

MONTANA HIGHER EDUCATION
STUDENT ASSISTANCE CORPORATION

FINANCIAL REPORT

JUNE 30, 2020

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT 1 and 2

MANAGEMENT'S FINANCIAL ANALYSIS 3 to 8

FINANCIAL STATEMENTS

Statement of Financial Position 9 and 10

Statement of Activities 11

Statement of Functional Expenses 12 and 13

Statement of Cash Flows 14

Notes to Financial Statements 15 through 40

SUPPLEMENTARY INFORMATION

Combining Schedule of Financial Position
Under Bond Indentures 41

Combining Schedule of Activities
Under Bond Indentures 42

Schedule of Reach Higher Montana Activity 43

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Montana Higher Education Student Assistance Corporation (the Corporation) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Corporation's 2019 financial statements, and our report dated August 30, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedule of financial position under bond indentures, combining schedule of activities under bond indentures, and schedule of Reach Higher Montana Activity on pages 41 through 43 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Management's financial analysis on pages 3 through 8, which is the responsibility of management, includes information of a nonaccounting nature and has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Anderson Zurmuehlen & Co., P.C.

Helena, Montana
September 14, 2020

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S FINANCIAL ANALYSIS
Year Ended June 30, 2020 and Comparative Totals for June 30, 2019

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, 2020 and 2019. 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 supported through earnings on the student loans that it owns. MHESAC's current activities include the Federal Family Education Loan Program (FFELP) student loan servicing, 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. Beginning in July of 2016, MHESAC created a DBA to develop and deliver outreach, grant, and scholarship activity as part of its not-for-profit mission and has branded those programs as Reach Higher Montana (RHM). The RHM programs are funded by proceeds from the student loan assets. Neither MHESAC nor RHM employs any staff and all operations are provided through contractual arrangements with Student Assistance Foundation of Montana (SAF).

Financial Reporting Methodology Overview

This annual report consists of MHESAC's basic financial statements and Management's Financial Analysis, a discussion of results of operations and financial position. The financial statements are presented using accrual basis of accounting.

The basic financial statements include the statement of financial position, which reports the assets owned by MHESAC, its liabilities or what it owes to others and net assets as of its fiscal year end; the statement of activities, which reports the operating net income or loss and change in net assets; the statement of functional expenses; 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 although MHESAC's assets and net position are unrestricted per accounting standards and there are currently no donor-imposed restrictions, there are legal agreements in place that place limitations on the use of a significant portion of the assets of MHESAC and a board-restricted endowment. Specifically, there are legal constraints on the assets and net position whose use is restricted by the bond indenture or escrow agreement and they cannot be used for any other purpose. These legal restrictions do not apply to assets and net position that are held in what we call the general fund.

The unrestricted assets were either acquired outside of the bond indenture or escrow agreement 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. The board-restricted endowment arose from the contribution of the SAF endowment to MHESAC to use for future programs. Although it came with no restrictions from SAF, the MHESAC board has restricted its use to public benefit activities.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2020 and Comparative Totals for June 30, 2019

Financial Position Summary

Following is an analysis of MHESAC's financial position at June 30, 2020, with comparative information at June 30, 2019 (expressed in thousands):

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 20,694	\$ 20,356
Educational loans receivable, net	538,542	612,459
Other assets	<u>34,020</u>	<u>33,651</u>
Total Assets	<u>\$ 593,256</u>	<u>\$ 666,466</u>
Liabilities and Net Assets		
Current liabilities	58,121	89,738
Long term debt and obligations	<u>449,779</u>	<u>490,004</u>
Total Liabilities	<u>507,900</u>	<u>579,742</u>
Net assets:		
Escrow/Trust	51,143	51,958
General Fund	33,555	34,109
Board-designated endowment	<u>658</u>	<u>657</u>
Total net assets	<u>85,356</u>	<u>86,724</u>
Total liabilities and net assets	<u>\$ 593,256</u>	<u>\$ 666,466</u>

At June 30, 2020, MHESAC had cash and cash equivalents of over \$20.6 million of which almost \$18.7 million is limited as to use under the bond indenture or the escrow agreement; another \$46,000 is board restricted and the remaining \$1,959,000 has no restrictions by either donor or legal document. The cash equivalents held by the trustee in the indenture is made up of cash temporarily held in short-term investments until the funds are used for debt service. Additionally, cash is held by the trustee for reserve and administration purposes in short-term investments that by definition are cash equivalents. MHESAC believes that the cash position is sufficient to satisfy all operating needs during the next operating cycle and the structured cash flow from the indenture will be sufficient to meet future needs beyond the next fiscal year.

The primary asset, the FFELP student loan portfolio, is made up of different loan types which each have different returns based on a spread to one-month LIBOR. FFELP loans are subject to a guarantee of 97 – 100% depending on the date the loan was originated. Most of the loans in the MHESAC portfolio are guaranteed at 98%. What this means is that if a borrower defaults on their loan, MHESAC will be reimbursed by a guarantor for 97 – 100% of the loan principal and accrued borrower interest, providing that all required due diligence to attempt to collect the loan was followed by the servicer. MHESAC carries a reserve for bad debt to manage the risk of the unguaranteed amount should a borrower default.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2020 and Comparative Totals for June 30, 2019

Financial Position Summary (Continued)

During the fiscal year MHESAC decreased the reserve for bad debts which reflects our experience that default rates were down relative to the previous year. This is due to the amortizing portfolio becoming a smaller pool each year; the seasoning and maturity of the remaining borrowers; and, in response to the economic fallout from the COVID-19 pandemic, special measures to assist borrowers who are delinquent so that they do not default but instead are given a new start. The reserve, which is netted against the student loans receivable for financial statement presentation, decreased from \$581,036 to \$447,818.

Results of Operations Summary

MHESAC is reporting a negative change in net assets of \$1,367,475 for the fiscal year ended June 30, 2020 which is a positive change from the previous fiscal year. Please see the following recap of revenue and expenses (expressed in thousands):

	<u>2020</u>	<u>2019</u>
Revenue	\$ 24,263	\$ 32,148
Expenses	<u>25,631</u>	<u>33,970</u>
Change in net assets	<u>(1,368)</u>	<u>(1,822)</u>
Net assets, beginning of year	<u>86,724</u>	<u>88,546</u>
Net assets, end of year	<u>\$ 85,356</u>	<u>\$ 86,724</u>

The following is an overview of significant changes in financial data from FY19 to FY20:

- Cash and equivalents increased by \$338,000, as a result of higher cash balances in the investment accounts rather than fully invested due to the erratic markets.
- Net student loan receivables decreased by \$73,917,000, a pace that is similar to the previous year on a percentage basis and reflects the amortizing portfolio.
- Debt consisting of bonds outstanding decreased by \$72,343,000, also on a pace that is similar to the previous year but reflective of the decrease in overall debt.
- MHESAC's net assets decreased by \$1,368,000
- Total operating revenues decreased by \$7,885,000
- Total expenses decreased by \$8,339,000

What the comparative financial statements tell us is that MHESAC's financial health continues to remain on the path that was modeled for it in fiscal year 2012 when it restructured its debt portfolio.

Although bonds outstanding decreased by 12.4% during the year, bond interest decreased by a significantly higher percentage at 31.4% (\$7,310,000) due to the decrease in the relevant LIBOR index rates to which the MHESAC bonds are tied.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2020 and Comparative Totals for June 30, 2019

Results of Operations Summary (Continued)

The flip side to the rate decrease is although student loans receivable decreased by 12.1% during the year, income on educational loans decreased by 24.7%. The expense line for bond interest includes \$1,486,897 for bond discount amortization which is a non-cash expense item.

As a subset of total expenses, servicing and management fees decreased by \$180,569 from the prior year. The indenture is structured to survive the life of the bonds and the expected eventual rise in future interest rates.

For Reach Higher Montana, FY20 was the first year of a five year strategic plan designed to focus efforts by addressing three primary objectives: increasing capacity of local communities to support more students pursuing education after high school; increasing student participation in activities that connect them to education paths after high school; and increasing capacity and efficacy of the state-level provider network. Additionally, RHM is continuing its work with foster care youth, most of which is funded through a grant, as they prepare to leave high school and transition to some form of post-secondary education. MHESAC incurred costs in FY20 for the Reach Higher Montana initiatives in the amount of \$2,080,141.

Revenues from the student loans are variable in nature and were based on the one-month LIBOR rate during fiscal years 2020 and 2019. At the beginning of the year, the one-month LIBOR rate was 2.398% and at the end of the year it was 0.16225%. As a result, interest earned on student loans was lower in fiscal year 2020 as compared to the previous year relative to portfolio balance. Although the return as a percentage is lower, loans that were originated prior to April 2006 are subject to special rules that allows the lender to keep all interest received from the borrower regardless of the special allowance rate. Therefore, there is no negative special allowance on this group of loans and return is higher to the lender. This has a positive impact on MHESAC net earnings given that approximately 58% was originated prior to April 2006.

Long-term Debt Activity

MHESAC had previously issued both tax-exempt and taxable bonds to raise capital for its student loan origination and acquisition activities as more fully described in the accompanying notes to the financial statements. During fiscal year 2012, MHESAC had the opportunity to restructure its debt with the goal of taking out all auction bonds that had been illiquid since 2008 and all fixed rate bonds that paid a significantly higher than market interest rate and structure MHESAC's debt so that any vulnerability to rising interest rates is mitigated. The 2012 Bonds that were issued in the amount of \$1,164,800,000 met those goals. \$1,145,300,000 of the bonds that were issued were senior bonds and all senior bonds carry a AAA rating by Fitch. Standard & Poor's also rated the 2012 bonds and the Senior Series A2 carry a AAA rating and the Senior Series A3 carry a AA+ rating by Standard & Poor's. The subordinate bonds issued in the amount of \$19,500,000 are unrated and are held by MHESAC in its general fund.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2020 and Comparative Totals for June 30, 2019

Long-term Debt Activity (Continued)

Only \$1,773,000 of the floating rate notes in Series 2005B remain outstanding. These bonds carry a Aaa rating by Moody's and Fitch and a AAA rating from Standard & Poor's. The 2006C subordinate bonds in the amount of \$18,000,000 are unrated. Currently, all outstanding bonds are taxable bonds and carry variable interest rates based on either 1-month or 3-month LIBOR rates plus some spread depending on the life of the bond.

In the fiscal year that ended June 30, 2020, MHESAC redeemed outstanding bonds with all cash available and allowable by the indenture through scheduled and/or targeted redemptions. Redemptions made totaled \$73,830,000. An analysis of the change to bonds outstanding follows (including \$19,500,000 internally held bonds eliminated in the statement of financial position):

	<u>Current Portion</u>	<u>Long-term Portion</u>
Net bonds outstanding at 7/01/19	\$ 87,782,000	\$ 509,504,243
Scheduled, targeted payments of 2005 and 2012 Series bonds	(73,830,000)	-
Amortization of bond discount	-	1,486,897
Reclassification to current	<u>41,712,000</u>	<u>(41,712,000)</u>
Net bonds outstanding at 6/30/20	<u>\$ 55,664,000</u>	<u>\$ 469,279,140</u>

Impact of COVID-19 Pandemic

Beginning in February 2020 and continuing through the end of the fiscal year, MHESAC prepared itself to deal with the Covid-19 pandemic as did most companies throughout the country. Due to the nature of the MHESAC assets and revenue structure, MHESAC's revenue lines were not impacted although cash flow did decrease with the implementation of more liberal forbearance options on student loans and borrower delinquency resets. Additionally, SAF as MHESAC's contracted manager was able to transition staff to work from home arrangements even before the statewide quarantine order was put in place for non-essential workers. SAF was able to continue all business functions on behalf of MHESAC remotely but also timely and completely. It was not necessary to reduce staff either permanently or through temporary furlough. Due to the minimal impact on the business of MHESAC, management, supported by the board of directors, declined to apply for any of the stimulus funds made available by the CARES act for businesses that were significantly impacted by the pandemic.

MHESAC has two investment pools. The first, and largest, is for short-term operational use and is invested entirely in fixed income investments. While there are minor day to day variances in value, they are small and the impact on this investment was not materially impacted by the economic reaction to the pandemic.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)
Year Ended June 30, 2020 and Comparative Totals for June 30, 2019

Impact of COVID-19 Pandemic (Continued)

The second investment is the board directed endowment funds. This account is long-term in nature and is invested more heavily in equities. As a result, the endowment account reacted to the downturn and subsequent recovery of the stock markets. From the peak of the equities market in February to the low point reached in March, the board directed account decreased in value by approximately 23%. Since that low point to the end of the year, they increased by 22%. At the end of the year, the account was still down 6% from the peak value.

FINANCIAL STATEMENTS

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2020 with Comparative Totals for 2019
(expressed in thousands)

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,959	\$ 662
Investments	7,541	7,727
Accrued interest receivable	84	109
Educational loans receivable, net	889	1,234
Prepaid costs, net of accumulated amortization	16	49
Other assets	<u>84</u>	<u>548</u>
Total Current Assets	<u>10,573</u>	<u>10,329</u>
RESTRICTED ASSETS, CURRENT		
Cash and cash equivalents	18,689	19,037
Accrued interest receivable	14,802	15,581
Educational loans receivable, net	57,689	84,515
Prepaid costs, net of accumulated amortization	25	25
Other assets	<u>318</u>	<u>505</u>
Total Restricted Assets, Current	<u>91,523</u>	<u>119,663</u>
NON-CURRENT ASSETS		
Educational loans receivable, net	<u>3,671</u>	<u>4,357</u>
Total Non-Current Assets	<u>3,671</u>	<u>4,357</u>
RESTRICTED ASSETS, NON-CURRENT		
Endowment cash and cash equivalents	46	657
Endowment investments	611	-
Educational loans receivable, net	476,293	522,353
Prepaid servicing fees	<u>10,539</u>	<u>9,107</u>
Total Restricted Assets, Non-Current	<u>487,489</u>	<u>532,117</u>
TOTAL ASSETS	<u>\$ 593,256</u>	<u>\$ 666,466</u>

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF FINANCIAL POSITION (CONTINUED)
June 30, 2020 with Comparative Totals for 2019
(expressed in thousands)

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,044	\$ 1,198
Accrued interest payable	209	663
Educational loan revenue bonds payable - current portion	55,664	87,782
Funds held in trust	122	18
Grant Program liability	82	77
Total Current Liabilities	<u>58,121</u>	<u>89,738</u>
LONG-TERM LIABILITIES		
Educational loan revenue bonds payable, net	<u>449,779</u>	<u>490,004</u>
Total Long-Term Liabilities	<u>449,779</u>	<u>490,004</u>
Total Liabilities	<u>507,900</u>	<u>579,742</u>
NET ASSETS		
Without donor restrictions		
Escrow/Trust	51,143	51,958
General Fund	33,555	34,109
Board-designated endowment	658	657
Total net assets	<u>85,356</u>	<u>86,724</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 593,256</u>	<u>\$ 666,466</u>

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020 with Comparative Totals for 2019
(expressed in thousands)

	<u>2020</u>	<u>2019</u>
Revenue and Support		
Investment income, net	\$ 627	\$ 624
Interest on educational loans	23,156	30,770
Loss on early redemption of bonds	-	(45)
Legal settlement	-	382
Amortization of prior discounted loan purchase	4	12
Contributions and grants	<u>420</u>	<u>362</u>
	24,207	32,105
Net assets released from donor restrictions	<u>56</u>	<u>43</u>
Total revenue and support without donor restrictions	<u>24,263</u>	<u>32,148</u>
Program Services Expenses		
Student loan operations	23,513	31,938
Grants and public purpose program	<u>1,785</u>	<u>1,720</u>
Total program services expenses	25,298	33,658
Supporting Activities Expenses		
General and Administrative Expenses	<u>333</u>	<u>312</u>
Total expenses	<u>25,631</u>	<u>33,970</u>
Change in net assets without donor restrictions	<u>(1,368)</u>	<u>(1,822)</u>
NET ASSETS RELEASED FROM DONOR RESTRICTION		
Revenue and support:		
Contributions with donor restrictions	56	43
Net assets released from donor restrictions	<u>(56)</u>	<u>(43)</u>
	<u>-</u>	<u>-</u>
Change in net assets	(1,368)	(1,822)
Net assets at the beginning of the year	<u>86,724</u>	<u>88,546</u>
Net assets at the end of the year	<u>\$ 85,356</u>	<u>\$ 86,724</u>

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020
(expressed in thousands)

	Program Services			Supporting Activities	
	Student Loan Operations	Grants and Public Purpose Program	Total Programs	General and Administrative	Total
Advertising expense	\$ -	\$ 31	\$ 31	\$ -	\$ 31
Board and officer expense	-	-	-	14	14
Bond Interest	15,973	-	15,973	-	15,973
Borrower rebate expense	46	-	46	-	46
Computer equipment, supplies and software	-	10	10	-	10
Consolidation loan fees	5,119	-	5,119	-	5,119
Contract labor and services	-	874	874	237	1,111
Depreciation and leasehold amortization	-	10	10	-	10
Dues and subscriptions	-	10	10	9	19
Grants, scholarships and other	-	595	595	-	595
Insurance	-	29	29	21	50
Listing fees	3	-	3	-	3
Mail and courier	-	2	2	-	2
Operating lease payments	-	27	27	-	27
Other costs	-	7	7	50	57
Printing	-	3	3	-	3
Professional services	-	-	-	2	2
Promotion and event costs	-	61	61	-	61
Rent	-	9	9	-	9
Servicing fees	2,356	-	2,356	-	2,356
Staff travel and training	-	82	82	-	82
Supplies and copier	-	4	4	-	4
Surveillance fees	38	-	38	-	38
Telecommunications and utilities	-	31	31	-	31
Trustee fee	90	-	90	-	90
Uncollectible account exp	(112)	-	(112)	-	(112)
Total expenses by function included in the expense section on the statement of activities	<u>\$ 23,513</u>	<u>\$ 1,785</u>	<u>\$ 25,298</u>	<u>\$ 333</u>	<u>\$ 25,631</u>

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019
(expressed in thousands)

	Program Services			Supporting Activities	Total
	Student Loan Operations	Grants and Public Purpose Program	Total Programs	General and Administrative	
Advertising expense	\$ -	\$ 7	\$ 7	\$ -	\$ 7
Board and officer expense	-	-	-	16	16
Bond Interest	23,283	-	23,283	-	23,283
Borrower rebate expense	61	-	61	-	61
Computer equipment, supplies and software	-	14	14	-	14
Consolidation loan fees	5,778	-	5,778	-	5,778
Contract labor and services	-	856	856	219	1,075
Depreciation and leasehold amortization	-	15	15	-	15
Dues and subscriptions	-	12	12	9	21
Grants, scholarships and other	-	468	468	-	468
Income tax expense	-	1	1	-	1
Insurance	-	29	29	20	49
Listing fees	6	-	6	-	6
Mail and courier	-	3	3	-	3
Operating lease payments	-	27	27	-	27
Other costs	-	5	5	46	51
Printing	-	5	5	-	5
Professional services	-	11	11	2	13
Promotion and event costs	-	142	142	-	142
Rent	-	4	4	-	4
Servicing fees	2,537	-	2,537	-	2,537
Staff travel and training	-	87	87	-	87
Supplies and copier	-	5	5	-	5
Surveillance fees	37	-	37	-	37
Telecommunications and utilities	-	29	29	-	29
Trustee fee	100	-	100	-	100
Uncollectible account exp	136	-	136	-	136
Total expenses by function included in the expense section on the statement of activities	<u>\$ 31,938</u>	<u>\$ 1,720</u>	<u>\$ 33,658</u>	<u>\$ 312</u>	<u>\$ 33,970</u>

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2020 with Comparative Totals for 2019
(expressed in thousands)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on student loans	\$ 17,756	\$ 21,951
Interest received on investments	1,251	1,316
Bond and note interest paid	(15,599)	(22,317)
Bond fees paid	(90)	(104)
Loan fees paid	(5,169)	(5,837)
Contracted management & servicing fees paid	(3,761)	(4,390)
Administrative expenses paid	340	(35)
Grant and public purpose program paid	(1,373)	(1,608)
Net cash flows from operating activities	<u>(6,645)</u>	<u>(11,024)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of educational loans	(1,239)	(1,384)
Repayments of educational loans	82,478	101,616
Purchase of investments	(612)	(7,620)
Proceeds from sale of investments	186	142
Net cash flows from investing activities	<u>80,813</u>	<u>92,754</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Repayment of bonds	(73,830)	(88,740)
Net cash flows from financing activities	<u>(73,830)</u>	<u>(88,740)</u>
Net change in cash and equivalents	338	(7,010)
Cash and cash equivalents, beginning of year	<u>20,356</u>	<u>27,366</u>
Cash and cash equivalents, end of year	<u>\$ 20,694</u>	<u>\$ 20,356</u>
 A reconciliation of cash and cash equivalents as shown on the statement of financial position for MHESAC follows:		
Cash and cash equivalents, current	\$ 1,959	\$ 662
Restricted cash and cash equivalents, current	18,689	19,037
Endowment cash and cash equivalents	46	657
Cash and cash equivalents	<u>\$ 20,694</u>	<u>\$ 20,356</u>

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

Income Tax Status

MHESAC is a not-for-profit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3). On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. Included in this bill was a provision that specified that amounts incurred for certain qualified transportation benefits, including qualified parking, were not deductible, even by not-for-profits. The RHM offices are located in an area where paid parking is required and the company has provided parking passes to the contract SAF employees that work at that site. This amount was subject to unrelated business income tax. On December 20, 2019, the Taxpayer Certainty and Disaster Tax Relief Act retroactively repealed the 2017 tax provision and provided for tax-exempt organizations to claim a refund for tax paid related to qualified parking. MHESAC has claimed their refund.

Basis of Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as codified by the Financial Accounting Standards Board (FASB).

The Statement of Cash Flows is presented using the direct method. MHESAC considers the following revenue components to be operating activities: income derived from investments, cash equivalents and educational loans as well as other miscellaneous income.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Management's Financial Analysis is not required supplemental information under FASB standards. MHESAC has chosen to present this information and it 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. Actual results could differ from those estimates.

Classification of Net Assets

The Corporation reports information regarding its financial position and activities according to two classes: net assets without donor restrictions and net assets with donor restrictions. The net assets are reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of MHESAC's management and the board of directors.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of MHESAC or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. The Corporation had no net assets with donor restrictions at June 30, 2020.

Cash and Cash Equivalents

Cash and cash equivalents include all checking accounts, money market accounts, and highly liquid securities with a maturity of three months or less at the date of purchase. It also includes cash and liquid investments held by the trustee for the bond financings and cash held in escrow for the general operating fund that is being held in short-term or liquid investments pursuant to the Escrow Agreement among MHESAC, Student Assistance Foundation, and the Escrow Agent, dated May 4, 2012.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

MHESAC records investment purchases at cost. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment income is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Interest on Educational Loans

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

Special Allowance Payments

The United States Department of Education provides a special allowance or subsidy to lenders participating in FFELP if the interest rate is below the guaranteed interest rate. Conversely, 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 for loans that were originated on or after April 1, 2006. This allowance is paid on the average quarterly unpaid principal balance of student loans, based on an annual rate equal to the average rate of 91-day U.S. Treasury Bills, 3-month Commercial Paper Rates, or One-Month LIBOR for that quarter increased by various rates, depending on loan type and origination date. As of June 30, 2020, rebates of \$4,362,240 were netted in interest on educational loans on the financial statements.

During the year ended June 30, 2010, the Income Based Repayment (IBR) Plan was enacted as part of the College Cost Reduction and Access Act of 2007. IBR is a repayment plan option for borrowers with loans in the Direct Loan Program or 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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Measurement & Allowance for Uncollectible Loans

Loans held by the Corporation are measured at the outstanding principal amount net of any allowance for credit losses or uncollectible amounts. Estimates for uncollectible amounts are based on outstanding principal amounts and portfolio default rates. (See Note 6 for details on Education Loan Receivable and Allowance for Losses).

Escrow/Trust Net Assets

In connection with the issuance of the Series 2012 Bonds, assets were placed in escrow in order to assure that the Corporation will have sufficient funds to pay servicing and management fees over the life of the indenture. Specified cash and student loans (including, without limitation, all principal, interest, special allowance payments, and guarantee or insurance payments with respect thereto) received by MHESAC have been deposited in an escrow account.

In addition to the escrow funds, MHESAC has prepaid for servicing by funding an escrow account at SAF. The purpose is to assure SAF, as Master Servicer, has funds available in future years to satisfy the cost of servicing the MHESAC portfolio as it grows smaller through loan amortization. These funds are held in an escrow account by SAF with restriction as to future use. The prepaid servicing fees on the MHESAC books are restricted via legal agreements as to their use in the future.

Trust 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.

A summary of Escrow/Trust net assets is as follows:	<u>Escrow</u>	<u>Trust</u>	<u>Total</u>
Cash and other assets	\$ 3,363,370	\$ 30,470,701	\$ 33,834,071
Educational loans receivable, net	3,159,227	530,822,844	533,982,071
Prepaid servicing fees	<u>4,976,034</u>	<u>5,562,701</u>	<u>10,538,735</u>
Total assets	<u>\$ 11,498,631</u>	<u>\$566,856,246</u>	<u>\$578,354,877</u>
Liabilities	\$ 22,564	\$527,189,744	527,212,308
Net assets	<u>11,476,067</u>	<u>39,666,502</u>	<u>51,142,569</u>
Total liabilities and net assets	<u>\$ 11,498,631</u>	<u>\$566,856,246</u>	<u>\$578,354,877</u>

Contributions

MHESAC recognizes contributions when cash or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. As of June 30, 2020, MHESAC had no conditional contributions.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

A portion of MHESAC's revenue is derived from cost-reimbursable organizational grant contracts and state contracts for state and federal grants, which are conditioned upon certain performance requirements and/or incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the corporation has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as funds held in trust in the statement of financial position. MHESAC received cost-reimbursable grants of \$89,194 that have not been recognized at June 30, 2020, because qualifying expenditures have not been incurred.

Contributions are recorded with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donated Services and In-Kind Contributions

Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair value of the services received. Contributions of such goods or services of \$12,013 were received during the year ended June 30, 2020.

Programs and Endowment

Effective July 1, 2016, MHESAC and SAF entered into an arrangement where MHESAC would take over the oversight and strategic direction for the public purpose benefit programs previously delivered by SAF, with the exception of one limited term grant which has since ended.

MHESAC rebranded these programs as Reach Higher Montana (RHM). SAF will manage and administer, under contract on behalf of MHESAC, the public purpose charitable programs previously conducted directly by SAF.

In July 2016, MHESAC received a donation from SAF of the SAF board designated endowment. This change is also related to MHESAC taking over governance of the public purpose programs SAF had at June 30, 2016. At June 30, 2020, the balance of the endowment was \$656,789.

Functional Allocation of Expenses

The costs of the Corporation's various programs and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (Continued)

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, some expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated within student loan operations between financings are servicing fees that are allocated according to relative student loan balances.

MHESAC's master servicer and RHM's programs delivery and administration provider, SAF, allocates its expenses in order to calculate the servicing fees, programs delivery fees and programs administration fees to MHESAC. The expenses that are allocated include rent and other expenses on a square footage basis; depreciation and other indirect expenses on a full-time equivalent basis; and salaries, benefits, payroll taxes, contract labor, professional services, office expenses, computer equipment, insurance, and other, which are allocated on the basis of estimates of time and effort by departments. Time and effort is based on a combination of time sheet project direct reporting when practical and a percentage estimate that is preassigned to each department and reviewed during forecasting for each business activity including administration. Once allocated, the expenses are marked up per the contract with SAF.

New Accounting Standards

The Company adopted the following Accounting Standards Updates (ASU) in fiscal year 2020:

- ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU-2018-08 applicable to contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation.
- ASU 2014-09, *Revenue from Contracts with Customers (Topic 606) including the subsequent revisions (collectively referred to as Topic 606)*. This accounting standard was issued to clarify the principles of recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The Company adopted Topic 606 using the modified retrospective method. Implementation of the standard did not have a material effect on the Company's methodology for the recognition of revenue.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications do not affect prior year net income and net assets as reported in the prior year financial statements.

NOTE 2. LIQUIDITY AND AVAILABILITY

The following financial assets are expected to be available to support the organization in the year ending June 30, 2021:

Cash and cash equivalents	\$ 1,959,360
Accounts receivable	14,909
Payments in transit	1,678
Investments	7,540,937
Interest receivable	65,800
Accrued interest receivable	83,686
Educational loans receivable, net	888,867
	<u>\$ 10,555,237</u>

MHESAC's asset base is a result of its years as a provider of financial products to students participating in post-secondary education opportunities. Therefore, it follows that most assets are financial assets as the business requires little in the way of infrastructure because it outsources all of its management and servicing.

Almost 100% of assets are financial assets. However, 98% are held within an indenture of Trust and therefore available only to fulfill the requirements outlined in that Indenture. It is indeed important to note that the Trust has no reach into the non-restricted assets.

Of the non-trust assets, over 99% are financial assets and 71% are available to fund ongoing operations.

In the previous fiscal year, MHESAC was offered a settlement from Citibank negotiated between Citibank and 42 State Attorneys General on allegations that Citibank interfered with the establishment of the LIBOR rate calculation during a certain time period. MHESAC accepted the settlement offer and recorded the revenue and receivable in FY 2019. In November 2019, MHESAC received the Citibank negotiated settlement in the amount of \$382,049.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 2. LIQUIDITY AND AVAILABILITY (CONTINUED)

An investment policy was developed, and an investment committee formed. The committee contracted with an investment advisor to invest excess unrestricted funds. Excess unrestricted cash beyond our current needs is in fixed income investments including U.S. Government obligations and corporate bonds.

Funds available for usage flow into the accounts on a daily basis from student loan principal and interest payments. For the most part, funds received are adequate to cover daily operating costs.

MHESAC routinely forecasts financial activity 12 months in advance and monitors its liquidity quarterly as it completes each quarterly update of the rolling forecast.

NOTE 3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash. MHESAC maintains cash deposits at three financial institutions. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing and non-interest bearing accounts. At June 30, 2020, the book balance was \$2,003,352 and bank balance amount of MHESAC deposits was \$2,023,688 with \$1,273,688 exceeding FDIC limits.

NOTE 4. FAIR VALUE MEASUREMENTS

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

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 input into three broad levels.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

- Level 1 – Quoted prices in active markets for identical assets or liabilities to which the organization has access at the measurement date;
- 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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the methodologies used at June 30, 2020, and there were no transfers between levels.

Common stocks and real estate investment trusts: Valued at the closing price on the active market in which the individual securities are traded.

Mutual and exchange-traded funds: Valued at the daily closing price as reported by the fund. Mutual funds held by MHESAC are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.

Corporate and government obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing values on current yields of comparable securities of issuers with similar credit ratings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The Corporation considers transfers between levels to be effective as of the reporting date.

Investments held by the Corporation at June 30, 2020, are classified within Level 1 and Level 2. MHESAC invests in U.S. government obligations and corporate bonds that are valued by the custodians of the securities, using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions. The Board directed endowment is invested in equities traded in active markets as well as U.S government obligations and corporate bonds. In Note 5, a table is presented measuring the fair value of investments held at year end.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 5. INVESTMENTS

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

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

Investments are managed by investment advisors whose performance is monitored by MHESAC and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, MHESAC and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 5. INVESTMENTS (CONTINUED)

At June 30, 2020, the Corporation had investments consisting of the following:

	Fair value measurements at report date using		
	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>
Short-term operations			
U.S. Government obligations	\$ 5,176,632	\$ -	\$ 5,176,632
Corporate bonds	<u>2,364,305</u>	-	<u>2,364,305</u>
	7,540,937	-	7,540,937
Board directed endowment			
U.S. Government obligations	55,575		55,575
Corporate bonds	68,230		68,230
Equity stocks	285,520	285,520	-
Exchange traded funds	79,422	79,422	-
Equity funds	117,081	117,081	-
Real estate investment trusts	<u>4,974</u>	<u>4,974</u>	-
	<u>610,802</u>	<u>486,997</u>	<u>123,805</u>
	8,151,739	<u>\$ 486,997</u>	<u>\$ 7,664,742</u>
Other investments			
Wells Fargo MT Higher Ed 2012-B Security	<u>19,500,000</u>		
	27,651,739		
Less internal holding: Wells Fargo MT Higher Ed 2012-B Security	<u>19,500,000</u>		
Total Investments	<u>\$ 8,151,739</u>		

NOTE 6. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 6. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES
(CONTINUED)

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

Educational loans are summarized as follows as of June 30, 2020:

Student/interim/deferment status	\$ 137,839,958
Repayment status	<u>401,168,287</u>
Educational loans receivable	539,008,245
Allowance for uncollectible loans	(447,818)
Discount on loan purchase	<u>(18,197)</u>
Educational loans receivable, net	<u>\$ 538,542,230</u>

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

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

Variable interest rates to the borrower are based upon either the 91 day or one year constant maturity Treasury bill, subject to maximum interest rates ranging from 7.00% to 12.00%. Fixed interest rates range from 3.4% to 8.5% depending on the actual year disbursed and the loan type.

SLS, PLUS, and FISL loans have a maximum repayment term of 10 years. Stafford loans have maximum repayment terms of 10 or 25 years depending on the borrower's original disbursement date and cumulative balance. Consolidation loans have maximum repayment terms of 10 to 30 years depending on the original balance.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 6. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES
(CONTINUED)

Allowance for Uncollectible Loans

Under contracts with Ascendium Education Services, other 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 majority of MHESAC's loans were guaranteed by Montana Guaranteed Student Loan Program until they were transitioned to Ascendium Education Services (formerly Great Lakes Higher Education Guaranty Corporation) in 2017.

The Corporation receives 100% reimbursement on loans disbursed prior to October 1, 1993. Loans disbursed on or after October 1, 1993, until June 30, 2006, are reimbursed at 98% and loans disbursed on or after June 30, 2006, are reimbursed at 97%.

The Corporation recognizes an allowance for loan losses in an amount believed to be sufficient to absorb losses inherent in its loan portfolio. This provision is based on the current default rates of each segment of the portfolio funding source that is applied to the non-guaranteed portion of the loan portfolio balance. A provision for uncollectible educational loans has been made for the year ended June 30, 2020.

Defaulted loans are eligible for claims reimbursement after 270 days of delinquency. At this time, default prevention due diligence is conducted in an attempt to prevent the need for claim submission. The Corporation files a claim prior to the 360th day of delinquency, the deadline required by the guarantor. Interest is accrued on delinquent loans up to the date of claim payment by the guarantor, if applicable. At June 30, 2020, loans in the amount of \$587,357 were classified as delinquent more than 270 days, the stage at which a default claim can be filed.

As of June 30, 2020, MHESAC held a loan portfolio of \$539,008,245. The average default rate for loans serviced by SAF resulted in a provision for uncollectible educational loans of \$447,818 for the year ended June 30, 2020.

Following is a reconciliation of the change in the allowance for uncollectible loans for the year ended June 30, 2020:

Balance, July 1, 2019	\$ 581,036
Non-guaranteed write-offs	(20,849)
Adjustments per allowance policy	<u>(112,369)</u>
Balance, June 30, 2020	<u>\$ 447,818</u>

There is also a discount for student loan purchase of \$18,197 that is netted against the receivable.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 6. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES
(CONTINUED)

Allowance for Uncollectible Loans (Continued)

Loan guarantor rates are considered segments for purposes of GAAP disclosure. Following is a breakdown by loan guarantor rates of the current loan portfolios held at June 30, 2020:

100% Guarantee	\$ 544,923
98% Guarantee	324,173,920
97% Guarantee	214,289,402
Uninsured	-
Total Portfolio	<u>\$ 539,008,245</u>

No changes were implemented in the accounting policies or methodologies during the year ended June 30, 2020, regarding calculation of the allowance for uncollectible loans.

NOTE 7. RELATED PARTY TRANSACTIONS

MHESAC has entered into agreements with SAF to provide management and master loan servicing to MHESAC. As master servicer, SAF has contracted with a third party sub-servicer to handle the day to day student loan servicing. SAF has two of its Board members in common with the Corporation's seven Board members.

NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE

Educational Loan Revenue Bonds Payable

The bonds outstanding are summarized in the table below, including the internally held bond in the amount of \$19,500,000:

Bonds outstanding at June 30, 2019	\$ 597,286,243
Bond discount amortization during the year	1,486,897
Loss on early redemption of bonds	-
Bonds redeemed during the year	<u>(73,830,000)</u>
Bonds outstanding	524,943,140
Less: internal 2012 bond holding	<u>(19,500,000)</u>
Bonds outstanding at June 30, 2020, net	<u>\$ 505,443,140</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Educational Loan Revenue Bonds Payable (Continued)

A description of significant terms and conditions of each Student Loan Revenue Bond issue outstanding at June 30, 2020, follows:

<u>Issue</u>	<u>Year End Interest Rate</u>	<u>Original Issue Amount</u>	<u>June 30, 2020</u>
Taxable Floating Rate Bonds:			
2005 Series B Bonds	0.426%	\$ 119,140,000	\$ 1,773,000
2006 Series C Bonds **	1.390%	30,000,000	18,000,000
2012 Series A-2 Bonds	1.190%	649,000,000	191,487,000
2012 Series A-3 Bonds	1.240%	305,300,000	305,300,000
2012 Series B-1 **	1.390%	<u>19,500,000</u>	<u>19,500,000</u>
Total Bonds		1,122,940,000	536,060,000
Less Discount		<u>(31,625,846)</u>	<u>(11,116,860)</u>
TOTAL BONDS		<u>\$1,091,314,154</u>	<u>\$ 524,943,140</u>

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

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

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, 2020</u>
2005 Senior Series B	5/26/2005	2.06%	6/20/2030	Quarterly	3 month LIBOR + 12 basis points	\$ 1,773,000
2006 Subordinate Series C	5/3/2006	2.06%	12/20/2046	Monthly	1 month LIBOR + 120 basis points	18,000,000
2012 Senior Series A-2	5/4/2012	1.64%	5/20/2030	Monthly	1 month LIBOR + 100 basis points	191,487,000
2012 Senior Series A-3	5/4/2012	1.91%	7/20/2043	Monthly	1 month LIBOR + 105 basis points	305,300,000
2012 Subordinate Series B-1	5/4/2012	2.06%	12/20/2044	Monthly	1 month LIBOR + 120 basis points	19,500,000
						<u>\$ 536,060,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

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 has one remaining expected principal balance reduction. That bond is scheduled for final payment on September 20, 2020, in the amount of \$1,773,000. At that time, the 2005 B Senior Bonds will be fully retired. The cash for this redemption is fully reserved for at June 30, 2020.

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. The discount on the Series 2012-A2 bonds has been written off in its entirety by June 30, 2020.

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

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

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

Expected Principal Reduction <u>Date</u>	Expected Principal Reduction <u>Amount</u>
July 20, 2020	\$ 4,974,000
August 20, 2020	2,574,000
September 20, 2020	4,379,000
October 20, 2020	3,995,000
November 20, 2020	3,790,000
December 20, 2020	5,178,000
January 20, 2021	4,803,000
February 20, 2021	3,999,000
March 20, 2021	5,334,000
April 20, 2021	5,097,000
May 20, 2021	4,197,000
June 20, 2021	<u>5,571,000</u>
Total Year ended June 30, 2021	53,891,000
2022	68,326,000
2023	<u>69,270,000</u>
Total	<u>\$191,487,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

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	\$ 59,690,000
2025	46,156,000
2026	38,829,000
2027	38,239,000
2028	32,725,000
2029	28,586,000
2030	26,063,000
2031	24,014,000
2032	<u>10,998,000</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	\$ 9,908,000
2033	<u>9,592,000</u>
Total	<u>\$ 19,500,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

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	Expected Principal Reduction Amount
<u>Years ended June 30,</u>	
2033	\$ 6,882,000
2034	<u>11,118,000</u>
Total	<u>\$ 18,000,000</u>

Retirements

During the year ended June 30, 2020, 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	09/20/2019	\$ 2,494,000
2005 Series B	12/20/2019	2,465,000
2005 Series B	03/20/2020	2,437,000
2005 Series B	06/20/2020	2,345,000
2012 Series A2	07/20/2019	3,748,000
2012 Series A2	08/20/2019	7,439,000
2012 Series A2	09/20/2019	6,584,000
2012 Series A2	10/20/2019	3,844,000
2012 Series A2	11/20/2019	7,499,000
2012 Series A2	12/20/2019	6,518,000
2012 Series A2	01/20/2020	2,606,000
2012 Series A2	02/20/2020	6,732,000
2012 Series A2	03/20/2020	5,473,000
2012 Series A2	04/20/2020	3,558,000
2012 Series A2	05/20/2020	4,974,000
2012 Series A2	06/20/2020	5,114,000

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)

Summary of Maturities

The following is a summary of stated maturities for the 2005 and 2006 bonds along with the expected maturities for the 2012 bonds:

Year Ending <u>June 30</u>	Revenue Bonds <u>Payable</u>
2021	\$ 55,664,000
2022	68,326,000
2023	69,270,000
2024	59,690,000
2025	46,156,000
Thereafter	<u>236,954,000</u>
Total	<u>\$ 536,060,000</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, 2020.

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, 2020, is \$51,173 and \$55,437, respectively.

Bond Ratings

As of June 30, 2020, 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 2005B bonds are also rated Aaa by Moody's. The outstanding subordinate bonds are unrated.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

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, 2020:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 20,694,748	\$ 20,694,748
Accrued interest receivable	14,885,207	14,885,207
Interest receivable	67,050	67,050
Investments	8,151,739	8,151,739
Educational loans receivable	<u>538,542,230</u>	<u>533,160,428</u>
Total financial assets	<u>\$582,340,974</u>	<u>\$576,959,172</u>
Financial liabilities:		
Interest payable	209,227	209,227
Educational bonds payable	<u>524,943,140</u>	<u>535,966,250</u>
Total financial liabilities	<u>\$525,152,367</u>	<u>\$536,175,477</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, 2020, (level 1 valuation).

Interest Receivable and Payable

The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2020, 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).

Educational Bonds Payable

The fair value of the Corporation's floating rate senior and subordinate Educational Loan Revenue Bonds is based on the brokered market for those bonds at June 30, 2020 (market approach), (level 2 valuation).

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

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, 2020, SAF billed MHESAC \$3,789,577. At June 30, 2020, the reconciliation for billed and actual costs resulted in a balance payable to SAF of \$1,085.

Escrow Agreement

MHESAC has entered into an escrow agreement with SAF in order 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. Wells Fargo Bank was appointed as the escrow agent and was authorized and directed to hold and invest the escrow property. All interest and other earnings on the escrow property shall be deposited in the escrow account. Wells Fargo Bank chose to not serve as Escrow agent given the decision to move escrow property into an independent investment account and gave notice to terminate the escrow agreement effective February 2019. First Security Bank of Helena, recently renamed Ascent Bank, was appointed as the new 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.

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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreement (Continued)

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 \$1,431,869 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, 2020, MHESAC's prepaid servicing fees balance was \$10,538,735. 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, 2020, SAF billed MHESAC \$295,560 for management services and \$877,321 for program delivery of the Reach Higher Montana initiatives. The reconciliation for billed and actual management and program delivery resulted in a net balance payable to SAF of \$635.

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.

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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2020

NOTE 11. ENDOWMENT (CONTINUED)

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, 2020:

	<u>Without Donor Restrictions</u>
Balance, June 30, 2019	\$ 656,646
Investment income, net	1,393
Balance, June 30, 2020	<u>\$ 658,039</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, 2020:

Expiration of donor restriction released	
by expenditure for:	
Design-a-Sticker scholarships	\$ 3,000
Montana Chamber scholarships	4,875
ETV Foster Care Summit	5,128
Foster Care Youth scholarships	6,000
Incumbent Worker Training grant	6,568
Partnership to Advance Youth Apprenticeship grant	<u>30,462</u>
Total net assets released from donor restrictions	<u>\$ 56,033</u>

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 \$420,856 was recognized in the year ended June 30, 2020, with related expenses of \$483,005.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2020

NOTE 13. GRANT ACTIVITY (CONTINUED)

Effective March 16, 2020, New America Foundation awarded RHM the remaining Partnership to Advance Youth Apprenticeship (PAYA) grant that had been administered by another organization prior to this time. This grant supports the expansion of high-quality apprenticeship opportunities for high school age students across a broad range of industry sectors. Revenue totaling \$30,462 was recognized in the year ended June 30, 2020, with related expenses of \$36,829.

NOTE 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 14, 2020, the date which the financial statements were available for issue and did not identify any events to disclose.

The COVID-19 outbreak in the United States has caused minimal business disruption to MHESAC. While any disruption is expected to be temporary, there is uncertainty around the duration of the disruption. MHESAC does not expect this matter to negatively impact its operating results; however, any future financial impact and duration cannot be reasonably estimated at this time.

Subsequent to year-end, the global financial system experienced substantial volatility related to the COVID-19 pandemic. These economic events have had an impact on investment portfolios. Because of the uncertainty of future market conditions, management is uncertain what impact there will be in the future fair value of the investment portfolios.

SUPPLEMENTARY INFORMATION

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 COMBINING SCHEDULE OF FINANCIAL POSITION UNDER BOND INDENTURES
 June 30, 2020
 (expressed in thousands)

	<u>2005</u> REVENUE BONDS	<u>2012</u> REVENUE BONDS	<u>GRAND</u> TOTAL
ASSETS			
Cash and cash equivalents	\$ 1,975	\$ 13,465	\$ 15,440
Educational loans receivable, net	69,060	461,762	530,822
Accrued interest receivable	988	13,702	14,690
Inter-fund activity	(29,817)	29,817	-
Prepaid costs, net of accumulated amortization	694	4,894	5,588
Other assets	<u>20</u>	<u>295</u>	<u>315</u>
Total assets	<u>\$ 42,920</u>	<u>\$ 523,935</u>	<u>\$ 566,855</u>
 LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$ 62	\$ 1,913	\$ 1,975
Accrued interest payable	-	271	271
Educational loan revenue bonds payable	<u>1,773</u>	<u>523,170</u>	<u>524,943</u>
Total liabilities	<u>1,835</u>	<u>525,354</u>	<u>527,189</u>
 NET ASSETS			
Without donor restrictions	<u>41,085</u>	<u>(1,419)</u>	<u>39,666</u>
Total liabilities and net assets	<u>\$ 42,920</u>	<u>\$ 523,935</u>	<u>\$ 566,855</u>

See Independent Auditor's Report.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 COMBINING SCHEDULE OF ACTIVITIES UNDER BOND INDENTURES
 Year Ended June 30, 2020
 (expressed in thousands)

	<u>2005 REVENUE BONDS</u>	<u>2012 REVENUE BONDS</u>	<u>TOTAL UNDER BOND INDENTURE</u>
NET ASSETS			
Revenue and support			
Investment income	\$ 44	\$ 219	\$ 263
Interest on educational loan	2,918	19,888	22,806
Amortization of prior discounted loan purchase	<u>-</u>	<u>4</u>	<u>4</u>
Total revenue and gains	<u>2,962</u>	<u>20,111</u>	<u>23,073</u>
Expenses			
Bond interest	164	16,413	16,577
Servicing fees	266	1,777	2,043
Trustee fees	5	82	87
Surveillance fees	1	37	38
Listing fees	3	-	3
Borrower rebates	-	44	44
Consolidation loan fees	772	4,307	5,079
Uncollectible accounts	<u>(17)</u>	<u>(99)</u>	<u>(116)</u>
Total expenses	<u>1,194</u>	<u>22,561</u>	<u>23,755</u>
Change in net assets	1,768	(2,450)	(682)
Net assets at the beginning of the year	<u>39,317</u>	<u>1,031</u>	<u>40,348</u>
Net assets at the end of the year	<u>\$ 41,085</u>	<u>\$ (1,419)</u>	<u>\$ 39,666</u>

See Independent Auditor's Report.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION
 SCHEDULE OF REACH HIGHER MONTANA ACTIVITY
 For the Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>
Reach Higher Montana Programs Delivery		
Program delivery	\$ 622,159	\$ 597,505
Campus outreach		
Outreach staff & offices	379,122	448,114
Outreach programs		
Foster care program	483,005	449,413
Montana College Access Network	23,200	22,000
Online resources, financial literacy and other programs	19,892	24,048
Youth apprenticeship grant	36,829	-
Grants awarded		
Community grants	20,000	3,000
Dual enrollment summit	10,000	-
Montana Chamber Foundation Envision 2026	10,000	10,000
Scholarships		
Reach Higher Montana scholarships	79,000	62,250
Advisory council scholarships	2,000	3,500
Design-a-Sticker scholarships	7,000	-
Dual enrollment scholarships	11,300	2,500
Jobs for Montana Graduates Scholarships	1,000	1,500
Miscellaneous scholarships	3,575	4,750
Youth Serve Montana	48,000	50,000
Sponsorships		
25 under 40	-	1,000
Belgrade Booster Club	1,000	-
Bozeman Schools Foundation	-	500
Exploration Works	1,000	1,000
Grandstreet Theatre	-	5,000
Helena Century II Foundation - Helena WINS	3,000	-
Helena College Access scholarship program	5,000	-
Helena Education Foundation	3,000	10,250
Helena Family YMCA	-	1,000
Helena Area Chamber of Commerce	800	750
Leadership Montana	2,500	2,500
Miscellaneous Sponsorships	4,850	10,400
Montana ACTE	750	750
Montana Family, Career & Community Leaders of America	750	-
Montana HOSA-Future Health Professionals	1,000	1,000
Montana Post Secondary Educational Opportunity Council	2,000	5,000
Montana School Counselor Association	2,005	2,000
School Administrators of Montana	1,250	-
	<u>\$ 1,784,987</u>	<u>\$ 1,719,730</u>

See Independent Auditor's Report.