

MONTANA HIGHER EDUCATION  
STUDENT ASSISTANCE CORPORATION

FINANCIAL REPORT

JUNE 30, 2022

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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.



Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Report on Summarized Comparative Information**

We have previously audited the Corporation's 2021 financial statements, and our report dated September 14, 2021, 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, 2021, 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 schedule of Reach Higher Montana Activity on page 39 is 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2022 on our consideration of the Corporation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation’s internal control over financial reporting and compliance.

**Other Information Included in the Company’s Annual Report**

Management is responsible for the other information included in the Corporation’s Annual Report. The other information comprises of Management’s Financial Analysis on pages 4 through 8, but it does not include the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Anderson Zurmuehlen + Co., P.C.*

Helena, Montana  
October 26, 2022

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
MANAGEMENT'S FINANCIAL ANALYSIS  
Year Ended June 30, 2022 and Comparative Totals for June 30, 2021

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, 2022 and 2021. 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 as well as government grants for specific activities. 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.

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, 2022 and Comparative Totals for June 30, 2021

**Financial Position Summary**

Following is an analysis of MHESAC's financial position at June 30, 2022, with comparative information at June 30, 2021 (expressed in thousands):

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 20,801	\$ 18,061
Educational loans receivable, net	397,583	480,636
Other assets	<u>35,913</u>	<u>37,093</u>
Total Assets	<u>\$ 454,297</u>	<u>\$ 535,790</u>
<b>Liabilities and Net Assets</b>		
Current liabilities	56,298	76,938
Long term debt and obligations	<u>314,680</u>	<u>373,737</u>
Total Liabilities	<u>370,978</u>	<u>450,675</u>
Net assets:		
Escrow/Trust	52,073	52,023
General Fund	30,481	32,267
Board-designated endowment	<u>765</u>	<u>825</u>
Total net assets	<u>83,319</u>	<u>85,115</u>
Total liabilities and net assets	<u>\$ 454,297</u>	<u>\$ 535,790</u>

At June 30, 2022, MHESAC had cash and cash equivalents of over \$20.8 million of which \$19.2 million is limited as to use under the bond indenture or the escrow agreement; another \$20,000 is board restricted and the remaining \$1,566,000 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, 2022 and Comparative Totals for June 30, 2021

**Financial Position Summary (Continued)**

During the fiscal year MHESAC decreased the reserve for bad debts which reflects our experience with the portfolio. The decrease in reserve is also 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 \$403,786 to \$323,207.

**Results of Operations Summary**

MHESAC is reporting a negative change in net assets of \$1,795,697 for the fiscal year ended June 30, 2022. Please see the following recap of revenue and expenses (expressed in thousands):

	<u>2022</u>	<u>2021</u>
Revenue	\$ 14,438	\$ 16,368
Expenses	<u>16,234</u>	<u>16,609</u>
Change in net assets	(1,796)	(241)
Net assets, beginning of year	<u>85,115</u>	<u>85,356</u>
Net assets, end of year	<u>\$ 83,319</u>	<u>\$ 85,115</u>

The following is an overview of significant changes in financial data from FY21 to FY22:

- Cash and equivalents increased by \$2,740,000. Over \$1.86 million of the increase was additional cash held in the Indenture for imminent bond interest payments. Due to the increase in interest rates during the last half of FY22, payments to bond holders have increased significantly. Another \$323,301 was from the receipt of cash in the pool of loans in the servicing escrow and the remainder was from proceeds on the sale of investments that will be used for RHM funding in the upcoming quarter.
- Net student loan receivables decreased by \$83,053,000, a pace that is higher than the previous year due to the changes made in servicing protocols put in place to assist borrowers to temporarily decrease or defer their payments if needed during the pandemic crisis.
- Debt consisting of bonds outstanding decreased by \$81,029,000.
- MHESAC's net assets decreased by \$1,796,000
- Total operating revenues decreased by \$1,930,000
- Total expenses decreased by \$375,000

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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)  
Year Ended June 30, 2022 and Comparative Totals for June 30, 2021

**Results of Operations Summary (Continued)**

Although bonds outstanding decreased by 17.0% during the year, bond interest decreased by only 2.8%. This was due to the significant increase in the LIBOR index rates during the last half of FY22. Since the bonds are all variable rate instruments, increases in the index will reflect as higher bond interest even when bonds outstanding are decreasing. The flip side to the rate increase is although student loans receivable decreased by 17.3% during the year, income on educational loans decreased by only 11.8%. The expense line for bond interest includes \$1,682,014 for bond discount amortization which is a non-cash expense item.

Revenues from the student loans are variable in nature and were based on the one-month LIBOR rate during fiscal years 2022 and 2021. At the beginning of the year, the one-month LIBOR rate was 0.10050% and held relatively steady until February 2022 when it started rising. The one-month LIBOR rate ended the year at 1.78671%. 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. However, as rates rise, the amount of additional return compared to post April 2006 loans lessens. Thus, the increased loan income due to rising interest rates is not as dramatic as the increased bond interest paid due to the same increase in interest rates.

As a subset of total expenses, servicing and management fees decreased by \$87,588 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, FY22 was the third 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. 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. Additionally, RHM is responsible for a grant funded program to develop youth apprenticeship partnerships around the state. MHESAC incurred costs in FY22 for the Reach Higher Montana initiatives in the amount of \$2,886,125.

**Long-term Debt Activity**

MHESAC had previously issued both tax-exempt and taxable bonds to raise capital for its student loan activities as more fully described in the accompanying notes to the financial statements. During fiscal year 2012, MHESAC restructured its debt with the goal of taking out all illiquid auction bonds and all fixed rate bonds that paid a significantly higher than market interest rate and structure MHESAC's debt so that vulnerability to rising interest rates is mitigated. The 2012 Bonds met those goals. \$1,145,300,000 of the bonds that were issued were senior bonds and carry a AAA rating by Fitch.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
MANAGEMENT'S FINANCIAL ANALYSIS (CONTINUED)  
Year Ended June 30, 2022 and Comparative Totals for June 30, 2021

**Long-term Debt Activity (Continued)**

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. 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 1-month LIBOR rates plus some spread depending on the life of the bond.

In the fiscal year that ended June 30, 2022, MHESAC redeemed outstanding bonds with all cash available and allowable by the indenture through scheduled and/or targeted redemptions. Redemptions totaled \$81,029,000. 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 7/01/21	\$ 74,599,000	\$ 393,236,908
Scheduled, targeted payments of 2012 Series bonds	(81,029,000)	-
Amortization of bond discount	-	1,682,014
Reclassification to current	<u>60,739,000</u>	<u>(60,739,000)</u>
Net bonds outstanding at 6/30/22	<u>\$ 54,309,000</u>	<u>\$ 334,179,922</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. The second investment is the board directed endowment funds. This account is long-term in nature and is invested more heavily in equities. Both investment pools have suffered due to the impact of the erratic equity and fixed income markets during the last half of FY22.

## FINANCIAL STATEMENTS

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
STATEMENT OF FINANCIAL POSITION  
June 30, 2022 with Comparative Totals for 2021  
(expressed in thousands)

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,566	\$ 1,022
Investments	6,273	7,711
Accrued interest receivable	75	104
Educational loans receivable, net	412	760
Prepaid costs, net of accumulated amortization	35	19
Other assets	<u>234</u>	<u>110</u>
Total Current Assets	<u>8,595</u>	<u>9,726</u>
<b>RESTRICTED ASSETS, CURRENT</b>		
Cash and cash equivalents	19,215	17,025
Accrued interest receivable	15,406	16,313
Educational loans receivable, net	55,494	78,161
Prepaid costs, net of accumulated amortization	25	25
Other assets	<u>449</u>	<u>235</u>
Total Restricted Assets, Current	<u>90,589</u>	<u>111,759</u>
<b>NON-CURRENT ASSETS</b>		
Educational loans receivable, net	<u>2,774</u>	<u>3,206</u>
Total Non-Current Assets	<u>2,774</u>	<u>3,206</u>
<b>RESTRICTED ASSETS, NON-CURRENT</b>		
Endowment cash and cash equivalents	20	14
Endowment investments	744	809
Educational loans receivable, net	338,903	398,509
Prepaid servicing fees	<u>12,672</u>	<u>11,767</u>
Total Restricted Assets, Non-Current	<u>352,339</u>	<u>411,099</u>
<b>TOTAL ASSETS</b>	<u>\$ 454,297</u>	<u>\$ 535,790</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, 2022 with Comparative Totals for 2021  
(expressed in thousands)

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,400	\$ 1,981
Accrued interest payable	330	196
Educational loan revenue bonds payable - current portion	54,309	74,599
Funds held in trust	179	124
Scholarships payable	80	38
Total Current Liabilities	<u>56,298</u>	<u>76,938</u>
LONG-TERM LIABILITIES		
Educational loan revenue bonds payable, net	<u>314,680</u>	<u>373,737</u>
Total Long-Term Liabilities	<u>314,680</u>	<u>373,737</u>
Total Liabilities	<u>370,978</u>	<u>450,675</u>
NET ASSETS		
Without donor restrictions		
Escrow/Trust	52,073	52,023
General Fund	30,481	32,267
Board-designated endowment	765	825
Total Net Assets	<u>83,319</u>	<u>85,115</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 454,297</u>	<u>\$ 535,790</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, 2022 with Comparative Totals for 2021  
(expressed in thousands)

	<u>2022</u>	<u>2021</u>
Revenue and Support		
Investment income, net	\$ (355)	\$ 104
Interest on educational loans	13,769	15,616
Amortization of prior discounted loan purchase	4	3
Contributions and grants	<u>835</u>	<u>488</u>
	14,253	16,211
Net assets released from donor restrictions	<u>185</u>	<u>157</u>
Total revenue and support without donor restrictions	<u>14,438</u>	<u>16,368</u>
Program Services Expenses		
Student loan operations	13,304	14,314
Grants and public purpose program	<u>2,548</u>	<u>1,989</u>
Total program services expenses	15,852	16,303
Supporting Activities Expenses		
General and administrative expenses	<u>382</u>	<u>306</u>
Total expenses	<u>16,234</u>	<u>16,609</u>
Change in net assets without donor restrictions	<u>(1,796)</u>	<u>(241)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Revenue and support:		
Contributions with donor restrictions	185	157
Net assets released from donor restrictions	<u>(185)</u>	<u>(157)</u>
	<u>-</u>	<u>-</u>
Change in net assets	(1,796)	(241)
Net assets at the beginning of the year	<u>85,115</u>	<u>85,356</u>
Net assets at the end of the year	<u>\$ 83,319</u>	<u>\$ 85,115</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, 2022  
(expressed in thousands)

	<u>Program Services</u>			<u>Supporting Activities</u>	
	<u>Student Loan Operations</u>	<u>Grants and Public Purpose Program</u>	<u>Total Programs</u>	<u>General and Administrative</u>	<u>Total</u>
Advertising expense	\$ -	\$ 49	\$ 49	\$ -	\$ 49
Board and officer expense	-	-	-	16	16
Bond Interest	7,178	-	7,178	-	7,178
Borrower rebate expense	29	-	29	-	29
Computer equipment, supplies and software	-	8	8	-	8
Consolidation loan fees	3,974	-	3,974	-	3,974
Contract labor and services	-	987	987	282	1,269
Depreciation and leasehold amortization	-	15	15	-	15
Dues and subscriptions	-	23	23	15	38
Grants, scholarships and other	-	983	983	-	983
Insurance	-	28	28	21	49
Mail and courier	-	5	5	-	5
Operating lease payments	-	30	30	-	30
Other costs	-	5	5	47	52
Printing	-	9	9	-	9
Professional services	-	76	76	1	77
Promotion and event costs	-	116	116	-	116
Rent	-	11	11	-	11
Servicing fees	2,085	-	2,085	-	2,085
Staff travel and training	-	163	163	-	163
Supplies and copier	-	10	10	-	10
Surveillance fees	39	-	39	-	39
Telecommunications and utilities	-	30	30	-	30
Trustee fee	68	-	68	-	68
Uncollectible account exp	(69)	-	(69)	-	(69)
Total expenses by function included in the expense section on the statement of activities	<u>\$ 13,304</u>	<u>\$ 2,548</u>	<u>\$ 15,852</u>	<u>\$ 382</u>	<u>\$ 16,234</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, 2021  
(expressed in thousands)

	Program Services			Supporting Activities	
	Student Loan Operations	Grants and Public Purpose Program	Total Programs	General and Administrative	Total
Advertising expense	\$ -	\$ 47	\$ 47	\$ -	\$ 47
Board and officer expense	-	-	-	13	13
Bond Interest	7,436	-	7,436	-	7,436
Borrower rebate expense	33	-	33	-	33
Computer equipment, supplies and software	-	13	13	-	13
Consolidation loan fees	4,595	-	4,595	-	4,595
Contract labor and services	-	938	938	216	1,154
Depreciation and leasehold amortization	-	17	17	-	17
Dues and subscriptions	-	26	26	5	31
Grants, scholarships and other	-	604	604	-	604
Income tax expense	-	(1)	(1)	-	(1)
Insurance	-	33	33	21	54
Listing fees	1	-	1	-	1
Mail and courier	-	7	7	-	7
Operating lease payments	-	27	27	-	27
Other costs	-	4	4	50	54
Printing	-	5	5	-	5
Professional services	-	-	-	1	1
Promotion and event costs	-	176	176	-	176
Rent	-	8	8	-	8
Servicing fees	2,172	-	2,172	-	2,172
Staff travel and training	-	46	46	-	46
Supplies and copier	-	6	6	-	6
Surveillance fees	38	-	38	-	38
Telecommunications and utilities	-	33	33	-	33
Trustee fee	82	-	82	-	82
Uncollectible account exp	(43)	-	(43)	-	(43)
Total expenses by function included in the expense section on the statement of activities	<u>\$ 14,314</u>	<u>\$ 1,989</u>	<u>\$ 16,303</u>	<u>\$ 306</u>	<u>\$ 16,609</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, 2022 with Comparative Totals for 2021  
(expressed in thousands)

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received on student loans	\$ 7,703	\$ 8,175
Interest received on investments	11	434
Bond and note interest paid	(5,758)	(6,146)
Bond fees paid	(68)	(82)
Loan fees paid	(4,038)	(4,631)
Contracted management & servicing fees paid	(3,009)	(3,404)
Administrative expenses paid	(45)	(28)
Grant and public purpose program paid	(1,785)	(1,677)
Net cash flows from operating activities	<u>(6,989)</u>	<u>(7,359)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of educational loans	(485)	(929)
Repayments of educational loans	89,739	64,800
Proceeds from sale of investments	1,504	(368)
Net cash flows from investing activities	<u>90,758</u>	<u>63,503</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Repayment of bonds	(81,029)	(58,777)
Net cash flows from financing activities	<u>(81,029)</u>	<u>(58,777)</u>
Net change in cash and equivalents	2,740	(2,633)
Cash and cash equivalents, beginning of year	<u>18,061</u>	<u>20,694</u>
Cash and cash equivalents, end of year	<u>\$ 20,801</u>	<u>\$ 18,061</u>
 A reconciliation of cash and cash equivalents as shown on the statement of financial position for MHESAC follows:		
Cash and cash equivalents, current	\$ 1,566	\$ 1,022
Restricted cash and cash equivalents, current	19,215	17,025
Endowment cash and cash equivalents	20	14
Cash and cash equivalents	<u>\$ 20,801</u>	<u>\$ 18,061</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, 2022

**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). Accordingly, no provision for income taxes is necessary in the accompanying financial statements. MHESAC is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Corporation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. It has been determined that MHESAC is not subject to unrelated business income tax and is not required to file an Exempt Organization Business Income Tax Return (Form 990-T).

**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.

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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2022.

**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.

**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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2022, rebates of \$5,129,361 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.

**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 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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2022

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Escrow/Trust Net Assets (Continued)**

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	\$ 3,792,543	\$ 31,300,378	\$ 35,092,921
Educational loans receivable, net	2,130,551	392,266,928	394,397,479
Prepaid servicing fees	<u>4,976,034</u>	<u>7,695,955</u>	<u>12,671,989</u>
Total assets	<u>\$ 10,899,128</u>	<u>\$ 431,263,261</u>	<u>\$ 442,162,389</u>
Liabilities	\$ 13,087	\$ 390,076,325	\$ 390,089,412
Net assets	<u>10,886,041</u>	<u>41,186,936</u>	<u>52,072,977</u>
Total liabilities and net assets	<u>\$ 10,899,128</u>	<u>\$ 431,263,261</u>	<u>\$ 442,162,389</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, 2022, MHESAC had no conditional contributions.

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 \$155,439, that have not been recognized at June 30, 2022, 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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Donated Services and In-Kind Contributions**

Contributed goods are recorded at fair value at the date of donation. MHESAC records donated professional services at the respective fair value of the services received. Contributions of such goods or services of \$11,689 were received during the year ended June 30, 2022.

**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.

MHESAC rebranded these programs as Reach Higher Montana (RHM). SAF manages and administers, 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, 2022, the balance of the endowment was \$763,576.

**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.

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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New Accounting Standards**

The Corporation adopted the following Accounting Standards Update (ASU) in fiscal year 2022:

ASU 2016-02, *Leases (Topic 842)*. This accounting standard increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about lease arrangements. Under this new standard, lessees recognize right of use (ROU) assets and related lease liabilities on the statement of financial position for all arrangements with terms longer than 12 months. Lessor accounting remains basically unchanged. The ASU has been applied retrospectively to all periods presented, which had no effect on the change in net assets and an immaterial change in total assets previously reported. There was one lease at June 30, 2021 requiring recognition of a Right-of-Use (ROU) Asset and offsetting Lease Liability of \$6,847. Enhanced disclosure of leases is presented in Note 10.

**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, 2022:

Cash and cash equivalents	\$ 1,566,230
Accounts receivable	74,243
Payments in transit	651
Investments	6,272,630
Interest receivable	53,753
Accrued interest receivable	75,789
Educational loans receivable, net	<u>411,755</u>
	<u>\$ 8,455,051</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 its management and servicing.

Almost 100% of assets are financial assets. However, 97% 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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 2. LIQUIDITY AND AVAILABILITY (CONTINUED)**

Of the non-trust assets, over 98% are financial assets and 70% are available to fund ongoing operations.

An investment policy is in place, and an investment committee is active. The committee uses 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 daily 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, 2022, the book balance was \$1,565,308 and bank balance amount of MHESAC deposits was \$1,574,554 with \$902,036 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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)**

The fair value hierarchy prioritizes valuation input into three broad levels.

- 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, 2022, and there were no transfers between levels.

*Common stocks, equity funds, 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, 2022, 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, 2022

**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.

At June 30, 2022, 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 (Level 1)	Significant Other Observable Inputs (Level 2)	
Short-term operations			
U.S. Government obligations	\$ 4,029,500	\$ -	\$ 4,029,500
Corporate bonds	<u>2,243,130</u>	<u>-</u>	<u>2,243,130</u>
	<u>6,272,630</u>	<u>-</u>	<u>6,272,630</u>
Board directed endowment			
U.S. Government obligations	46,819		46,819
Corporate bonds	56,321		56,321
Equity stocks	361,513	361,513	-
Exchange traded funds	66,318	66,318	-
Equity funds	201,054	201,054	-
Real estate investment trusts	<u>11,626</u>	<u>11,626</u>	<u>-</u>
	<u>743,651</u>	<u>640,511</u>	<u>103,140</u>
	7,016,281	<u>\$ 640,511</u>	<u>\$ 6,375,770</u>
Other investments			
MHESAC 2012-B Bond	<u>19,500,000</u>		
	26,516,281		
Less internal holding:			
MHESAC 2012-B Bond	<u>19,500,000</u>		
Total Investments	<u>\$ 7,016,281</u>		

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2022

**NOTE 5. INVESTMENTS (CONTINUED)**

Components of investment income include the following:

Interest and investment income	\$ 152,494
Realized gain on sale of investments	43,722
Unrealized market value change of investments	(525,442)
Investment expenses	<u>(26,277)</u>
Income from investments	<u>\$ (355,503)</u>

**NOTE 6. EDUCATIONAL LOANS RECEIVABLE & ALLOWANCE FOR LOSSES**

The educational loans receivable are loan portfolios purchased from various banks and 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.

The educational loans receivable are classified as student/interim, deferment/forbearance/delinquent/claim, 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, 2022:

School/interim	\$ 71,936
Deferment/forbearance/delinquent/claim	82,909,331
Repayment status	<u>314,936,958</u>
Educational loans receivable	397,918,225
Allowance for uncollectible loans	(323,207)
Discount on loan purchase	<u>(11,295)</u>
Educational loans receivable, net	<u>\$ 397,583,723</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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

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

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.

**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, 2022.

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 360<sup>th</sup> 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, 2022, loans in the amount of \$3,846,129 were classified as delinquent more than 270 days, the stage at which a default claim can be filed.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2022

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

**Allowance for Uncollectible Loans (Continued)**

As of June 30, 2022, MHESAC held a loan portfolio of \$397,918,225. The average default rate for loans serviced by SAF resulted in a provision for uncollectible educational loans of \$323,207 for the year ended June 30, 2022.

Following is a reconciliation of the change in the allowance for uncollectible loans for the year ended June 30, 2022:

Balance, July 1, 2021	\$ 403,786
Non-guaranteed write-offs	(11,537)
Adjustments per allowance policy	<u>(69,042)</u>
Balance, June 30, 2022	<u>\$ 323,207</u>

There is also a discount for student loan purchase of \$11,295 that is netted against the receivable.

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, 2022:

100% Guarantee	\$ 470,573
98% Guarantee	241,122,604
97% Guarantee	<u>156,325,048</u>
<b>Total Portfolio</b>	<b><u>\$ 397,918,225</u></b>

Temporary changes were implemented in the accounting policies and methodologies used during the year ended June 30, 2022, regarding calculation of the allowance for uncollectible loans. The allowance calculation was based on FY20 claim rates (pre-covid) due to borrowers in a delinquent status during the initial phase of COVID-19 pandemic brought current by a disaster forbearance which caused very low claim rates in FY21 and then subsequently as those borrowers once again became delinquent and went through the claim process causing higher claim rates in FY22 which would have overestimated what the claim rates would be in a "normal" environment.

**NOTE 7. RELATED PARTY TRANSACTIONS**

MHESAC has agreements with SAF to provide management and master loan servicing to MHESAC, as disclosed in Note 11. As master servicer, SAF has contracted with a third party sub-servicer to handle the day to day student loan servicing. The public purpose initiative of MHESAC, RHM, has a management and support agreement with SAF. RHM has entered into a lease agreement with the wholly owned subsidiary of SAF, Workmosis Power, LLC. SAF has two of its Board members in common with the Corporation's seven Board members.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**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, 2021	\$ 467,835,908
Bond discount amortization during the year	1,682,013
Bonds redeemed during the year	<u>(81,029,000)</u>
Bonds outstanding	388,488,921
Less: internal 2012 bond holding	<u>(19,500,000)</u>
Bonds outstanding at June 30, 2022, net	<u>\$ 368,988,921</u>

A description of significant terms and conditions of each Student Loan Revenue Bond issue outstanding at June 30, 2022, follows:

<u>Issue</u>	<u>Year End Interest Rate</u>	<u>Original Issue Amount</u>	<u>June 30, 2022</u>
<b>Taxable Floating Rate Bonds:</b>			
2006 Series C Bonds **	2.795%	\$ 30,000,000	\$ 18,000,000
2012 Series A-2 Bonds	2.595%	649,000,000	53,454,000
2012 Series A-3 Bonds	2.645%	305,300,000	305,300,000
2012 Series B-1 Bonds**	2.795%	<u>19,500,000</u>	<u>19,500,000</u>
Total Bonds		1,003,800,000	396,254,000
Less Discount		<u>(31,625,846)</u>	<u>(7,765,079)</u>
<b>TOTAL BONDS</b>		<u>\$ 972,174,154</u>	<u>\$ 388,488,921</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, 2022

**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, 2022</u>
2006 Subordinate Series C	5/3/2006	1.93%	12/20/2046	Monthly	1 month LIBOR + 120 basis points	18,000,000
2012 Senior Series A-2	5/4/2012	1.61%	5/20/2030	Monthly	1 month LIBOR + 100 basis points	53,454,000
2012 Senior Series A-3	5/4/2012	1.78%	7/20/2043	Monthly	1 month LIBOR + 105 basis points	305,300,000
2012 Subordinate Series B-1	5/4/2012	1.93%	12/20/2044	Monthly	1 month LIBOR + 120 basis points	<u>19,500,000</u>
						<u>\$ 396,254,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2022

**NOTE 8. EDUCATIONAL LOAN REVENUE BONDS PAYABLE (CONTINUED)**

**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, 2022	\$ 6,796,000
August 20, 2022	4,327,000
September 20, 2022	3,626,000
October 20, 2022	4,718,000
November 20, 2022	5,790,000
December 20, 2022	3,295,000
January 20, 2023	4,126,000
February 20, 2023	6,117,000
March 20, 2023	2,613,000
April 20, 2023	3,794,000
May 20, 2023	6,587,000
June 20, 2023	<u>1,665,000</u>
Total Year ended June 30, 2023	<u>\$ 53,454,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2022

**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 <u>Date</u>	Expected Principal Reduction <u>Amount</u>
June 20, 2023	\$ 855,000
Total Year ended June 30, 2023	\$ 855,000
<u>Years ended June 30,</u>	
2024	\$ 47,468,000
2025	44,923,000
2026	40,789,000
2027	34,586,000
2028	30,585,000
2029	27,597,000
2030	23,570,000
2031	21,794,000
2032	19,768,000
2033	<u>13,365,000</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 <u>Date</u> <u>Years ended June 30,</u>	Expected Principal Reduction <u>Amount</u>
2033	\$ 3,498,000
2034	14,172,000
2035	<u>1,830,000</u>
Total	<u>\$ 19,500,000</u>

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2022

**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**

<u>Expected Principal Reduction Date Years ended June 30,</u>	<u>Expected Principal Reduction Amount</u>
2035	\$ 8,856,000
2036	7,473,000
2037	<u>1,671,000</u>
Total	<u>\$ 18,000,000</u>

**Retirements**

During the year ended June 30, 2022, 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>
2012 Series A2	07/20/2021	\$ 5,257,000
2012 Series A2	08/20/2021	4,627,000
2012 Series A2	09/20/2021	7,688,000
2012 Series A2	10/20/2021	8,135,000
2012 Series A2	11/22/2021	4,267,000
2012 Series A2	12/20/2021	10,388,000
2012 Series A2	01/20/2022	8,746,000
2012 Series A2	02/22/2022	6,608,000
2012 Series A2	03/21/2022	6,522,000
2012 Series A2	04/20/2022	8,607,000
2012 Series A2	05/20/2022	5,787,000
2012 Series A2	06/21/2022	4,397,000

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2022

**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>
2023	\$ 54,309,000
2024	47,468,000
2025	44,923,000
2026	40,789,000
2027	34,586,000
Thereafter	<u>174,179,000</u>
Total	<u>\$ 396,254,000</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, 2022.

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, 2022, is \$52,657 and \$57,045, respectively.

**Bond Ratings**

As of June 30, 2022, 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, 2022

**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, 2022:

	Carrying <u>Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 20,800,661	\$ 20,800,661
Accrued interest receivable	15,480,774	15,480,774
Interest receivable	54,828	54,828
Investments	7,016,282	7,016,282
Educational loans receivable	<u>397,583,723</u>	<u>394,848,075</u>
Total financial assets	<u>440,936,268</u>	<u>438,200,620</u>
Financial liabilities:		
Interest payable	329,489	329,489
Educational bonds payable	<u>388,488,921</u>	<u>396,131,056</u>
Total financial liabilities	<u>\$388,818,410</u>	<u>\$396,460,545</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, 2022, (level 1 valuation).

**Interest Receivable and Payable**

The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2022, 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).

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**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, 2022 (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. LEASES**

At the start of the fiscal year, MHESAC had one operating lease that, at commencement, was longer than 12 months. There were only three months remaining on this lease. Operating lease expense on this lease for the fiscal year ended June 30, 2022, was \$6,866.

The Corporation has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and on-going operating leases, and to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

On June 30, 2022, MHESAC has two operating leases, for office space. With the implementation of the new lease standard as described in Note 1 under the topic "New Accounting Standards", MHESAC now recognizes an Operating Lease ROU Asset of \$105,387, and an offsetting Operating Lease Liability totaling \$105,387. The ROU Asset is included in the Other assets, Current and the Operating Lease Liability is included in Accounts payable and accrued expenses, both on the Statement of Financial Position.

One lease began July 14, 2021 and terminates on July 31, 2022 with a monthly rent of \$450. The second lease began on August 1, 2021 and terminates on July 31, 2026. Monthly rent is \$2,300 with a provision for cost of living (CPI) increases which are determined annually. The CPI increases are not considered in the calculation of the ROU asset or the Operating Lease Liability because they are unknown. Adjustments will be made per the accounting standard when increases occur. Operating lease and rent expense related to these leases total \$30,511 for the fiscal year ended June 30, 2022.

A discount rate is used in the calculation of the ROU Asset. The rate used equals the financing rate for the Lessor's purchase of the building, 3.47%. The Lessor is Workmosis Power, LLC. which is 100% owned by SAF.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 10. LEASES (CONTINUED)**

As of June 30, 2022, the future lease payments under the operating lease with a remaining term in excess of one year is as follows:

2023	\$ 27,600
2024	27,600
2025	27,600
2026	27,600
2027	<u>2,300</u>
Total	112,700
Less discount applied	<u>7,761</u>
Operating lease liability	<u>\$ 104,939</u>

**NOTE 11. 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, 2022, SAF billed MHESAC \$2,995,081. At June 30, 2022, the reconciliation for billed and actual costs resulted in a balance receivable from SAF of \$27,134.

**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.

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.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Escrow Agreement (Continued)**

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 \$905,289 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, 2022, MHESAC's prepaid servicing fees balance was \$12,671,989. 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, 2022, SAF billed MHESAC \$334,532 for management services and \$1,015,866 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 \$24,844.

**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, 2022

**NOTE 12. 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, 2022:

	<u>Without Donor Restrictions</u>
Balance, June 30, 2021	\$ 825,123
Investment income, net	<u>(60,472)</u>
Balance, June 30, 2022	<u>\$ 764,651</u>

**NOTE 13. NET ASSETS**

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes for the year ended June 30, 2022:

Expiration of donor restriction released	
by expenditure for:	
Scholarships	\$ 21,550
Foster Care related activities	11,599
Focus Group	12,000
Work Based Learning Collaborative	50,000
Partnership to Advance Youth Apprenticeship grant	85,900
Staff career training	<u>3,630</u>
Total net assets released from donor restrictions	<u>\$ 184,679</u>

**NOTE 14. 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 \$853,614 was recognized in the year ended June 30, 2022, with related expenses of \$917,996.

MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2022

**NOTE 14. GRANT ACTIVITY (CONTINUED)**

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 \$85,900 was recognized in the year ended June 30, 2022, with related expenses of \$119,272.

**NOTE 15. SUBSEQUENT EVENTS**

**Reference Rate Reform**

In July of 2017, The Financial Conduct Authority in London announced that it would abandon LIBOR, the London interbank offered rate. All of the MHESAC bonds use the 1-month LIBOR rate as the index for calculating the variable bond rate. Additionally, the net return on the student loans that MHESAC owns is calculated based on the 1-month LIBOR rate. Effective July 1, 2023, MHESAC will adopt the Secured Overnight Financing Rate (SOFR) which has been identified as the replacement to the LIBOR rate.

**Loan Forgiveness**

On August 24, 2022, President Biden announced a program for granting student loan debt relief. Per the fact sheet released by the White House, the Department of Education (DOE) will provide up to \$20,000 in debt cancellation to Pell Grant recipients with loans held by the DOE and up to \$10,000 in debt cancellation to non-Pell Grant recipients. The debt cancellation is subject to limits based on the borrower's income. At the date of these financial statements, it cannot be ascertained whether commercial FFELP loans, like those owned by MHESAC, are eligible for the one-time loan forgiveness. It is therefore not possible to quantify the impact, if any, to the MHESAC portfolio. The situation will be closely monitored as additional specifics become available.

SUPPLEMENTARY INFORMATION

**MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION**  
**SCHEDULE OF REACH HIGHER MONTANA ACTIVITY**  
For the Year Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Reach Higher Montana Programs Delivery</b>		
Program delivery	\$ 665,024	\$ 575,570
<b>Campus outreach</b>		
Outreach staff & offices	563,856	459,890
<b>Outreach programs</b>		
Foster care program	917,996	586,710
Montana College Access Network	5,000	5,000
Work-Based Learning Collaborative	50,000	-
Youth apprenticeship grant less sponsorships included below	91,989	132,067
<b>Grants awarded</b>		
Community grants	-	5,000
Dual enrollment summit	7,500	700
Montana Chamber Foundation Envision 2026	-	10,000
<b>Scholarships</b>		
Reach Higher Montana scholarships	80,000	80,000
Design-a-Sticker scholarships	8,000	7,000
Dual enrollment scholarships	5,062	5,601
Focus Group of trade and technology scholarships	14,264	-
Horse Creek scholarships	7,500	-
Jobs for Montana Graduates Scholarships	-	1,500
Judy Martz scholarships	5,000	5,000
Miscellaneous scholarships	5,329	5,600
Senior Send Off scholarships	1,517	10,000
Stick with Scholarships	3,000	-
Youth Serve Montana	50,000	50,000
<b>Sponsorships</b>		
American Jobs for Americas Youth Montana	3,000	3,500
Big Sky Economic Development Assoc	1,500	-
Belgrade Booster Club	100	1,100
Business Professionals of America	-	4,000
Headwaters RC & D	1,000	-
Helena Area Chamber of Commerce	6,675	3,050
Helena Century II Foundation - Helena WINS	3,000	-
Helena College Access scholarship program	3,000	-
Helena Education Foundation	3,000	3,500
Highlands College	2,700	-
Leadership Montana	2,500	2,500
Miscellaneous Sponsorships	5,130	5,640
Montana Association for Career and Technical Education	2,000	3,000
Montana Council for Economic Education	2,500	-
Montana Family, Career & Community Leaders of America	1,000	2,500
Montana FFA Foundation	15,000	6,000
Montana HOSA-Future Health Professionals	3,000	2,500
Montana Joining Community Forces	2,250	2,610
Montana Post Secondary Educational Opportunity Council	5,000	5,000
Montana School Counselor Association	5,056	500
School Administrators of Montana	-	3,900
	<u>\$ 2,548,448</u>	<u>\$ 1,988,938</u>

See Independent Auditor's Report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montana Higher Education Student Assistance Corporation (the Corporation) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Anderson Zurmuehlen + Co., P.C.*

Helena, Montana  
October 26, 2022