

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021

NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

<u>Issue</u>	<u>Original Issue Date</u>	<u>Average Interest Rate from Issuance Date to Current</u>	<u>Maturity Date</u>	<u>Interest Due Status</u>	<u>Variable Rate Basis</u>	<u>June 30, 2021</u>
2006 Subordinate Series C	5/3/2006	1.98%	12/20/2046	Monthly	1 month LIBOR + 120 basis points	18,000,000
2012 Senior Series A-2	5/4/2012	1.62%	5/20/2030	Monthly	1 month LIBOR + 100 basis points	134,483,000
2012 Senior Series A-3	5/4/2012	1.83%	7/20/2043	Monthly	1 month LIBOR + 105 basis points	305,300,000
2012 Subordinate Series B-1	5/4/2012	1.98%	12/20/2044	Monthly	1 month LIBOR + 120 basis points	<u>19,500,000</u>
						<u>\$ 477,283,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021

NOTE 8. 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 were fully redeemed in the year ended June 30, 2021.

Additional Information on Series 2012 Bonds

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

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

Series 2012 –A2 Student Loan Revenue Bonds

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

Series 2012-A2 Senior Bonds

<u>Expected Principal Reduction Date</u>	<u>Expected Principal Reduction Amount</u>
July 20, 2021	\$ 5,257,000
August 20, 2021	4,805,000
September 20, 2021	7,848,000
October 20, 2021	8,147,000
November 20, 2021	6,295,000
December 20, 2021	7,817,000
January 20, 2022	6,380,000
February 20, 2022	5,323,000
March 20, 2022	6,290,000
April 20, 2022	5,597,000
May 20, 2022	4,717,000
June 20, 2022	<u>6,123,000</u>
Total Year ended June 30, 2022	74,599,000
2023	57,200,000
2024	<u>2,684,000</u>
Total	<u>\$ 134,483,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021

NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Additional Information on Series 2012 Bonds (Continued)

Series 2012 –A3 Student Loan Revenue Bonds

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

Series 2012-A3 Senior Bonds

Expected Principal Reduction Date <u>Years ended June 30,</u>	Expected Principal Reduction <u>Amount</u>
2024	\$ 54,089,000
2025	48,271,000
2026	42,121,000
2027	37,979,000
2028	33,282,000
2029	28,534,000
2030	24,849,000
2031	22,921,000
2032	<u>13,254,000</u>
Total	<u>\$ 305,300,000</u>

Series 2012 –B1 Student Loan Revenue Bonds

The Series 2012-B1 Bonds expect a principal balance reduction schedule as follows:

Series 2012-B1 Subordinate Bonds

Expected Principal Reduction Date <u>Years ended June 30,</u>	Expected Principal Reduction <u>Amount</u>
2032	\$ 6,664,000
2033	<u>12,836,000</u>
Total	<u>\$ 19,500,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021

NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

2006 Series C Student Loan Revenue Bonds

The 2006 Series C Bonds expect a principal balance reduction schedule as follows:

Series 2006 C Subordinate Bonds

Expected Principal Reduction Date <u>Years ended June 30,</u>	Expected Principal Reduction Amount
2033	\$ 3,860,000
2034	12,897,000
2035	<u>1,243,000</u>
Total	<u>\$ 18,000,000</u>

Retirements

During the year ended June 30, 2021, the Corporation had targeted payments and scheduled redemptions of student loan revenue bonds. These redemptions are summarized in the tables below:

Scheduled Redemptions

<u>Bond Series</u>	<u>Redemption Date</u>	<u>Redemption Amount</u>
2005 Series B	09/21/2020	\$ 1,773,000
2012 Series A2	07/20/2020	4,974,000
2012 Series A2	08/20/2020	4,074,000
2012 Series A2	09/21/2020	5,182,000
2012 Series A2	10/20/2020	5,170,000
2012 Series A2	11/20/2020	4,089,000
2012 Series A2	12/21/2020	4,506,000
2012 Series A2	01/20/2021	5,395,000
2012 Series A2	02/22/2021	3,474,000
2012 Series A2	03/22/2021	4,727,000
2012 Series A2	04/20/2021	6,324,000
2012 Series A2	05/20/2021	4,546,000
2012 Series A2	06/21/2021	4,543,000

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021

NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Summary of Maturities

The following is a summary of expected maturities for the bonds:

Year Ending <u>June 30</u>	Revenue Bonds <u>Payable</u>
2022	\$ 74,599,000
2023	57,200,000
2024	56,773,000
2025	48,271,000
2026	42,121,000
Thereafter	<u>198,319,000</u>
Total	477,283,000
Less: discount	(9,447,092)
Less: internal 2012 bond holding	<u>(19,500,000)</u>
Net bonds payable	<u>\$ 448,335,908</u>

Compliance

The bond indenture contains several covenants. These covenants include minimum reserve requirements, restrictions and limitations related to administrative expenses, and requirements for the purchase of educational loans. The Corporation is substantially in compliance with the covenants of the bond indenture outstanding at June 30, 2021.

Per the indenture, when the average of the Monthly Senior Trigger Percentage on each of the 6 months preceding monthly payment dates is less than 101.45% or if the average of the Monthly Subordinate Trigger Percentage on each of the 6 monthly payment dates is less than 90.00%, then no interest will be paid to the subordinate bondholders. In January and February of 2013, the trigger percentages were not met. Interest is accrued monthly using One-Month LIBOR plus 1.2%, until all bonds are paid. The amount of carryover interest on the 2006C and the 2012 B subordinate bonds at June 30, 2021, is \$51,872 and \$56,195, respectively.

Bond Ratings

As of June 30, 2021, all outstanding MHESAC Senior bonds are rated AAA by Fitch Ratings and the 2012-A2 bonds are rated AAA by Standard & Poor's while the 2012-A3 bonds are rated AA+ by Standard & Poor's Ratings Services. The outstanding subordinate bonds are unrated.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021

NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP 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. Those values and methodology used to derive them are as follows at June 30, 2021:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 18,060,555	\$ 18,060,555
Accrued interest receivable	16,416,824	16,416,824
Interest receivable	64,022	64,022
Investments	8,520,498	8,520,498
Educational loans receivable	<u>480,635,603</u>	<u>486,094,276</u>
Total financial assets	<u>523,697,502</u>	<u>\$529,156,175</u>
Financial liabilities:		
Interest payable	196,149	196,149
Educational bonds payable	<u>467,835,908</u>	<u>478,157,140</u>
Total financial liabilities	<u>\$468,032,057</u>	<u>\$478,353,289</u>

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, 2021, (level 1 valuation).

Interest Receivable and Payable

The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2021, given their short-term nature, (level 3 valuation).

Investments

Investments consist of U.S. Government obligations and corporate bonds (level 2 valuation), along with equity stocks, exchange traded funds, equity funds and real estate investment trusts (level 1 valuation). The carrying amount of investments is considered to approximate fair value.

Educational Loans Receivable

The fair value was estimated by discounting the future cash flows using current rates of return on similar assets (market approach). A number of significant inputs into the models are internally derived and not observable to market participants, (level 3 valuation).

NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Educational Bonds Payable

The fair value of the Corporation's 2012 A2 senior Educational Loan Revenue Bonds is based on the brokered market for those bonds at June 30, 2021 (market approach), (level 2 valuation). The fair value of the Corporations' 2012 A3 senior and subordinate Educational Loan Revenue Bonds is assumed to approximate face value based on the bond rating of the 2012 A3 senior bonds and the internal cash flows that indicate the likelihood of full satisfaction. These bonds are not actively traded but instead closely held by a limited number of investors. Therefore market information is unavailable, (level 3 valuation).

NOTE 10. COMMITMENTS AND CONTINGENCIES

Management and Servicing Agreements

MHESAC has entered into management and servicing agreements with SAF. SAF is the Master Servicer and has subcontracted with a third party servicer to provide the day to day servicing. SAF will continue to manage the MHESAC business via the management contract in place.

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 fifteen percent of those costs subject to certain minimums and maximums at different periods over the life of the contract. The servicing contract is for the life of the outstanding bonds.

By contract, the fees are payable in advance for each month. Therefore, an estimate is made of anticipated cost levels and SAF bills MHESAC on that basis with a final adjustment to the advance billing based on actual expenses incurred. During the year ended June 30, 2021, SAF billed MHESAC \$3,399,598. At June 30, 2021, the reconciliation for billed and actual costs resulted in a balance receivable from SAF of \$2,904.

Escrow Agreement

MHESAC has entered into an escrow agreement with SAF to assure there will be sufficient funds to pay future monthly management and servicing fees. SAF established an escrow account for the purpose of receiving and holding escrow property. Ascent Bank (formerly known as First Security Bank of Helena) is the escrow agent and is authorized and directed to hold and forward escrow property to be invested in an independent investment account. The escrow is held as an asset by SAF.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreement (Continued)

Deposits made monthly into the escrow account represent the amount, if any, by which the monthly billing from SAF to MHESAC (at 60 basis points annually of the outstanding student loan portfolio) exceeds the actual allocated costs of SAF in performing its duties and obligations under the contracts for management and master servicing.

In September 2016, an initial deposit from MHESAC General Fund Escrow of \$4,976,034 was made into the escrow account. The deposit was a calculated amount based on cash flow projections from the MHESAC Indenture.

The amount represents an initial balance that, when added to expected increases to the escrow in the coming years, will ensure sufficient funds to pay for servicing and management in future years when the MHESAC portfolio has amortized to the point where it no longer produces sufficient cash to cover its servicing and management obligations. During the year an additional \$1,227,965 was added to escrow from amounts collected from MHESAC in excess of the monthly management and servicing fees based on the allocated costs plus 15%.

At June 30, 2021, MHESAC's prepaid servicing fees balance was \$11,766,700. The prepaid will be reduced in future years when the cash available from MHESAC's Indenture is not sufficient to cover the cost of the contracts with SAF for master servicer and management services per the contracts between MHESAC and SAF.

Management and Support Agreement

On July 1, 2016, SAF entered into a management and support agreement with MHESAC for the MHESAC public purpose initiatives that have been branded as Reach Higher Montana. SAF will provide management services for MHESAC's Reach Higher Montana Initiative and will arrange and perform the delivery of the programs under the initiative. The cost of these services to deliver the programs is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreement plus a mark-up of five percent of these costs.

During the year ended June 30, 2021, SAF billed MHESAC \$273,853 for management services and \$956,036 for program delivery of the Reach Higher Montana initiatives. The reconciliation for billed and actual management and program delivery resulted in a net balance receivable from SAF of \$2,532.

Supplemental Indenture

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2021

NOTE 11. ENDOWMENT

In fiscal year 2017, the SAF Board-Designated Endowment was transferred, as an unrestricted donation, to MHESAC. The transfer was part of the Board's restructuring plan and is also related to MHESAC's subsequent governance of the public purpose programs SAF delivered up to June 30, 2016.

The MHESAC Board subsequently designated the funds for additional programs that will enhance access to post-secondary education for Montana students and citizens in the future. MHESAC will be establishing a spending policy and related investment policy for the endowment funds in the future. Currently, it is invested in equities and fixed income bonds.

The following describes the composition of net assets of the endowment as of June 30, 2021:

	<u>Without Donor Restrictions</u>
Balance, June 30, 2020	\$ 658,039
Investment income, net	<u>167,084</u>
Balance, June 30, 2021	<u>\$ 825,123</u>

NOTE 12. NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes for the year ended June 30, 2021:

Expiration of donor restriction released	
by expenditure for:	
Foster Care Youth scholarships	\$ 4,000
Foster Care Summit	25,297
Foster Care – other	2,796
Montana Chamber scholarships	6,750
Partnership to Advance Youth Apprenticeship grant	<u>117,856</u>
Total net assets released from donor restrictions	<u>\$ 156,699</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2021

NOTE 13. GRANT ACTIVITY

The Chaffee grant education and training voucher program grant was transferred to MHESAC under RHM effective July 1, 2016. The grant provides for the delivery of Educational Training Vouchers (ETV) funds, development, and delivery of college and life skills prep program and promotion of the use of ETV and other financial aid resources. Revenue totaling \$518,258 was recognized in the year ended June 30, 2021, with related expenses of \$586,710.

Effective March 16, 2020, New America Foundation awarded RHM the remaining first phase of Partnership to Advance Youth Apprenticeship (PAYA) grant that had been administered by another organization prior to this time. Phase I was completed in September 2020. In December RHM was awarded the Phase II grant for PAYA. These grants support the expansion of high-quality apprenticeship opportunities for high school age students across a broad range of industry sectors. Revenue totaling \$117,856 was recognized in the year ended June 30, 2021, with related expenses of \$149,267.

NOTE 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September __, 2021, the date which the financial statements were available for issue and did not identify any events to disclose.

SUPPLEMENTARY INFORMATION

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MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 COMBINING SCHEDULE OF FINANCIAL POSITION UNDER BOND INDENTURES
 June 30, 2021
 (expressed in thousands)

	2012 REVENUE BONDS
ASSETS	
Cash and cash equivalents	\$ 13,706
Educational loans receivable, net	473,891
Accrued interest receivable	16,174
Prepaid costs, net of accumulated amortization	6,816
Other assets	234
Total assets	\$ 510,821
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	\$ 1,893
Accrued interest payable	259
Educational loan revenue bonds payable	467,836
Total liabilities	469,988
 NET ASSETS	
Without donor restrictions	40,833
Total liabilities and net assets	\$ 510,821

See Independent Auditor's Report.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 COMBINING SCHEDULE OF ACTIVITIES UNDER BOND INDENTURES
 Year Ended June 30, 2021
 (expressed in thousands)

	2005 REVENUE BONDS	2012 REVENUE BONDS	TOTAL UNDER BOND INDENTURE
NET ASSETS			
Revenue and support			
Investment income	\$ -	\$ 3	\$ 3
Revenue and support			
Interest on educational loan	566	14,838	15,404
Amortization of prior discounted loan purchase	-	3	3
Total revenue and gains	<u>566</u>	<u>14,844</u>	<u>15,410</u>
Expenses			
Bond interest	2	7,762	7,764
Servicing fees	102	1,709	1,811
Trustee fees	1	78	79
Surveillance fees	-	38	38
Listing fees	1	-	1
Borrower rebates	-	32	32
Consolidation loan fees	181	4,379	4,560
Uncollectible accounts	(1)	(40)	(41)
Total expenses	<u>286</u>	<u>13,958</u>	<u>14,244</u>
Change in net assets	280	886	1,166
Net assets at the beginning of the year	41,085	(1,418)	39,667
Transfer out/to	<u>(41,365)</u>	<u>41,365</u>	<u>-</u>
Net assets at the end of the year	<u>\$ -</u>	<u>\$ 40,833</u>	<u>\$ 40,833</u>

See Independent Auditor's Report.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
SCHEDULE OF REACH HIGHER MONTANA ACTIVITY
For the Year Ended June 30, 2021 with Comparative Totals for 2020

	<u>2021</u>	<u>2020</u>
Reach Higher Montana Programs Delivery		
Program delivery	\$ 575,570	\$ 622,159
Campus outreach		
Outreach staff & offices	459,890	379,122
Outreach programs		
Foster care program	586,710	483,005
Montana College Access Network	5,000	23,200
Online resources, financial literacy and other programs	-	19,892
Youth apprenticeship grant less sponsorships included below	132,067	36,829
Grants awarded		
Community grants	5,000	20,000
Dual enrollment summit	700	10,000
Montana Chamber Foundation Envision 2026	10,000	10,000
Scholarships		
Reach Higher Montana scholarships	80,000	79,000
Advisory council scholarships	-	2,000
Design-a-Sticker scholarships	7,000	7,000
Dual enrollment scholarships	5,601	11,300
Jobs for Montana Graduates Scholarships	1,500	1,000
Judy Martz scholarships	5,000	-
Miscellaneous scholarships	5,600	3,575
Senior Send Off scholarships	10,000	-
Youth Serve Montana	50,000	48,000
Sponsorships		
American Jobs for Americas Youth Montana	3,500	-
Belgrade Booster Club	1,100	1,000
Business Professionals of America	4,000	
Exploration Works	-	1,000
Helena Area Chamber of Commerce	3,050	800
Helena Century II Foundation - Helena WINS	-	3,000
Helena College Access scholarship program	-	5,000
Helena Education Foundation	3,500	3,000
Leadership Montana	2,500	2,500
Miscellaneous Sponsorships	5,640	4,850
Montana Association for Career and Technical Education	3,000	750
Montana Family, Career & Community Leaders of America	2,500	750
Montana FFA Foundation	6,000	-
Montana HOSA-Future Health Professionals	2,500	1,000
Montana Joining Community Forces	2,610	-
Montana Post Secondary Educational Opportunity Council	5,000	2,000
Montana School Counselor Association	500	2,005
School Administrators of Montana	3,900	1,250
	<u>\$ 1,988,938</u>	<u>\$ 1,784,987</u>

See Independent Auditor's Report.