 Series D Bonds	0.595%	10,000,000	10,000,000
2004 Series A Bonds	0.630%	83,000,000	83,000,000
2004 Series B Bonds	0.613%	83,000,000	83,000,000
2004 Series C Bonds	0.630%	12,000,000	12,000,000
2006 Series D Bonds	0.735%	71,400,000	71,400,000
2006 Series E Bonds	0.683%	71,400,000	71,400,000
2006 Series F Bonds	0.595%	71,300,000	71,300,000
2006 Series G Bonds	0.595%	20,000,000	20,000,000
Total Tax Exempt Auction Rate Bonds		1,220,600,000	1,151,200,000
Tax Exempt VRDO Bonds:			
2007 Series A Bonds	1.059%	$ 105,000,000	$ 101,500,000
2007 Series B Bonds	1.059%	35,000,000	33,830,000
2007 Series C Bonds	1.059%	35,000,000	33,830,000
Total Tax Exempt VRDO Bonds		175,000,000	169,160,000

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Issue	Year End Interest Rate	Original issue Amount	June 30, 2009
Taxable Floating Rate Notes:			
2005 Series A Bonds	0.649%	133,508,000	33,519,000
2005 Series B Bonds	0.729%	119,140,000	119,140,000
2006 Series A Bonds	0.709%	226,775,000	211,993,000
Total Taxable Floating Rate Notes:		479,423,000	364,652,000
Taxable Auction Rate Bonds:			
2000 Series C Bonds	1.819%	11,200,000	9,200,000
2001 Series C Bonds	1.819%	29,500,000	20,800,000
2002 Series D Bonds	1.821%	10,300,000	8,000,000
2003 Series C Bonds	1.815%	13,300,000	10,100,000
2006 Series B Bonds	1.808%	74,700,000	18,400,000
2006 Series C Bonds	2.815%	30,000,000	30,000,000
Total Taxable Auction Rate Bonds		169,000,000	96,500,000
TOTAL BONDS		$ 2,105,523,432	$1,828,999,846

Of the outstanding bonds, $1,367,847,846 are tax-exempt and $461,152,000 are taxable.

1995 Series A, B, C, D and E Student Loan Revenue Bonds, originally dated March 16, 1995 for Series A, B, C and E Bonds and March 1, 1995 for the Series D Bonds. Interest is due semi-annually on the Series A, B and C Bonds. The Series E Bonds are zero coupon bonds and do not bear interest. The Series E bonds are reported in the financial statements at their accreted value. The accreted value is the original issue amount increased by a periodic investment return that is based on the bonds' approximate yield to maturity. Series A, B and C Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days. The Series D bonds, in the amount of $25,100,000 were redeemed in their entirety on December 1, 2000. A partial redemption of the Series A, B and C bonds occurred December 1, 2006 in the amount of $5,500,000, $5,500,000 and $5,600,000, respectively.

All bonds under these Series are tax-exempt. Maturity amounts, dates, and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($34,600,000 Outstanding)

The entire series is due December 1, 2015. The interest rate from issuance date through June 30, 2009 averaged 3.274%.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

1995 Series A, B, C, D and E Student Loan Revenue Bonds (Continued):

Senior Series B ($34,500,000 Outstanding)

The entire series is due December 1, 2015. The interest rate from issuance date through June 30, 2009 averaged 3.271%.

Senior Series C ($34,500,000 Outstanding)

The entire series is due December 1, 2015. The interest rate from issuance date through June 30, 2009 averaged 3.254%.

Subordinate Series E ($2,195,000 Outstanding)

MATURITY	ACCRETED VALUE	PRINCIPAL AMOUNT AT MATURITY	APPROX. YIELD TO MATURITY
12/01/09	$2,137,846	$2,195,000	6.45%

The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 1995 Series A, B and C Bonds have payment and certain other priorities over the 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

1998 Series A and B Student Loan Revenue Bonds, originally dated December 1, 1998 for the Series A Bonds and November 1, 1998 for the Series B Bonds. Interest is due semi-annually. Series A Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days. All bonds under these Series are tax-exempt. Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($76,700,000 Outstanding)

The entire series is due December 1, 2031. The interest rate from issuance date through June 30, 2009 averaged 2.899%.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

1998 Series A and B Student Loan Revenue Bonds (Continued):

Subordinate Series B ($23,965,000 Outstanding)

MATURITY	AMOUNT	INTEREST RATE	MATURITY	AMOUNT	INTEREST RATE
12/01/2009	$ 380,000	4.75%	12/01/2012	$ 580,000	5.00%
12/01/2010	325,000	4.85%	12/01/2031	22,010,000	5.50%
12/01/2011	670,000	4.95%			

The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 1998 Series A Bonds have payment and certain other priorities over the 1998 Series B Bonds, the 1995 Series E Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

1999 Series A and B Student Loan Revenue Bonds, originally dated December 1, 1999 for the Series A Bonds and November 1, 1999 for the Series B Bonds. Interest is due semi-annually. Series A Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days. All bonds under these Series are tax-exempt. Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($81,500,000 Outstanding)

The entire series is due December 1, 2032. The interest rate from issuance date through June 30, 2009 averaged 2.759%.

Subordinate Series B ($18,715,000 Outstanding)

MATURITY	AMOUNT	INTEREST RATE	MATURITY	AMOUNT	INTEREST RATE
12/01/2009	$ 490,000	5.40%	12/01/2013	$ 480,000	5.75%
12/01/2010	280,000	5.45%	12/01/2014	505,000	5.85%
12/01/2011	295,000	5.55%	12//01/2032	16,200,000	6.40%
12/01/2012	465,000	5.65%			

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

1999 Series A and B Student Loan Revenue Bonds (Continued):
The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 1999 Series A Bonds have payment and certain other priorities over the 1999 Series B Bonds, the 1995 Series E Bonds, the 1998 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

2000 Series A, B, C and D Student Loan Revenue Bonds, originally dated September 7, 2000 for the Series A, B, & C Bonds and August 1, 2000 for the Series D Bonds. Interest is due semi-annually on the A, B and D Bonds. Interest is due every 28 days on the Series C Bonds. The Series A and B Senior Bonds and the Series D Subordinate Bonds are tax exempt while the Series C Senior Bonds is a taxable issue. The Series A and B Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days. The Series C Bonds bear interest at variable rates as determined by an interest rate auction held every 28 days. A partial redemption of the Series C Bonds occurred on April 10, 2008 and September 24, 2008 in the amount of $1,900,000 and $100,000, respectively.

Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($50,000,000 Outstanding)

The entire series is due December 1, 2033. The interest rate from issuance date through June 30, 2009 averaged 2.624%.

Senior Series B ($50,000,000 Outstanding)

The entire series is due December 1, 2033. The interest rate from issuance date through June 30, 2009 averaged 2.656%.

Senior Series C Taxable ($9,200,000 Outstanding)

The entire series is due December 1, 2033. The interest rate from issuance date through June 30, 2009 averaged 3.124%.

Subordinate Series D ($2,670,000 Outstanding)

MATURITY	AMOUNT	INTEREST RATE
12/01/2009	$ 1,295,000	5.05%
12/01/2010	1,375,000	5.10%

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2000 Series A, B, C and D Student Loan Revenue Bonds (Continued):
The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2000 Series A, B and C Bonds have payment and certain other priorities over the 2000 Series D Bonds, the 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

2001 Series A, B and C Student Loan Revenue Bonds, originally dated November 28, 2001. Interest is due semi-annually on the Series A and B Bonds and every 28 days on the Series C Bonds. The Series A and B Senior Bonds are tax-exempt while the Series C Senior Bonds is a taxable issue. The Series A and B Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days. The Series C Bonds bear interest at variable rates as determined by an interest rate auction held every 28 days. A partial redemption of the Series C Bonds occurred April 10, 2008 and September 24, 2008 in the amount of $7,400,000 and $600,000, respectively. A partial buyback of $700,000 par value of the Series C Bonds occurred June 10, 2009 at a discounted purchase price resulting in a gain of $108,500.

Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($84,200,000 Outstanding)

The entire series is due December 1, 2034. The interest rate from issuance date through June 30, 2009 averaged 2.441%

Senior Series B ($25,000,000 Outstanding)

The entire series is due December 1, 2034. The interest rate from issuance date through June 30, 2009 averaged 2.438%.

Senior Series C Taxable ($20,800,000 Outstanding)

The entire series is due December 1, 2034. The interest rate from issuance date through June 30, 2009 averaged 2.843%.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2001 Series A, B and C Student Loan Revenue Bonds, originally dated November 28, 2001 (Continued):
The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2001 Series A, B and C Bonds have payment and certain other priorities over the 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

2002 Series A, B, C, D and E Student Loan Revenue Bonds, originally dated November 6, 2002. Interest is due semi-annually on the A, B and E Bonds. Interest is due every 28 days on the Series D Bonds. The Series A and B Senior Bonds and the Series E Subordinate Bonds are tax-exempt while the Series D Senior Bonds is a taxable issue. The Series A, B and E Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days. The Series C Bonds, in the amount of $9,100,000, were redeemed in their entirety on March 1, 2006. A partial redemption of the Series D bonds occurred April 16, 2008 and September 2, 2008 in the amount of $2,100,000 and $200,000, respectively.

Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($53,800,000 Outstanding)

The entire series is due December 1, 2035. The interest rate from issuance date through June 30, 2009 averaged 2.698%.

Senior Series B ($29,000,000 Outstanding)

The entire series is due December 1, 2035. The interest rate from issuance date through June 30, 2009 averaged 2.689%.

Senior Series D Taxable ($8,000,000 Outstanding)

The entire series is due December 1, 2035. The interest rate from issuance date through June 30, 2009 averaged 2.937%.

Subordinate Series E ($15,000,000 Outstanding)

The entire series is due December 1, 2035. The interest rate from issuance date through June 30, 2009 averaged 2.773%.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2002 Series A, B, C, D and E Student Loan Revenue Bonds (Continued):
The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2002 Series A, B and D Bonds have payment and certain other priorities over the 2002 Series E Bonds, the 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

2003 Series A, B, C and D Student Loan Revenue Bonds, originally dated October 15, 2003. Interest is due semi-annually on the A, B, and D Bonds. Interest is due every 28 days on the Series C Bonds. The Series A and B Senior Bonds and the Series D Subordinate Bonds are tax-exempt while the Series C Senior Bonds is a taxable issue. The Series A, B, and D Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days. The Series C Bonds bear interest at variable rates as determined by an interest rate auction held every 28 days. A partial redemption of the Series C bonds occurred on March 28, 2008 and September 11, 2008 in the amount of $ 2,900,000 and $300,000, respectively.

Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($80,200,000 Outstanding)

The entire series is due December 1, 2037. The interest rate from issuance date through June 30, 2009 averaged 2.904%.

Senior Series B ($80,100,000 Outstanding)

The entire series is due December 1, 2037. The interest rate from issuance date through June 30, 2009 averaged 2.957%.

Senior Series C Taxable ($10,100,000 Outstanding)

The entire series is due December 1, 2037. The interest rate from issuance date through June 30, 2009 averaged 3.252%.

Subordinate Series D ($10,000,000 Outstanding)

The entire series is due December 1, 2037. The interest rate from issuance date through June 30, 2009 averaged 2.992%.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2003 Series A, B, C and D Student Loan Revenue Bonds (Continued):
The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2003 Series A, B and C Bonds have payment and certain other priorities over the 2003 Series D Bonds, the 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

2004 Series A, B and C Student Loan Revenue Bonds, originally dated November 17, 2004. Interest is due semi-annually on the A, B, and C Bonds. The Series A and B Senior Bonds and the Series C Subordinate Bonds are tax-exempt. The Series A, B, and C Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days. Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($83,000,000 Outstanding)

The entire series is due December 1, 2038. The interest rate from issuance date through June 30, 2009 averaged 3.327%.

Senior Series B ($83,000,000 Outstanding)

The entire series is due December 1, 2038. The interest rate from issuance date through June 30, 2009 averaged 3.279%.

Subordinate Series C ($12,000,000 Outstanding)

The entire series is due December 1, 2038. The interest rate from issuance date through June 30, 2009 averaged 3.418%.

The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2004 Series A and B Bonds have payment and certain other priorities over the 2004 Series C Bonds, the 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2005 Series A and B Student Loan Revenue Bonds, originally dated May 26, 2005. Interest is due quarterly on the Series A and B Bonds. The Series A and B Senior Bonds are taxable. The Series A and B Bonds bear interest at variable rates based on the 3-month LIBOR rate plus a pre-determined spread. The interest rate on the Series A bonds is based on 3-month LIBOR plus 4 basis points and the Series B bonds interest rate is based on 3-month LIBOR plus 12 basis points. Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($33,519,000 Outstanding)

The entire series is due June 20, 2015. The interest rate from issuance date through June 30, 2009 averaged 4.370%.

Senior Series B ($119,140,000 Outstanding)

The entire series is due June 20, 2030. The interest rate from issuance date through June 30, 2009 averaged 4.173%.

The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2005 Series A and B Bonds have payment and certain other priorities over the 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

The Series A and B Bonds have targeted principal balance reduction schedules as follows:

2005 A Senior Bonds

Anticipated Principal Reduction Date	Anticipated Principal Reduction Amount	Anticipated Principal Reduction Date	Anticipated Principal Reduction Amount
September 20, 2009	$ 5,156,000	September 20, 2010	$ 4,689,000
December 20, 2009	5,055,000	December 20, 2010	4,560,000
March 20, 2010	4,931,000	March 20, 2011	4,353,000
June 20, 2010	4,775,000		

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2005 B Senior Bonds

June 20, 2011	$ 4,260,000	March 20, 2016	$ 2,954,000
September 20, 2011	4,180,000	June 20, 2016	2,919,000
December 20, 2011	4,114,000	September 20, 2016	2,884,000
March 20, 2012	4,038,000	December 20, 2016	2,850,000
June 20, 2012	3,970,000	March 20, 2017	2,818,000
September 20, 2012	3,906,000	June 20, 2017	2,776,000
December 20, 2012	3,849,000	September 20, 2017	2,731,000
March 20, 2013	3,788,000	December 20, 2017	2,699,000
June 20, 2013	3,715,000	March 20, 2018	2,670,000
September 20, 2013	3,666,000	June 20, 2018	2,640,000
December 20, 2013	3,623,000	September 20, 2018	2,610,000
March 20, 2014	3,577,000	December 20, 2018	2,580,000
June 20, 2014	3,503,000	March 20, 2019	2,551,000
September 20, 2014	3,416,000	June 20, 2019	2,523,000
December 20, 2014	3,374,000	September 20, 2019	2,494,000
March 20, 2015	3,335,000	December 20, 2019	2,465,000
June 20, 2015	3,089,000	March 20, 2020	2,437,000
September 20, 2015	3,029,000	June 20, 2020	2,345,000
December 20, 2015	2,989,000	September 20, 2020	1,773,000

2006 Series A, B and C Student Loan Revenue Bonds, originally dated May 3, 2006. Interest is due quarterly on the Series A Bonds. Interest is due every 7 days on the Series B Bonds and every 28 days on the Series C Bonds. All bonds under these Series are taxable. The interest rate on the Series A Bonds is based on 3-month LIBOR plus 10 basis points. The Series B Bonds bear interest at variable rates as determined by an interest rate auction held every 7 days. The Series C Bonds bear interest at variable rates as determined by an interest rate auctions held every 28 days. A partial redemption of the Series B bonds occurred March 28, 2008 in the amount of $56,300,000.

Maturity amounts, dates, and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($211,993,000 Outstanding)

The entire series is due March 20, 2024. The interest rate from issuance date through June 30, 2009 averaged 4.194%.

Senior Series B ($18,400,000 Outstanding)

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2006 Series A, B and C Student Loan Revenue Bonds (Continued):
The entire series is due December 1, 2040. The interest from issuance date through June 30, 2009 averaged 4.526%.

Subordinate Series C ($30,000,000 Outstanding)

The entire series is due December 1, 2040. The interest from issuance date through June 30, 2009 averaged 3.433%.

The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2006 Series A and B Bonds have payment and certain other priorities over the 2006 series C Bonds, 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, and the 2006 Series G Bonds as outlined in the indenture.

The Series A Bonds have a targeted principal balance reduction schedule as follows:

2006 A Senior Bonds

Anticipated Principal Reduction Date	Anticipated Principal Reduction Amount	Anticipated Principal Reduction Date	Anticipated Principal Reduction Amount
September 20, 2009	$10,341,000	December 20, 2013	$6,969,000
December 20, 2009	4,858,000	March 20, 2014	6,967,000
March 20, 2010	5,145,000	June 20, 2014	6,966,000
June 20, 2010	5,352,000	September 20, 2014	6,923,000
September 20, 2010	5,467,000	December 20, 2014	6,990,000
December 20, 2010	5,871,000	March 20, 2015	6,928,000
March 20, 2011	6,185,000	June 20, 2015	7,043,000
June 20, 2011	6,265,000	September 20, 2015	6,910,000
September 20, 2011	6,238,000	December 20, 2015	6,934,000
December 20, 2011	6,573,000	March 20, 2016	6,809,000
March 20, 2012	6,611,000	June 20, 2016	6,639,000
June 20, 2012	6,679,000	September 20, 2016	6,228,000
September 20, 2012	6,682,000	December 20, 2016	6,166,000
December 20, 2012	6,839,000	March 20, 2017	6,005,000
March 20, 2013	6,893,000	June 20, 2017	5,672,000
June 20, 2013	6,890,000	September 20, 2017	2,109,000
September 20, 2013	6,846,000		

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2006 Series A, B and C Student Loan Revenue Bonds (Continued):
The targeted principal reduction amounts were not fully met December 20, 2008, March 20, 2009 and June 20, 2009. The anticipated principal reduction amount for September 20, 2009 includes $5,890,000 in carry-over principal reduction.

2006 Series D, E, F and G Student Loan Revenue Bonds, originally dated October 31, 2006. Interest is due semi-annually on the Series D, E, F and G Bonds. The Series D, E and F Senior Bonds and the Series G Subordinate Bonds are tax-exempt. The Series D, E, F and G Bonds bear interest at variable rates as determined by an interest rate auction held every 35 days.

Maturity amounts, dates and related interest rates as of June 30, 2009 are as follows:

Senior Series D ($71,400,000 Outstanding)

The entire series is due December 1, 2040. The interest rate from issuance date through June 30, 2009 averaged 3.512%.

Senior Series E ($71,400,000 Outstanding)

The entire series is due December 1, 2040. The interest from issuance date through June 30, 2009 averaged 3.624%.

Senior Series F ($71,300,000 Outstanding)

The entire series is due December 1, 2040. The interest from issuance date through June 30, 2009 averaged 3.587%.

Subordinate Series G ($20,000,000 Outstanding)

The entire series is due December 1, 2040. The interest from issuance date through June 30, 2009 averaged 3.640%.

The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2006 Series D, E, and F have payment and certain other priorities over the 2006 Series G bonds, 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds and the 2006 Series C Bonds as outlined in the indenture.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2007 Series A, B and C Student Loan Revenue Bonds, originally dated December 17, 2007. Interest is due semi-annually on the A, B, and C Bonds. The Series A, B, and C Senior Bonds are tax-exempt. Through October 6, 2008, the Series A, B and C Bonds bore interest at variable rates every 7 days as determined by the respective Remarketing Agent for the individual series. The Series A, B, and C received notice on October 6, 2008 from their respective Remarketing Agents that the bonds had not been remarketed and were subsequently purchased by the Liquidity Provider. Per the First Amendment to the Standby Bond Purchase Agreement, the interest rate on the Series A, B and C Bonds is based on the daily 1-month LIBOR rate plus 75 basis points until and including October 1, 2009. Beginning October 1, 2009 the interest rate will be based upon prime rate plus 2.25%.

Per the Standby Bond Purchase Agreement, on the date such Bonds become Bank Bonds, the issuer will cause the redemption of the Bonds in equal semiannual principal installments until the Bonds are paid in full no later than the 30th anniversary of the Bank Purchase Date. The Series A Bonds semiannual principal installment in the amount of $1,750,000 and the Series B and C Bonds semiannual principal installments in the amount of $585,000 commenced December 1, 2008.

Maturity amounts, dates, and related interest rates as of June 30, 2009 are as follows:

Senior Series A ($101,500,000 Outstanding)

The entire series is due December 1, 2042. The interest rate from issuance date through June 30, 2009 averaged 2.095%.

Senior Series B ($33,830,000 Outstanding)

The entire series is due December 1, 2042. The interest from issuance date through June 30, 2009 averaged 2.115%.

Senior Series C ($33,830,000 Outstanding)

The entire series is due December 1, 2042. The interest from issuance date through June 30, 2009 averaged 2.158%.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2007 Series A, B and C Student Loan Revenue Bonds (Continued):
The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. The 2007 Series A, B, and C have payment and certain other priorities over the 1995 Series E Bonds, the 1998 Series B Bonds, the 1999 Series B Bonds, the 2000 Series D Bonds, the 2002 Series E Bonds, the 2003 Series D Bonds, the 2004 Series C Bonds, the 2006 Series C Bonds and the 2006 Series G Bonds as outlined in the indenture.

Summary of Maturities:
The following is a summary of maturities and mandatory sinking fund requirements on long-term debt:

Year ending June 30	Revenue Bonds Payable	Interest	Total
2010	$ 55,813,000	$ 67,475,162	$ 123,288,162
2011	49,470,000	67,311,374	116,781,374
2012	49,208,000	67,240,332	116,448,332
2012	49,447,000	67,187,449	116,634,449
2014	48,437,000	67,148,319	115,585,319
2015-2019	272,098,000	314,403,335	586,501,335
2020-2024	40,714,000	304,617,160	345,331,160
2025-2029	29,200,000	261,820,013	291,020,013
2030-2034	334,810,000	216,719,364	551,529,364
2035-2039	617,360,000	133,966,861	751,326,861
2040-2042	282,500,000	31,000,906	313,500,906
Total	1,829,057,000	$1,598,890,275	$ 3,427,947,275
Bond Discount	(57,154)		
	$1,828,999,846		

Compliance:
The bond indentures contain several covenants. These covenants include minimum reserve requirements, restrictions and limitations related to administrative expenses and minimum spending requirements for the purchase of educational loans. The Corporation is substantially in compliance with the covenants of the bond indentures outstanding at June 30, 2009.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Auction Rate Bond Provisions for Failed Auctions:
In the event of an Auction failure, there is a provision in the Indenture that states the interest rate for tax-exempt auction bonds shall be equal to the Maximum Auction Rate and the interest rate for taxable auction bonds will be the lesser of the Net Loan Rate or the Maximum Auction Rate. During the fiscal year ending June 30, 2008 this provision went into effect due to Auction failures. Since June 30, 2008, all auction bonds have continued to fail on each auction date.

The Maximum Auction Rate, for the tax-exempt auction bond series, is determined by terms specified in the Indenture that consider Bond ratings, the Composite Commercial Paper rate, the SIFMA Index and the Statutory Corporate Tax Rate. The indenture provides specific calculation methodologies that use combinations of the above mentioned criteria to determine the interest rate for the 35 day auction period.

Per Indenture terms, the taxable auction bond series are subject to an interest rate limitation of the lesser of the Net Loan Rate or the Maximum Auction Rate. Net Loan Rate is determined by specific indenture calculation methodologies that use a combination of average 91-day T-bills and Auction rates to determine the interest rate for the 7 or 28 day auction period. Maximum Auction Rate, for the taxable bond series, is calculated based on One-Month LIBOR plus a percentage based on the bond rating.

When the interest rate limitation is the Net Loan Rate, a Carry-Over Amount is calculated accruing the difference between the amount of interest paid using the Net Loan Rate and the amount of interest due if the taxable Maximum Auction Rate was used. The Carry-Over Amount is payable subject to terms in the Indenture and will bear interest calculated using One-Month LIBOR. At June 30, 2009 the Corporation’s Carry-Over liability was $3,703,577 and is included in these statements.

Variable Rate Demand Obligations
The Variable Rate Demand Obligations (VRDO) issued in December 2007 are not subject to the same maximum auction rate provisions that the auction rate bonds are as noted above. The VRDOs have a liquidity provision in the form of a standby bond purchase agreement that provides a guarantee of a funding source should any bondholder decide to put their bond. This standby bond purchase agreement went into effect October 6, 2009 and the bonds were purchased by the liquidity provider.

NOTE 6. CONTINGENT EXCESS INTEREST LIABILITIES

Excess Interest:
Internal Revenue Service regulations require that tax exempt bond issuers rebate educational loan earnings that exceed specified limits. Such excess earnings may be rebated to the U.S. Treasury or to educational loan borrowers. Limits vary depending on the bond issue date. For bonds issued prior to July 1, 1993, such excess earnings are determined annually with 50% of the cumulative excess payable within sixty (60) days of the tenth anniversary date of the bond issuance. Within sixty (60) days after every subsequent fifth anniversary of the issuance date, 75% of the cumulative excess is payable and within sixty (60) days after final retirement of the bond issue, 100% of the cumulative excess is payable.

For all other bonds, such excess earnings are determined annually and 75% of the cumulative excess is payable within sixty (60) days of the tenth anniversary date of bond issuance and every subsequent fifth anniversary date with 100% payable within sixty (60) days after final retirement of the bond issue. During fiscal year 2008 and 2009, the excess interest liability decreased due to financial market fluctuations. At June 30, 2009, the Corporation's excess interest liability was $1,843,248. It is the Corporation’s intent to rebate all excess earnings to borrowers and a plan is in place to do so.

Based on the above regulations for payment of excess interest liabilities, the following is a summary by fiscal year of when the reported liabilities would be due if there were no plan to rebate the excess interest to borrowers:

2012	$ 444,143
Subsequent years	1,399,105
	$ 1,843,248

NOTE 7. 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.

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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:

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.

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 MHESAC's are traded at the carrying amount as of June 30, 2009.

Real Estate Notes Receivable:
This note is dated February 1, 2000. At that date, the rate was determined by averaging the corporate borrowing rate for comparable companies for notes of similar maturities. We believe that fair value approximates cost.

Interest Rate Swap Agreement:
The Corporation has entered into several interest rate swap agreements. Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. During the year ending June 30, 2009, the interest rate swap agreement for Bond Series 1995A, 1995B and 1995C matured on August 28, 2008. In addition, an optional termination of the swap agreements for Bond Series 2003A was exercised November 28, 2008 per terms of the agreement.

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The notional amounts at June 30, 2009 are as follows:

Bond Series	Notional Amount	Maturity	Pay	Receive
1998A	14,145,000	08/27/09	3.74%	70% of 1 month LIBOR
1999A	37,040,000	08/27/09	3.74%	70% of 1 month LIBOR
2001A	24,245,000	08/27/09	4.93%	SIFMA Rate

Settlement of the swaps is done on each June 1 and December 1. The fair value of the interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. During the year ending June 30, 2009, payments of $2,469,792 were made to the swap counterparties. An additional $242,615 was accrued at June 30, 2009 as the net due to the counterparties at that date.

Educational Loan Revenue Bonds Payable:
The fair value of Educational Loan Revenue Bonds Payable is based on the brokered market.

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:

Financial Instrument:	Carrying Value	Fair Value	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investment Securities				
Federal Home Loan Bank Notes	$ 517,256	$ 517,256	$ 517,256	$ -
Freddie Mac	366,775	366,775	366,775	-
Guaranteed Investment Contracts	87,500,859	87,500,859	-	87,500,859
Educational Loans Receivable	1,575,654,913	1,575,654,913	1,575,654,913	-
Real Estate Note Receivable	2,223,919	2,223,919	-	2,223,919
Liabilities:				
Educational Loan Revenue Bonds Payable	1,828,999,846	1,826,407,373	1,826,407,373	-
Interest Rate Swap Agreements	450,512	450,512	450,512	-

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Guaranteed Investment Contracts	Real Estate Note Receivable
Fair Value at July 1, 2008	$ 194,555,319	$ 2,340,640
Receipts/Inflows	171,086,570	-
Payments/Outflows	(278,141,030)	(116,721)
Fair Value at June 30, 2009	$ 87,500,859	$ $2,223,919

NOTE 8. 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 February 1, 2006, 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. The terms of the last contract were extended to June 30, 2009 and a similar term was agreed upon for the next three years. 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. There is a reconciliation process whereby any variation from anticipated cost levels will be taken into account. 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 of billed and actual costs resulted in a payable to SAF of $328,123 and a payable to MHESAC of $133,310, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Loan Purchase Agreements:

The Corporation enters into loan purchase agreements with lenders. Under the agreements, the lenders agree to sell, and the Corporation agrees to purchase, a specific dollar amount of qualified guaranteed educational loans. The purpose of the agreements is to ensure a need exists for the Corporation to continue financing efforts to purchase educational loans. At June 30, 2009, the Corporation had outstanding purchase commitments of $49,742,805.

NOTE 9. SUBSEQUENT EVENTS

Continuing Failed Auctions:

Since June 30, 2009, all auction bonds have continued to fail on each auction date, also known as the reset date. As a result, the rates paid to the bondholders on those bonds continue to be set by the formulas as explained in Note 5 Auction Rate Bond Provisions for Failed Auctions.

Bond Buyback:

On August 20, 2009, a partial buyback of $12.3 million par value of the 1995 Series C bonds and $150,000 par value of the 2000 Series C bonds occurred at a discounted purchase price. The transaction resulted in a gain of $1,805,250 and the bonds were retired immediately.

ACCOMPANYING INFORMATION

anderson ZURMUEHLEN

ANDERSON ZURMUEHLEN & CO., P.C. · CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

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

Our report on our audit of the basic financial statements of the Montana Higher Education Student Assistance Corporation for the year ended June 30, 2009 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining schedule of assets, liabilities and fund net assets under the 1993 master indenture – restricted funds and combining schedule of revenue, expense and changes in fund net assets under the 1993 master indenture – restricted funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson ZurMuehlen & Co., P.C.

Helena, Montana
September 11, 2009

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MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
COMBINING SCHEDULE OF ASSETS, LIABILITIES AND FUND NET ASSETS UNDER RESTRICTED BOND INDENTURES
June 30, 2009
(expressed in thousands)

	1995 REVENUE BONDS	1998 REVENUE BONDS	1999 REVENUE BONDS	2000 REVENUE BONDS	2001 REVENUE BONDS	2002 REVENUE BONDS	2003 REVENUE BONDS	2004 REVENUE BONDS	2005 REVENUE BONDS	2006-1 REVENUE BONDS	2006-2 REVENUE BONDS	2007 REVENUE BONDS	GRAND TOTAL
ASSETS													
Cash and cash equivalents	$ 2,380	$ 791	$ 767	$ 247	$ 386	$ 289	$ 462	$ 662	$ 1,059	$ -	$ 357	$ 129,839	$ 137,239
Investments	43,518	10,482	7,081	9,449	7,477	647	3,681	1,126	677	739	2,625	-	87,502
Educational loans receivable, net	66,610	91,749	92,900	101,279	112,532	100,264	159,943	160,972	184,077	245,432	218,778	35,232	1,569,768
Accrued interest receivable	546	1,297	1,318	1,204	1,332	1,904	2,753	3,160	1,042	1,480	5,906	819	22,761
Inter-fund Activity	-	-	-	1,966	8,680	2,673	3,470	-	(30,531)	13,742	-	-	-
Prepaid costs, net	132	1,010	315	596	602	1,390	8,990	8,486	830	808	4,374	518	28,051
Other assets	56	62	64	63	91	101	98	67	50	95	161	14	922
	$ 113,242	$ 105,391	$ 102,445	$ 114,804	$ 131,100	$ 107,268	$ 179,397	$ 174,473	$ 157,204	$ 262,296	$ 232,201	$ 166,422	$ 1,846,243
LIABILITIES AND FUND NET ASSETS													
LIABILITIES													
Accounts payable and accrued expenses	$ 84	$ 312	$ 263	$ 404	$ 366	$ 570	$ 746	$ 937	$164	$ 284	$ 2,072	$ 424	$ 6,626
Accrued interest payable	59	156	147	335	662	282	402	106	27	2,402	142	150	4,870
Due to other funds	-	-	-	-	-	-	-	-	-	-	20	-	20
Other Liabilities	-	41	109	-	93	-	-	-	-	-	-	-	243
Fair value of swap agreements	-	77	202	-	171		-	-	-	-	-		450
Contingent arbitrage rebate liability	1,323	447	551	1,614	-	-	-	-	-	-	1,265	-	5,200
Contingent excess interest liability	-	1,251	-	-	-	592	-	-	-	-	-		1,843
Educational loan revenue bonds payable	105,738	100,665	100,215	111,870	130,000	105,800	180,400	178,000	152,659	260,393	234,100	169,160	1,829,000
	107,204	102,949	101,487	114,223	131,292	107,244	181,548	179,043	152,850	263,079	237,599	169,734	1,848,252
FUND NET ASSETS													
Restricted net assets	6,038	2,442	958	581	(192)	24	(2,151)	(4,570)	4,354	(783)	(5,398)	(3,312)	(2,009)
	$ 113,242	$ 105,391	$ 102,445	$ 114,804	$ 131,100	$ 107,268	$ 179,397	$ 174,473	$ 157,204	$ 262,296	$ 232,201	$ 166,422	$ 1,846,243

See Independent Auditor’s Report on Accompanying Information.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
COMBINING SCHEDULE OF REVENUE, EXPENSE AND CHANGE IN FUND NET ASSETS UNDER RESTRICTED INDENTURES – RESTRICTED FUNDS
Year Ended June 30, 2009
(expressed in thousands)

	1995 REVENUE BONDS	1998 REVENUE BONDS	1999 REVENUE BONDS	2000 REVENUE BONDS	2001 REVENUE BONDS	2002 REVENUE BONDS	2003 REVENUE BONDS	2004 REVENUE BONDS	2005 REVENUE BONDS	2006-1 REVENUE BONDS	2006-2 REVENUE BONDS	2007 REVENUE BONDS	GRAND TOTAL
REVENUE													
Interest income on investments and cash equivalents	$ 620	$ 880	$ 784	$ 665	$ 442	$ 208	$ 358	$ 413	$ 56	$ 67	$ 248	$ 1,346	$ 6,087
Interest on educational loans	3,536	4,241	4,624	4,759	5,663	4,218	6,755	6,033	8,114	10,607	7,720	839	67,109
Gain on bond repurchase	-	-	-	-	109	-	-	-	-	-	-	-	109
	4,156	5,121	5,408	5,424	6,214	4,426	7,113	6,446	8,170	10,674	7,968	2,185	73,305
EXPENSE													
Bond and note interest	2,861	3,535	4,215	2,987	4,002	2,597	4,751	4,184	3,822	6,791	5,941	3,500	49,186
Auction agent/broker fees	159	117	125	167	202	163	274	275	-	74	367	-	1,923
Bond fees	23	26	22	31	31	27	46	44	33	53	51	201	588
Loan fees	715	838	790	1,158	1,251	948	2,272	2,167	2,071	2,683	1,607	81	16,581
Contracted management fees	166	199	194	216	243	211	356	347	189	252	479	59	2,911
Contracted loan servicing fees	710	853	833	933	1,049	912	1,533	1,510	983	1,311	2,055	266	12,948
	4,634	5,568	6,179	5,492	6,778	4,858	9,232	8,527	7,098	11,164	10,500	4,107	84,137
Excess (deficiency) of revenue over expense before other changes and bond issuance costs	(478)	(447)	(771)	(68)	(564)	(432)	(2,119)	(2,081)	1,072	(490)	(2,532)	(1,922)	(10,832)
Other Revenue (Expense)													
Arbitrage rebate	505	(185)	12	(244)	-	-	-	-	-	-	(696)	178	(430)
Excess interest rebate	(19)	1,227	(29)	(8)	1,169	1,365	(78)	(71)	-	-	(164)	(34)	3,358
Change in fair value of interest rate swaps	46	183	480	-	557	-	270	-	-	-	-	-	1,536
Excess of revenue over expense before bond issuance costs	54	778	(308)	(320)	1,162	933	(1,927)	(2,152)	1,072	(490)	(3,392)	(1,778)	(6,368)
Transfers for bond issuance costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenue over expense	54	778	(308)	(320)	1,162	933	(1,927)	(2,152)	1,072	(490)	(3,392)	(1,778)	(6,368)
FUND NET ASSETS, BEGNNING OF YEAR	$ 5,984	$ 1,664	$ 1,266	$ 901	$ (1,354)	$ (909)	$ (224)	$ (2,418)	$ 3,282	$ (293)	$ (2,006)	$ (1,534)	$ 4,359
FUND NET ASSETS, END OF YEAR	$ 6,038	$ 2,442	$ 958	$ 581	$ (192)	$ 24	$ (2,151)	$ (4,570)	$ 4,354	$ (783)	$ (5,398)	$ (3,312)	$ (2,009)

See Independent Auditor's Report on Accompanying Information.