MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION

FINANCIAL REPORT

JUNE 30, 2011

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS .... 2 to 7

FINANCIAL STATEMENTS

Balance Sheets .... 8 and 9

Statement of Revenue, Expense and Changes in Fund Net Assets 10

Statement of Cash Flows .... 11 and 12

Notes to Financial Statements .... 13 through 36

ACCOMPANYING INFORMATION 37

INDEPENDENT AUDITOR'S REPORT
ON ACCOMPANYING INFORMATION 38

Combining Schedule of Assets, Liabilities and Fund Net Assets
Under Restricted Bond Indentures 39

Combining Schedule of Revenue, Expense and Change in
Fund Net Assets Under Restricted Indentures – Restricted Funds 40

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, 2011, 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. The prior year summarized comparative information has been derived from the Corporation's 2010 financial statements and, in our report dated September 28, 2010, we expressed an unqualified opinion on the respective financial statements.

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, 2011, 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 22, 2011

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011 and Comparative Totals for June 30, 2010

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, 2011 and 2010. Please read the following in conjunction with the Corporation's financial statements and accompanying notes.

MHESAC is a Montana not-for-profit corporation that was incorporated in 1980. MHESAC is designated as the sole and exclusive not-for-profit corporation in the State to provide a student loan secondary market to support the Federal Family Education Loan Program (FFELP). MHESAC is supported entirely through earnings on the student loans that it owns. MHESAC's current activities include FFELP student loan servicing and bond management to finance the capital for its FFELP student loan activities and rebates and rate reductions to student loan borrowers as part of its commitment to helping Montana students lower the cost of financing their education. MHESAC's activities also previously included FFELP student loan acquisition and origination. 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, 2011 with comparative information at June 30, 2010 (000s omitted):

	6/30/2011	*6/30/2010*
Assets		
Cash and cash equivalents	**$ 11,615**	$ 51,431
Investments	**122,237**	27,251
Educational loans receivable, net	**1,362,391**	1,507,884
Other assets	**52,607**	59,878
Total Assets	**$1,548,850**	$1,646,444
Liabilities and Net Assets		
Current liabilities	**$ 74,193**	$ 76,546
Long term debt and obligations	**1,428,907**	1,537,209
Arbitrage rebate and excess interest liability	**4,895**	6,726
Total liabilities	**1,507,995**	1,620,481
Net assets		
Restricted net assets	**19,350**	4,024
Unrestricted net assets	**21,505**	21,939
Total net assets	**40,855**	25,963
Total liabilities and net assets	**$1,548,850**	$1,646,444

At June 30, 2011 MHESAC had cash and cash equivalents of over $11.6 million of which approximately $4.5 million is unrestricted and $7.1 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. The indenture defines 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, 2011 (gross loan amounts):

	Montana	Non-Montana	Total
Stafford	$377,216,726	$ 7,236,374	$ 384,453,100
PLUS	28,750,186	1,667,743	30,417,929
Consolidation	555,590,004	392,390,995	947,980,999
Other	242,737	-	242,737
Total	$961,799,653	$ 401,295,112	$1,363,094,765

During the fiscal year MHESAC decreased the reserve for bad debts. The reserve, which is netted against the student loans receivable for financial statement presentation decreased slightly from $733,060 to $704,554 to reflect the decreased exposure to the risk of default on the loans based on the decrease in the portfolio.

Results of Operations Summary

MHESAC is reporting operating income of $13,500,000 for the fiscal year ended June 30, 2011. Note the following analysis of operating revenue and expense sources followed by non-operating revenues (expenses) (000s omitted):

	FY Ended 06/30/11	FY Ended 06/30/10
Operating Revenue Sources		
Interest on investments	**$ 1,009**	$ 968
Interest on student loans	**45,181**	49,620
Gain on bond repurchase	**6,514**	4,656
Income from sale of loans	**1,130**	1,949
Other income	**176**	179
Total operating revenue	**54,010**	57,372
Operating Expense Sources		
Bond and note interest	**10,681**	16,872
Bond fees	**1,043**	1,377
Loan fees	**14,622**	16,241
Management & servicing cost	**13,506**	15,273
Other costs	**658**	2,038
Total operating expenses	**40,510**	51,801
Operating profit (loss)	**13,500**	5,571
Non-Operating Revenues (Expenses)		
Arbitrage rebate	**$ 1,460**	$ (2,396)
Excess interest rebate	**(68)**	610
Change in fair value of interest rate swaps	**-**	450
Total non-operating revenues (expenses)	**1,392**	(1,336)
Increase (decrease) in net assets	14,892	4,235
Fund net assets, beginning of year	**25,963**	21,728
Fund net assets, end of year	**$ 40,855**	$ 25,963

Arbitrage and excess interest rebate revenue and expense in the amount of $1,460,000 (revenue) and $68,000, (expense), respectively, for fiscal year 2011 have been classified as non-operating activity. This is consistent with the treatment for the same income and 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 10 to FY 11:

- Cash and equivalents decreased by $39,816,000
- Net student loan receivables decreased by $145,493,000
- Investments increased by $94,986,000
- Debt consisting of bonds outstanding decreased by $109,547,000
- MHESAC's net assets increased by $14,892,000
- Total operating revenues decreased by $3,362,000
- Total operating expenses decreased by $11,291,000

What the financial statements tell us is that MHESAC's financial health was strengthened during fiscal year 2011 in terms of its operating activities. Although operating revenues decreased due primarily to the continued declining interest rate environment, operating expenses decreased by an even greater amount.

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

On May 7, 2008, the Ensuring Continued Access to Student Loans Act (ECASLA) was signed into law. One of the programs created by ECASLA was a program whereby lenders could sell student loans to the Department of Education under a program called the PUT Program. During the most recent fiscal year, MHESAC participated in the PUT Program and sold loans that had been originated or acquired during the 09-10 academic year. On August 10, 2010, MHESAC completed a PUT sale in the principal amount of $54.7 million. As a result of this sale, MHESAC was paid for the principal on the loans, any accrued borrower interest, reimbursement of the 1% lender fee assessed by the DOE when the loan was originated and a $75 per loan reimbursement for origination costs.

During the year, MHESAC's auction bonds continued to be illiquid 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.

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 Maximum Bond Rate on the senior taxable bonds follows a different formula and is 30-day LIBOR plus 1.5% and for the subordinate taxable bonds is 30-day LIBOR plus 3.5%. 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 0.158% and 1.25% at June 30, 2011. The difference between the Max Rate and the Net loan Rate is accrued for carry-forward and eventual payout to the bondholder.

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. The original issuance amount was $175,000,000. These bonds then became bank bonds in 2008 and reverted to a set of rules for setting the interest rate as prescribed in the bond indenture. The rate on these bonds was based on prime rate plus 2.25% for the time they were outstanding in the fiscal year that ended June 30, 2011. At the beginning of the fiscal year, only $9,320,000 of the bonds remained outstanding. This amount was redeemed on August 13, 2010 leaving none of these bonds outstanding.

Long-term Debt Activity

MHESAC has issued both tax-exempt and taxable bonds to raise capital for its student loan origination and acquisition activities as more fully described in the accompanying notes to the financial statements. All bonds issued and outstanding are rated by at least two of the national rating agencies. The senior bonds all carry a “AAA” rating by Moody’s, Fitch and Standard & Poor’s. The subordinate bonds carry an “A” rating by Moody’s and Standard & Poor’s but have been downgraded to a “B” by Fitch. During the year there were no changes in the ratings of MHESAC’s senior bonds. During the fiscal year Fitch affirmed the ratings on the senior bonds. After the close of the fiscal year, Standard & Poor put MHESAC’s Senior bonds on negative watch based on their related action in downgrading the United States bond debt. Due to the guarantor and subsidy relationship between student loan issuers and the federal government, all student lenders participating in the FFEL program were put on negative watch.

In the fiscal year that ended June 30, 2011, 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 $34,627,000. Special redemptions of the bank bonds totaled $9,320,000. Bonds totaling $65,600,000 were purchased on the market and retired. In total, bonds redeemed and retired were $109,547,000.

Long-term Debt Activity (Continued)

An analysis of the change to bonds outstanding follows:

	Current Portion	Long-term Portion
Bonds outstanding at 7/01/10	$ 68,047,000	$ 1,532,844,000
Scheduled redemption and targeted payments of 1998, 1999, 2000, 2005 and 2006 Series bonds	(34,627,000)	
Special redemption of 2007 Series bonds	(9,320,000)	
Buyback of 1995, 1998, 1999, 2001, 2002, 2003, 2004 and 2006 Series bonds		(65,600,000)
Reclassification to current	43,368,000	(43,368,000)
Bonds outstanding at 6/30/11	$ 67,468,000	$ 1,423,876,000

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

	6/30/2011 Par Value	% of Total	6/30/2010 Par Value	% of Total
Auction Rate Bonds:				
Tax-Exempt	$1,052,300,000	70.5%	$1,117,900,000	69.8%
Taxable	96,350,000	6.5%	96,350,000	6.0%
Fixed Rate Bonds				
Tax-Exempt	41,205,000	2.8%	43,185,000	2.7%
Floating Rate Notes				
Taxable	301,489,000	20.2%	334,136,000	20.9%
Variable Rate Demand Obligations				
Tax-Exempt	-	0%	9,320,000	0.6%

Significant Events

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

FINANCIAL STATEMENTS

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
BALANCE SHEET
June 30, 2011 with Comparative Totals for 2010
(expressed in thousands)

ASSETS	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 4,520	$ 3,255
Investments	971	873
Accrued interest receivable	80	108
Real estate loan receivable, related party	192	177
Prepaid costs, net of accumulated amortization	131	179
Other assets	13	28
Total Current Assets	5,907	4,620
RESTRICTED ASSETS		
Cash and cash equivalents	7,095	48,176
Investments	121,266	26,378
Educational loans receivable, net	1,357,674	1,502,559
Accrued interest receivable	20,426	22,647
Prepaid costs, net of accumulated amortization	19,117	23,468
Other assets	1,762	1,553
Total Restricted Assets	1,527,340	1,624,781
OTHER ASSETS		
Educational loans receivable, net	4,717	5,325
Deferred bond issuance costs, net of accumulated amortization of $8,273,502 in 2011 and $7,635,554 in 2010	9,194	9,834
Real estate loan receivable, related party	1,692	1,884
Total Other Assets	15,603	17,043
TOTAL ASSETS	$ 1,548,850	$ 1,646,444

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

LIABILITIES AND NET FUND ASSETS	2011	2010
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 6,193**	$ 7,669
Accrued interest payable	**532**	830
Educational loan revenue bonds payable - current portion	**67,468**	68,047
Total Current Liabilities	**74,193**	76,546
LONG-TERM DEBT		
Accrued interest payable	**5,031**	4,365
Educational loan revenue bonds payable	**1,423,876**	1,532,844
Total Long-Term Debt	**1,428,907**	1,537,209
OTHER LIABILITIES		
Contingent arbitrage rebate liability	**4,318**	5,937
Contingent excess interest liability	**577**	789
Total Other Liabilities	**4,895**	6,726
TOTAL LIABILITIES	**1,507,995**	1,620,481
FUND NET ASSETS		
Restricted net assets	**19,350**	4,024
Unrestricted net assets	**21,505**	21,939
Total Fund Net Assets	**40,855**	25,963
TOTAL LIABILITIES AND FUND NET ASSETS	**$ 1,548,850**	$ 1,646,444

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN FUND NET ASSETS
June 30, 2011 with Comparative Totals for 2010
(expressed in thousands)

	2011	2010
OPERATING REVENUE		
Interest on investments and cash equivalents	$ 1,009	$ 968
Interest on educational loans (net of expense for uncollectible accounts of $(18,808) in 2011 and $131,391 in 2010)	45,181	49,620
Income from sale of loans	1,130	1,949
Income from purchase of loans	11	-
Gain on bond repurchase	6,514	4,656
Interest on real estate note	165	179
Total Operating Revenue	54,010	57,372
OPERATING EXPENSE		
Financing expenses:		
Bond and note interest	10,681	16,872
Amortization of bond issuance costs	639	2,017
Auction agent/broker fees	677	713
Bond fees	366	664
Loan fees	14,622	16,241
Contracted management fees	2,964	3,159
Contracted loan servicing fees	10,542	12,114
Administrative expenses	19	21
Total Operating Expense	40,510	51,801
Operating income	13,500	5,571
NONOPERATING REVENUES (EXPENSES)		
Arbitrage rebate	1,460	(2,396)
Excess interest rebate	(68)	610
Change in fair value of interest rate swaps	-	450
Nonoperating Revenues (Expenses)	1,392	(1,336)
INCREASE IN NET ASSETS	14,892	4,235
FUND NET ASSETS, BEGINNING OF YEAR	25,963	21,728
FUND NET ASSETS, END OF YEAR	$ 40,855	$ 25,963

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF CASH FLOWS
June 30, 2011 with Comparative Totals for 2010
(expressed in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received on student loans	$ 28,694	$ 31,366
Interest received on investments	958	1,148
Interest received on real estate and operating notes	165	179
Income from sale of loans	1,130	1,949
Income from purchase of loans	11	-
Bond and note interest paid	(10,314)	(16,348)
Cash paid to interest rate swap counterparties	-	(696)
Auction agent/broker fees paid	(679)	(781)
Bond fees paid	(365)	(177)
Loan fees paid	(10,283)	(11,728)
Contracted management & servicing fees paid	(13,371)	(15,620)
Administrative expenses paid	(17)	(20)
Net cash used in operating activities	(4,071)	(10,728)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of educational loans	(33,192)	(38,902)
Sale of educational loans	54,793	(38,902)
Repayments of educational loans	140,653	125,493
Repayments of loans on sale of assets	177	163
Purchase of investments	(320,788)	(239,261)
Proceeds from sale of investments	225,803	300,394
Net cash provided by investing activities	67,446	108,985
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Arbitrage Rebate paid	(158)	(1,660)
Repayment of bonds	(103,033)	(223,510)
Net cash used in financing activities	(103,191)	(225,170)
Net decrease in cash and equivalents	(39,816)	(88,011)
Cash and cash equivalents, beginning of year	51,431	139,442
Cash and cash equivalents, end of year	$ 11,615	$ 51,431

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

	2011	2010
A reconciliation of cash and cash equivalents as shown on the balance sheet for MHESAC follows:		
Cash	$ 4,520	$ 3,255
Restricted assets	7,095	48,176
Cash and cash equivalents	$ 11,615	$ 51,431

	2011	2010
A reconciliation of operating income to cash provided by operating activities follows:		
Cash Flows From Operating Activities:		
Operating income	$ 13,500	$ 5,571
Adjustments to reconcile operating income to net cash provided by operations:		
Amortization of bond issuance costs	638	2,017
Uncollectible accounts	19	(131)
Gain on reacquisition of bonds	(6,514)	(4,656)
Zero coupon bond accretion	-	57
Change in assets and liabilities:		
Interest receivable	(15,105)	(20,001)
Other assets	4,426	5,054
Accounts payable and accrued expenses	(1,405)	1,037
Accrued interest payable	370	324
Net cash used in operating activities	$ (4,071)	$ (10,728)

	2011	2010
Supplemental Information:		
Non-cash Investing and Financing Activity:		
Accrued interest capitalized	$ 17,624	$ 20,345
Value of swap	-	450
Student loan borrower rebates granted	279	445
	$ 17,903	$ 21,240

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Generally, the Corporation's returns are no longer subject to review by Montana and federal taxing authorities for years prior to the tax year ended June 30, 2008.

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 in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The Corporation implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" for financial reporting effective for fiscal years beginning July 1, 2002. As provided by this standard, MHESAC follows proprietary fund reporting and has elected to apply pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989, provided they do not conflict with or contradict guidance of the GASB.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued):
In accordance with GAAP, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The 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 and educational loans, gains on bond repurchases, gains on loan sales, interest on real estate notes and operating notes as well as other miscellaneous income.

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

Accounting Estimates:
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Significant estimates include 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. Accounts at this financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 for interest-bearing accounts and unlimited deposit insurance coverage on noninterest-bearing accounts. At June 30, 2011, the book balance amount of MHESAC deposits was $4,492,837 with a bank balance of $4,493,216. The majority of those deposits are in a non-interest bearing account with unlimited federal depository insurance coverage and therefore the federal depository insurance was not exceeded.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 when they are classified as trading investments and at amortized cost when classified as held-to-maturity investments. Cost of investments exceeds fair value by $7,975 at June 30, 2011 and fair value exceeds cost of investments by $18,074 at June 30, 2010. The resulting unrealized gain or loss on investments is reported in the Statement of Revenue, Expense and Changes in Fund Balance as a component of investment income.

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. In addition, the United States Department of Education pays the interest for subsidized Stafford and subsidized Consolidation loans during the time a borrower is in an authorized deferment period. Authorized deferment periods are specific situations and statuses determined by the United States Department of Education.

Special Allowance Payments:
The United States Department of Education provides a special allowance or subsidy to lenders participating in the 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, 2011, rebates of $21,343,600 were netted in Special Allowance revenue on the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2011 and 2010 based on the average claim rate as of year-end.

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)

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, 2011, the Corporation's arbitrage rebate liability was $4,318,442.

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

Reclassifications:
Certain reclassifications were made to the 2010 financial statements in order to conform to the 2011 presentation. The reclassifications had no effect on net assets or total assets previously reported.

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 adopted a formal internal policy related to the investment of the General Fund activity that is in accordance with the Internal Revenue Code and the prudent expert principle. General Fund moneys will be invested in securities similar in nature to those in the indenture. 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.

NOTE 2. INVESTMENTS (CONTINUED)

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.

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 when they are classified as trading investments and are reported at amortized cost when they are classified as held-to-maturity investments. The following summarizes investments held at June 30, 2011:

INVESTMENTS – CURRENT	AMOUNT	RATE	MATURITY
Freddie Mac Note	$ 340,833	5.25%	07/18/11
Federal Home Loan Bank Note	630,399	5.38%	06/08/12
	971,232		
INVESTMENTS – RESTRICTED			
Investments:			
Federal Home Loan Mortgage Corporation	2,130,348	0.15%	08/02/11

NOTE 2. INVESTMENTS (CONTINUED)

Investment Agreements:	AMOUNT	RATE	MATURITY
Bayern LB (formerly Bayerische Landesbank Girozentrale)			
1995 Float Funds	14,245,182	0.04%	12/01/15
1998A Reserve and Float Funds	9,014,330	1.69%	12/01/31
1998B Reserve and Float Funds	3,145,613	5.53%	12/01/31
1999B Float Funds	1,425,364	6.20%	12/01/32
1999B Reserve Funds	1,017,500	6.35%	12/01/32
2000A&B Reserve Funds	5,000,000	1.74%	12/01/33
2000A&B Float Funds	14,813,549	1.74%	12/01/33
2000C Reserve Funds	431,750	0.00%	12/01/33
2000C Float Funds	45,377	0.00%	12/01/33
2001A&B Reserve Funds	2,138,916	1.01%	11/30/15
2001A&B Float Funds	9,195,423	0.70%	11/30/15
2001C Reserve Funds	883,500	0.10%	11/30/15
2001C Float Funds	109,062	0.01%	11/30/15
2004A,B&C Float Funds	1,638,222	0.70%	11/27/15
Bayern LB Total	63,103,788		
UniCredit Bank AG (formerly Bayerische-Hypo)			
1999A Reserve Funds	4,075,000	1.51%	12/01/32
1999A Float Funds	5,708,461	1.02%	12/01/32
UniCredit Bank AG Total	9,783,461		
Trinity Funding Company			
2002A,B&E Float Funds	15,875,061	0.14%	11/30/35
2002D Float Funds	53,039	0.14%	11/30/35
2005 Float Funds	978,935	0.15%	06/19/30
2006A Float Funds	565,421	0.10%	03/19/24
2006B&C Float Funds	261,050	0.04%	01/30/38
2006D,E,F&G Float Funds	13,490,966	0.12%	01/29/38
Trinity Funding Company Total	31,224,472		
Grand Central Funding			
2003A,B&D Float Funds – Variable	14,936,150	0.93%	11/28/36
2003C Float Funds	88,029	0.12%	11/28/36
Grand Central Funding Total	15,024,179		
TOTAL INVESTMENTS	$122,237,480		

Investment Provider Ratings:	S&P	Moody's	Fitch
Bayern LB	Not Rated	A1/P-1	A+/F1+
UniCredit Bank AG	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	AAAsf/F1+sf

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.

Educational loans are summarized as follows:

	June 30, 2011	June 30, 2010
Student/interim status	$ 488,349,492	$ 581,415,245
Repayment status	874,745,273	927,201,246
Educational loans receivable	1,363,094,765	1,508,616,491
Allowance for uncollectible loans	(704,554)	(733,060)
Educational loans receivable, net	$ 1,362,390,211	$ 1,507,883,431

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

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, 2011, fixed interest rates on Stafford, PLUS, SLS, and FISL loans in the portfolio varied from 5.6% for subsidized loans originated after July 1, 2009 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 and July 1, 2009 and June 30, 2010, which bear interest at the fixed rate of 6% and 5.6%, respectively. 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 3. EDUCATIONAL LOANS RECEIVABLE (CONTINUED)

Sale of Student Loans
MHESAC participated in the PUT (Loan Purchase Commitment Program) program on August 10, 2010. The Department of Education was authorized to purchase federal student loans from lenders to ensure on-going availability of funds for student loans. MHESAC sold $54,792,925 in loans from the 2007 bond series that were originated in fiscal year 2010. The sale of loans resulted in a gain of $1,129,992 from the reimbursement by the Department of Education of $75 per loan for previously incurred loan origination costs. The Department of Education also reimbursed 1% of lender loan fees originally paid by MHESAC.

NOTE 4. RELATED PARTY TRANSACTIONS

MHESAC has entered into agreements with Student Assistance Foundation of Montana (SAF) to provide management and loan servicing to MHESAC. SAF has one of its nine Board members in common with the Corporation's seven Board members. Effective February 1, 2000, the Corporation transferred, for fair value, all of its operations and non-financial assets including personnel, all furniture and equipment, as well as its interest in the office building, to SAF. 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, 2011	(1,016,294)
Balance due MHESAC on real estate note	$ 1,883,706
Less current portion	(192,092)
Long-term receivable balance at June 30, 2011	$ 1,691,614

On June 28, 2003, Montana Student Loan Funding, LLC (MSLF) was created as a limited liability corporation with SAF as the sole member. MSLF is a bankruptcy remote company created to 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.

NOTE 4. RELATED PARTY TRANSACTIONS (CONTINUED)

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. 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. The portfolio balance MSLF held at June 30, 2011 was $194 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 June 30, 2010	$ 1,600,891,000
Bonds issued during the year	-
Bonds redeemed during the year	(43,947,000)
Bonds acquired & retired during the year	(65,600,000)
Bonds outstanding at June 30, 2011	$ 1,491,344,000

A description of significant terms and conditions of each Student Loan Revenue Bond issue outstanding at June 30, 2011 follows:

Issue	Year End Interest Rate	Original Issue Amount	June 30, 2011
Tax Exempt Fixed Rate Bonds:			
1998 Series B Bonds **	4.95-5.50%	$ 27,970,000	$ 23,260,000
1999 Series B Bonds **	5.55-6.40%	20,350,000	17,945,000
Total Tax Exempt Fixed Rate Bonds		48,320,000	41,205,000

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Issue	Year End Interest Rate	Original Issue Amount	June 30, 2011
Tax Exempt Auction Rate Bonds:			
1995 Series A Bonds	0.315%	56,700,000	34,600,000
1995 Series B Bonds	0.263%	56,600,000	34,500,000
1995 Series C Bonds	0.228%	56,600,000	16,900,000
1998 Series A Bonds	0.210%	79,800,000	69,200,000
1999 Series A Bonds	0.315%	81,500,000	73,400,000
2000 Series A Bonds	0.315%	50,000,000	50,000,000
2000 Series B Bonds	0.263%	50,000,000	50,000,000
2001 Series A Bonds	0.193%	84,200,000	84,200,000
2001 Series B Bonds	0.193%	25,000,000	11,500,000
2002 Series A Bonds	0.210%	53,800,000	53,800,000
2002 Series B Bonds	0.210%	29,000,000	27,700,000
2002 Series E Bonds **	0.318%	15,000,000	15,000,000
2003 Series A Bonds	0.228%	80,200,000	75,200,000
2003 Series B Bonds	0.210%	80,100,000	79,800,000
2003 Series D Bonds **	0.345%	10,000,000	10,000,000
2004 Series A Bonds	0.193%	83,000,000	55,900,000
2004 Series B Bonds	0.315%	83,000,000	76,500,000
2004 Series C Bonds **	0.292%	12,000,000	12,000,000
2006 Series D Bonds	0.315%	71,400,000	71,400,000
2006 Series E Bonds	0.263%	71,400,000	64,400,000
2006 Series F Bonds	0.228%	71,300,000	66,300,000
2006 Series G Bonds **	0.345%	20,000,000	20,000,000
Total Tax Exempt Auction Rate Bonds		1,220,600,000	1,052,300,000
Taxable Floating Rate Notes:			
2005 Series B Bonds	0.367%	119,140,000	114,880,000
2006 Series A Bonds	0.347%	226,775,000	186,609,000
Total Taxable Floating Rate Notes:		479,423,000	301,489,000
Taxable Auction Rate Bonds:			
2000 Series C Bonds	1.686%	11,200,000	9,050,000
2001 Series C Bonds	1.686%	29,500,000	20,800,000
2002 Series D Bonds	1.690%	10,300,000	8,000,000
2003 Series C Bonds	1.686%	13,300,000	10,100,000
2006 Series B Bonds	1.686%	74,700,000	18,400,000
2006 Series C Bonds **	0.158%	30,000,000	30,000,000
Total Taxable Auction Rate Bonds		169,000,000	96,350,000
TOTAL BONDS		$ 1,917,343,000	$1,491,344,000

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

The Bonds are limited obligations of the Corporation payable solely from and secured by specific revenues and funds as described in the indenture. Of the outstanding bonds, $1,093,505,000 are tax-exempt and $397,839,000 are taxable.

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

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Issue	Original Issue Date	Average Interest Rate from Issuance Date to Current	Maturity Date	Interest Due Status	Variable Rate Basis	June 30, 2011
1995 Senior Series A	3/16/1995	3.02%	12/1/2015	Semi-annual	35 day auction	$ 34,600,000
1995 Senior Series B	3/16/1995	3.02%	12/1/2015	Semi-annual	35 day auction	34,500,000
1995 Senior Series C	3/16/1995	3.14%	12/1/2015	Semi-annual	35 day auction	16,900,000
1998 Senior Series A	12/1/1998	2.53%	12/1/2031	Semi-annual	35 day auction	69,200,000
1998 Subordinate Series B	11/1/1998	4.95%	12/1/2011	Semi-annual	N/A-Fixed rate	670,000
1998 Subordinate Series B	11/1/1998	5.00%	12/1/2012	Semi-annual	N/A-Fixed rate	580,000
1998 Subordinate Series B	11/1/1998	5.50%	12/1/2031	Semi-annual	N/A-Fixed rate	22,010,000
1999 Senior Series A	12/1/1999	2.37%	12/1/2032	Semi-annual	35 day auction	73,400,000
1999 Subordinate Series B	11/1/1999	5.55%	12/1/2011	Semi-annual	N/A-Fixed rate	295,000
1999 Subordinate Series B	11/1/1999	5.65%	12/1/2012	Semi-annual	N/A-Fixed rate	465,000
1999 Subordinate Series B	11/1/1999	5.75%	12/1/2013	Semi-annual	N/A-Fixed rate	480,000
1999 Subordinate Series B	11/1/1999	5.85%	12/1/2014	Semi-annual	N/A-Fixed rate	505,000
1999 Subordinate Series B	11/1/1999	6.40%	12/1/2032	Semi-annual	N/A-Fixed rate	16,200,000
2000 Senior Series A	9/7/2000	2.23%	12/1/2033	Semi-annual	35 day auction	50,000,000
2000 Senior Series B	9/7/2000	2.25%	12/1/2033	Semi-annual	35 day auction	50,000,000
2000 Senior Series C	9/7/2000	2.85%	12/1/2033	Every 28 days	28 day auction	9,050,000
2001 Senior Series A	11/28/2001	2.03%	12/1/2034	Semi-annual	35 day auction	84,200,000
2001 Senior Series B	11/28/2001	2.17%	12/1/2034	Semi-annual	35 day auction	11,500,000
2001 Senior Series C	11/28/2001	2.60%	12/1/2034	Every 28 days	28 day auction	20,800,000
2002 Senior Series A	11/6/2002	2.19%	12/1/2035	Semi-annual	35 day auction	53,800,000
2002 Senior Series B	11/6/2002	2.19%	12/1/2035	Semi-annual	35 day auction	27,700,000
2002 Senior Series D	11/6/2002	2.63%	12/1/2035	Every 28 days	28 day auction	8,000,000
2002 Subordinate Series E	11/6/2002	2.28%	12/1/2035	Semi-annual	35 day auction	15,000,000
2003 Senior Series A	10/15/2003	2.29%	12/1/2037	Semi-annual	35 day auction	75,200,000
2003 Senior Series B	10/15/2003	2.32%	12/1/2037	Semi-annual	35 day auction	79,800,000
2003 Senior Series C	10/15/2003	2.84%	12/1/2037	Every 28 days	28 day auction	10,100,000
2003 Subordinate Series D	10/15/2003	2.36%	12/1/2037	Semi-annual	35 day auction	10,000,000
2004 Senior Series A	11/17/2004	2.56%	12/1/2038	Semi-annual	35 day auction	55,900,000
2004 Senior Series B	11/17/2004	2.45%	12/1/2038	Semi-annual	35 day auction	76,500,000
2004 Subordinate Series C	11/17/2004	2.56%	12/1/2038	Semi-annual	35 day auction	12,000,000
2005 Senior Series B	5/26/2005	2.96%	6/20/2030	Quarterly	3 mth Libor + 12	114,880,000
2006 Senior Series A	5/3/2006	2.84%	3/20/2024	Quarterly	3 mth Libor + 10	186,609,000
2006 Senior Series B	5/3/2006	3.80%	12/1/2040	Every 7 days	7 day auction	18,400,000
2006 Subordinate Series C	5/3/2006	2.30%	12/1/2040	Every 28 days	28 day auction	30,000,000
2006 Senior Series D	10/31/2006	2.21%	12/1/2040	Semi-annual	35 day auction	71,400,000
2006 Senior Series E	10/31/2006	2.31%	12/1/2040	Semi-annual	35 day auction	64,400,000
2006 Senior Series F	10/31/2006	2.28%	12/1/2040	Semi-annual	35 day auction	66,300,000
2006 Subordinate Series G	10/31/2006	2.32%	12/1/2040	Semi-annual	35 day auction	20,000,000
						$ 1,491,344,000

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Additional Information on Series 2005 – 2006 Bonds:

2005 Series B Student Loan Revenue Bonds

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

2005 B Senior Bonds

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
March 20, 2016	2,954,000		

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

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

2006 Series A Student Loan Revenue Bonds

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

2006 A Senior Bonds

Anticipated Principal Reduction Date	Anticipated Principal Reduction Amount	Anticipated Principal Reduction Date	Anticipated Principal Reduction Amount
September 20, 2011	$30,338,000	December 20, 2014	$6,990,000
December 20, 2011	6,573,000	March 20, 2015	6,928,000
March 20, 2012	6,611,000	June 20, 2015	7,043,000
June 20, 2012	6,679,000	September 20, 2015	6,910,000
September 20, 2012	6,682,000	December 20, 2015	6,934,000
December 20, 2012	6,839,000	March 20, 2016	6,809,000
March 20, 2013	6,893,000	June 20, 2016	6,639,000
June 20, 2013	6,890,000	September 20, 2016	6,228,000
September 20, 2013	6,846,000	December 20, 2016	6,166,000
December 20, 2013	6,969,000	March 20, 2017	6,005,000
March 20, 2014	6,967,000	June 20, 2017	5,672,000
June 20, 2014	6,966,000	September 20, 2017	2,109,000
September 20, 2014	6,923,000		

The targeted principal reduction amounts for the 2006 Series A were not fully met December 20, 2008, March 20, 2009, June 20, 2009, September 20, 2009, December 20, 2009, March 20, 2010, June 20, 2010, September 20, 2010, December 20, 2010, March 20, 2011 and June 20, 2011. The anticipated principal reduction amount for September 20, 2011 includes $24,100,000 in carry-over principal reduction.

2007 Series A, B and C Student Loan Revenue Bonds

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.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2007 Series A, B and C Student Loan Revenue Bonds (Continued)

Beginning October 1, 2009 the interest rate was based upon prime rate and was thus 3.25%. Beginning December 31, 2009, the interest rate was based on 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. On August 13, 2010, the remaining 2007 Series A, B, and C Bonds were redeemed in their entirety. The amounts were $5,600,000, $1,860,000 and $1,860,000, respectively.

Acquisition and Retirements:

During the year ended June 30, 2011, the Corporation had scheduled redemptions and special redemptions of student loan revenue bonds. The redemptions are summarized in the tables below:

Scheduled Redemptions:

Bond Series	Redemption Date	Redemption Amount
2005 Series A	09/20/2010	$ 4,689,000
2006 Series A	09/20/2010	3,392,000
1998 Series B	12/01/2010	325,000
1999 Series B	12/01/2010	280,000
2000 Series D	12/01/2010	1,375,000
2005 Series A	12/20/2010	4,560,000
2006 Series A	12/20/2010	3,964,000
2005 Series A	03/20/2011	4,353,000
2006 Series A	03/20/2011	2,972,000
2005 Series B	06/20/2011	4,260,000
2006 Series A	06/20/2011	4,457,000

Special Redemptions:

Bond Series	Acquisition Date	Par Value	Purchase Price	Gain
2007 Series A	08/12/2010	$ 5,600,000	$ 5,600,000	$ -
2007 Series B	08/12/2010	1,860,000	1,860,000	-
2007 Series C	08/12/2010	1,860,000	1,860,000	-

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Bond Redemptions by Acquisition and Retirement:

Bond Series	Acquisition Date	Par Value	Purchase Price	Gain
2006 Series E	07/27/2010	$ 7,000,000	$ 6,125,000	$ 875,000
1995 Series C	08/23/2010	5,300,000	4,783,250	516,750
1998 Series A	08/23/2010	7,500,000	6,768,750	731,250
2002 Series B	08/23/2010	100,000	90,250	9,750
2003 Series B	08/23/2010	300,000	270,750	29,250
2004 Series A	08/23/2010	27,100,000	24,457,750	2,642,250
2002 Series B	08/31/2010	1,200,000	1,065,000	135,000
2004 Series B	10/20/2010	6,500,000	5,879,250	620,750
1999 Series A	2/25/2011	8,100,000	7,371,000	729,000
2001 Series B	4/14/2011	2,500,000	2,275,000	225,000

Summary of Maturities:

The following is a summary of stated maturities and mandatory sinking fund requirements on long-term debt. Interest is calculated using the average bond interest rate since bond issuance dates:

Year Ending June 30	Revenue Bonds Payable	Interest	Total
2012	$ 67,468,000	$ 38,654,393	$ 106,122,393
2013	43,607,000	38,601,510	82,208,510
2014	42,597,000	38,562,380	81,159,380
2015	41,603,000	38,533,647	80,136,647
2016	125,183,000	36,992,866	162,175,866
2017-2021	70,026,000	179,505,503	249,531,503
2022-2026	-	174,209,539	174,209,539
2027-2031	-	153,025,685	153,025,685
2032-2036	510,860,000	100,710,915	611,570,915
2037-2041	590,000,000	42,920,822	632,920,822
Total	$1,491,344,000	$841,717,260	$ 2,333,061,260

Compliance:

The bond indenture contains 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 indenture outstanding at June 30, 2011.

NOTE 5. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Bond Ratings:
On September 28, 2010, MHESAC was notified that Fitch Ratings, one of the three rating agencies that issue ratings on MHESAC bonds, lowered its rating of all subordinate bonds from A/LS3 to B/LS3, with a stable outlook. At that time, Fitch again affirmed the AAA rating of all senior bonds. The impact of the ratings action was a change in the mechanism for calculating the periodic interest rate on the subordinate bonds resulting in higher interest.

Auction Rate Bond Provisions for Illiquid Auctions:
In the event of a bond auction being illiquid, 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 liquidity issues. Since June 30, 2008, all auction bonds have continued to be illiquid on each auction date except the 2006C bond series. During the fiscal year ended June 30, 2011 there were no successful auctions.

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. Per Indenture terms, when the net loan rate exceeds the auction rate the issuer is required to pay down the prior accrued Carry-Over subject to Surplus fund availability. Surplus funds were not available during the year ended June 30, 2011. At June 30, 2011 the Corporation's Carry-Over liability was $5,031,057 and is included in these statements as a long term liability.

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. At June 30, 2011, the Corporation's excess interest liability was $577,247. 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	$ 329,360
2013	103,575
Subsequent years	144,312
	$ 577,247

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

The following are the assets and liabilities measured on a recurring basis as of and for the year ended June 30, 2011 and 2010. There were no transfers between Levels 1, 2 or 3 in 2011 or 2010.

Financial Instrument	Carrying Value	Fair Value	Quoted Prices in Active Markets-Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2011:					
Assets:					
Investment Securities					
Federal Home Loan Bank Notes	$ 630,399	$ 630,399	$ -	$ 630,399	$ -
Freddie Mac	340,833	340,833		340,833	
Federal Home Loan Mortgage Corp	2,130,348	2,130,348		2,130,348	
Guaranteed Investment Contracts	119,135,900	119,135,900		-	119,135,900
	$ 122,237,480	$ 122,237,480	$ -	$ 3,101,580	$ 119,135,900
2010:					
Assets:					
Investment Securities					
Federal Home Loan Bank Notes	$ 515,968	$ 515,968	$ -	$ 515,968	$ -
Freddie Mac	357,105	357,105		357,105	-
Guaranteed Investment Contracts	26,378,449	26,378,449		-	26,378,449
	$ 27,251,522	$ 27,251,522	$ -	$ 873,073	$ 26,378,449

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following valuation methods are used to determine the fair value of the above items on a recurring basis, which did not change in 2011:

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

Following is a reconciliation of beginning and ending values for Level 3 items, consisting of guaranteed investment contracts:

	2011	2010
Fair Value at July 1	**$ 26,378,449**	$ 87,500,859
Receipts/Inflows	**209,148,549**	157,754,898
Payments/Outflows	**(116,391,098)**	(218,877,308)
Fair Value at June 30	**$ 119,135,900**	$ 26,378,449

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

	2011		2010	
Financial assets:	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 11,614,614**	**$ 11,614,614**	$ 51,431,000	$ 51,431,000
Interest receivable	**20,506,303**	**20,506,303**	22,755,000	22,755,000
Real estate loan receivable	**1,883,706**	**1,883,706**	2,060,872	2,060,872
Educational loans receivable, net	**1,362,390,211**	**1,299,100,874**	1,507,883,431	1,447,378,685
Total financial assets	**$ 1,396,394,834**	**$ 1,333,105,497**	$ 1,584,130,303	$ 1,523,625,557
Financial liabilities:				
Interest payable	**$ 5,563,797**	**$ 5,563,797**	$ 5,195,000	$ 5,195,000
Educational bonds payable	**1,491,344,000**	**1,361,299,408**	1,600,891,000	1,446,678,899
	$ 1,496,907,797	**$ 1,366,863,205**	$ 1,606,086,000	$ 1,451,873,899

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

Cash and Cash Equivalents:
The carrying amount for cash and cash equivalents is considered to approximate fair value at June 30, 2011.

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Interest Receivable and Payable:
The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2011 and 2010, given their short-term nature.

Educational Loans Receivable:
The fair value was estimated by reference to sale information from the limited marketplace and by discounting the future cash flows using current rates of return required by investors in similar assets (market approach). A number of significant inputs into the models are internally derived and not observable to market participants. The fair value of student loans that were subsequently sold under the Department of Education Loan Purchase Commitment Program is the principal amount outstanding as these loans were sold within 60 days subsequent to the balance sheet date at par value.

Educational Bonds Payable:
The Corporation's bonds consist of both variable rate and fixed rate debt. Due to disruptions in the United States capital markets, there is not a current active market for the Corporation's auction rate bonds. The estimated fair value of bonds was determined by discounting the cash flows using current market rates, including a liquidity discount due to the status of the auction rate bond market (income approach). The fair value of Educational Loan Revenue Bonds Payable is based on the brokered market for fixed rate bonds (market approach).

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.

NOTE 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management and Servicing Agreements (Continued):
For each successive three-year period the mark-up percentage of such costs will be mutually agreed upon by MHESAC and SAF, but in no event will it be less than five percent. For the three year period beginning July 1, 2009, MHESAC and SAF agreed to continue the mark-up percentage at fifteen percent along with an efficiency incentive to provide a cost savings sharing opportunity. By contract, the fees are payable in advance for each month. Therefore, an estimate is made of anticipated cost levels and SAF bills MHESAC on that basis with a final adjustment to the advance billing based on actual expenses incurred. During the years ended June 30, 2011 and 2010, SAF billed MHESAC $13,370,225 and $15,619,548, respectively. At June 30, 2011 and 2010, the reconciliation for billed and actual costs resulted in a balance payable to SAF of $115,483 and a receivable from SAF of $18,538, respectively.

NOTE 9. SUBSEQUENT EVENTS

Continuing Illiquid Auctions:
Since June 30, 2011, all auction bonds except the 2006C have continued to be illiquid 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 Illiquid Auctions.

Investment Provider Ratings:
On July 13, 2011 Moody's Investors Service placed the U. S. AAA Government Bond rating on review for possible downgrade. On July 14, 2011 Standard & Poor's placed the U.S. Government AAA long term and A-1+ short term ratings on credit watch. On August 5, 2011, Standard & Poor's lowered the U.S. Government's AAA long term rating to a AA+ rating. It maintained its' separate A-1+ short term rating.

As a result of the connection MHESAC has with the federal government for loan guarantee, the ratings of MHESAC bonds were placed on credit watch in July 2011.

Supplemental Indenture:
On July 15, 2011 a Nineteenth Supplemental Indenture of Trust was executed between MHESAC and Wells Fargo Bank, NA. Upon execution of the Supplement, Wells Fargo Bank, NA, which currently serves as indenture trustee, was also appointed as back-up administrator of MHESAC in the event Student Assistance Foundation of Montana (SAF) is unable to perform its administrative duties. As back-up administrator Wells Fargo, NA will be entitled to a back-up administrator fee. SAF remains the trust administrator and servicer.

NOTE 9. SUBSEQUENT EVENTS (CONTINUED)

Bond Redemptions by Acquisition and Retirement:
On August 2, 2011, a partial redemption by acquisition and retirement of $12.5 million par value of the 2000A series and $6 million par value of the 2004 Series B bonds occurred at a discounted purchase price. The transaction resulted in a gain of $1,480,000 and the bonds were retired immediately.

Related Party Transactions:
On August 3, 2011 the note for the sale of land and building between MHESAC and SAF was paid in full in the amount of $1,868,513. The original 18 year note for the sale of land and the building was executed on February 1, 2000 for $2.9 million at a fixed rate of 8.22%.

Management has evaluated subsequent events through September 22, 2011, the date which the financial statements were available for issue and did not identify any further events to disclose.

A C C O M P A N Y I N G   I N F O R M A T I O N

ANDERSON ZURMUEHLEN & CO., P.C. • CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
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INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING 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, 2011 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 22, 2011

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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, 2011
(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	$ 633	$ 1,048	$ 999	$ 547	$ 154	$ 145	$ 462	$ 273	$ 450	$ 139	$ 315	$ 1,930	$ 7,095
Investments	16,376	12,160	12,226	20,291	12,327	15,928	15,024	1,638	979	826	13,491	-	121,266
Educational loans receivable, net	52,753	82,411	79,858	87,470	96,361	84,448	134,965	138,431	162,469	217,579	187,519	33,410	1,357,674
Accrued interest receivable	482	1,286	1,507	1,283	1,378	1,570	2,185	2,593	951	1,302	4,743	1,146	20,426
Inter-fund Activity	26,157	-	-	2,829	10,872	3,585	14,629	(6,426)	(42,057)	20,147	11,129	(40,865)	-
Prepaid costs, net	45	535	178	254	288	755	6,685	6,084	662	652	2,635	344	19,117
Other assets	42	134	114	52	114	115	223	260	53	227	310	118	1,762
Total assets	$ 96,488	$ 97,574	$ 94,882	$ 112,726	$ 121,494	$ 106,546	$ 174,173	$ 142,853	$ 123,507	$ 240,872	$ 220,142	$ (3,917)	$ 1,527,340
LIABILITIES AND FUND NET ASSETS													
LIABILITIES													
Accounts payable and accrued expenses	$ 55	$ 344	$ 316	$ 381	$ 375	$ 533	$ 666	$ 816	$ 144	$ 259	$ 1,899	$ 400	$ 6,188
Accrued interest payable	21	125	114	364	798	329	437	39	12	3,264	60	-	5,563
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Contingent arbitrage rebate liability	2,522	632	354	723	76	-	-	-	-	-	11	-	4,318
Contingent excess interest liability	-	-	-	-	439	138	-	-	-	-	-		577
Educational loan revenue bonds payable	86,000	92,460	91,345	109,050	116,500	104,500	175,100	144,400	114,880	235,009	222,100	-	1,491,344
Total liabilities	88,598	93,561	92,129	110,518	118,188	105,500	176,203	145,255	115,036	238,532	224,070	400	1,507,990
FUND NET ASSETS													
Restricted net assets (deficit)	7,890	4,013	2,753	2,208	3,306	1,046	(2,030)	(2,402)	8,471	2,340	(3,928)	(4,317)	19,350
Total liabilities and net assets	$ 96,488	$ 97,574	$ 94,882	$ 112,726	$ 121,494	$ 106,546	$ 174,173	$ 142,853	$ 123,507	$ 240,872	$ 220,142	$ (3,917)	$ 1,527,340

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
June 30, 2011
(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	$ 2	$ 215	$ 224	$ 231	$ 77	$ 10	$ 95	$ 82	$ 10	$ 22	$ 13	$ 23	$ 1,004
Interest on educational loans	2,118	2,997	3,561	3,385	4,284	2,734	4,405	3,941	5,502	6,953	4,415	754	45,049
Income from sale of loans	-	-	-	-	-	-	-	-	-	-	-	1,130	1,130
Gain on bond repurchase	517	731	729	-	225	145	29	3,263	-	-	875	-	6,514
	2,637	3,943	4,514	3,616	4,586	2,889	4,529	7,286	5,512	6,975	5,303	1,907	53,697
EXPENSE													
Bond and note interest	405	1,603	1,511	670	853	620	967	725	598	1,593	1,075	61	10,681
Auction agent/broker fees	47	39	43	61	66	58	100	83	1	51	128	-	677
Bond fees	20	20	21	28	28	27	40	34	24	45	69	10	366
Loan fees	571	769	698	939	1,048	834	2,019	1,924	1,849	2,411	1,415	95	14,572
Contracted management fees	140	211	210	221	242	217	350	364	169	226	496	105	2,951
Contracted loan servicing fees	460	696	691	737	811	723	1,161	1,200	877	1,175	1,631	354	10,516
	1,643	3,338	3,174	2,656	3,048	2,479	4,637	4,330	3,518	5,501	4,814	625	39,763
Excess (deficiency) of revenue over expense before other changes and bond issuance costs	994	605	1,340	960	1,538	410	(108)	2,956	1,994	1,474	489	1,282	13,934
Other Revenue (Expense)													
Arbitrage rebate	(753)	(70)	(82)	(151)	(35)	-	-	-	-	-	2,551	-	1,460
Excess interest rebate	(15)	352	(28)	(7)	(442)	236	(48)	(57)	-	-	(59)	-	(68)
Change in fair value of interest rate swaps	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess of revenue over expense before bond issuance costs	226	887	1,230	802	1,061	646	(156)	2,899	1,994	1,474	2,981	1,282	15,326
Excess (deficiency) of revenue over expense	226	887	1,230	802	1,061	646	(156)	2,899	1,994	1,474	2,981	1,282	15,326
FUND NET ASSETS (DEFICIT) BEGINNING OF YEAR	$ 7,664	$ 3,126	$ 1,523	$ 1,406	$ 2,245	$ 400	$ (1,874)	$ (5,301)	$ 6,477	$ 866	$ (6,909)	$ (5,599)	$ 4,024
FUND NET ASSETS (DEFICIT), END OF YEAR	$ 7,890	$ 4,013	$ 2,753	$ 2,208	$ 3,306	$ 1,046	$ (2,030)	$ (2,402)	$ 8,471	$ 2,340	$ (3,928)	$ (4,317)	$ 19,350

See Independent Auditor's Report on Accompanying Information.