

**STUDENT ASSISTANCE  
FOUNDATION OF MONTANA  
AND AFFILIATES**

**CONSOLIDATED FINANCIAL  
REPORT**

**JUNE 30, 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Student Assistance Foundation  
of Montana  
Helena, Montana

We have audited the accompanying consolidated statements of financial position of Student Assistance Foundation of Montana and Affiliates (the Corporation) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Student Assistance Foundation of Montana and Affiliates as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2011, 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, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Helena, Montana  
September 22, 2011

CONSOLIDATED FINANCIAL STATEMENTS

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,961,208	\$ 6,801,058
Accounts receivable:		
Lender services	-	9,578
Other client & miscellaneous receivables	544,364	441,060
Related parties	43,434	76,799
Interest receivable	2,426,342	2,764,785
Investments	1,999,902	1,991,188
Prepaid costs, net	336,120	442,564
Total current assets	10,311,370	12,527,032
PROPERTY AND EQUIPMENT, at cost		
Land and building	2,883,045	2,883,045
Building improvements	1,263,931	1,227,878
Construction work in progress	-	55,003
Equipment and furniture	3,902,660	3,752,905
	8,049,636	7,918,831
Less: accumulated depreciation	4,334,299	4,015,780
Total property and equipment	3,715,337	3,903,051
OTHER RESTRICTED ASSETS		
Cash and cash equivalents	2,691,818	5,092,784
Endowment cash and cash equivalents	183,954	121,627
Endowment interest receivable	937	1,198
Educational loans receivable, net	194,180,145	207,378,631
Prepaid costs, net	3,000	3,000
Total other restricted assets	197,059,854	212,597,240
Total assets	\$ 211,086,561	\$ 229,027,323

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

	<u>2011</u>	<u>2010</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	<b>\$ 1,480,925</b>	\$ 1,926,762
Funds held for loan servicing clients	<b>3,155,929</b>	3,451,858
Special allowance payment payable	<b>1,204,361</b>	1,193,446
Accrued interest payable	<b>32,624</b>	71,513
Grant program liability	<b>1,253,000</b>	1,251,000
Compensated absence liability	<b>984,922</b>	991,806
Current obligation under capital lease	<b>60,860</b>	65,134
Refundable grant advance	<b>49,700</b>	47,900
Current maturities of notes payable	<b>301,141</b>	852,128
Current maturities of MSLF line of credit:		
MSLF line of credit payable	<b>203,676,598</b>	219,076,598
Less fair value adjustment	<b>(5,774,109)</b>	(5,433,412)
Total current liabilities	<b><u>206,425,951</u></b>	<u>223,494,733</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current maturities	<b>2,157,156</b>	1,943,556
Refundable grant advance	-	49,700
Obligation under capital lease	<b>88,266</b>	149,126
Total long-term liabilities	<b><u>2,245,422</u></b>	<u>2,142,382</u>
Total liabilities	<b><u>208,671,373</u></b>	<u>225,637,115</u>
<b>NET ASSETS</b>		
Unrestricted:		
Unrestricted, undesignated	<b>2,210,515</b>	3,256,383
Board-designated for endowment	<b>184,892</b>	122,825
Total unrestricted	<b><u>2,395,407</u></b>	<u>3,379,208</u>
Temporarily restricted	<b>19,781</b>	11,000
Total net assets	<b><u>2,415,188</u></b>	<u>3,390,208</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 211,086,561</u></b>	<b><u>\$ 229,027,323</u></b>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2011 and 2010

	2011	2010
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Management & servicing fee income	\$ 13,504,164	\$ 15,273,908
Interest on educational loans	4,570,124	5,238,686
Loan servicing income	1,863,047	3,648,121
Lender services income	-	263,590
Income from investments		
Investment income	7,970	12,863
Interest on endowment	2,066	1,758
Unrealized gain on land valuation	-	79,000
Unrealized gain on MSLF line of credit	340,696	358,362
Contributions & grants	140,769	28,268
Other income	571,427	633,619
	21,000,263	25,538,175
Net assets released from restrictions	324,292	270,705
Total unrestricted revenue and support	21,324,555	25,808,880
Program Operating Expenses:		
Loan servicing		
Salaries, payroll taxes and employee benefits	9,173,988	10,259,800
Contract sub-servicing fees	1,971,014	2,020,776
Professional services	737,551	693,909
Advertising	72,258	66,211
Marketing and outreach	1,613	3,594
Contract services and labor	583,860	318,324
Staff travel and training	180,879	242,566
Insurance	75,700	73,723
Office supplies and copier charges	53,866	75,134
Computer charges	519,084	635,734
Telecommunications and utilities	296,259	293,308
Mail, postage and courier	491,270	636,803
Printing	58,576	54,684
Dues, subscriptions and memberships	75,997	76,547
Recruitment and relocation	3,705	3,727
Automobile expense	2,436	2,076
Repairs, maintenance and service	53,488	54,298
Depreciation	491,014	470,857
Conversion costs	1,881,112	1,982,132

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

	<u>2011</u>	<u>2010</u>
Program Operating Expenses (Continued):		
Loan servicing (continued)		
Loan fees	879,052	971,701
Operating lease payments	25,032	93,905
Other costs	371,092	348,372
Interest	942,890	1,016,283
Grants and public purpose program	2,834,139	2,841,818
Servicing costs allocated between companies	(6,120)	-
Lender services	6,660	93,142
Total program operating expenses	<u>21,776,415</u>	<u>23,329,424</u>
 Fundraising Expenses	 <u>261,674</u>	 <u>270,920</u>
 General and Administrative Expenses:		
Salaries, payroll taxes and employee benefits	118,678	82,131
Board and officer	56,347	51,846
Professional services	37,633	-
Insurance	14,115	14,000
Income taxes	(2,276)	78,024
Other	45,770	35,992
Total general and administrative expenses	<u>270,267</u>	<u>261,993</u>
 Total expenses	 <u>22,308,356</u>	 <u>23,862,337</u>
Increase (decrease) in unrestricted net assets	(983,801)	1,946,543
 TEMPORARILY RESTRICTED NET ASSETS		
Revenue and Support:		
Contributions	333,073	280,655
Net assets released from restrictions	<u>(324,292)</u>	<u>(270,705)</u>
Increase in temporarily restricted net assets	<u>8,781</u>	<u>9,950</u>
 Increase (decrease) in net assets	 <u>(975,020)</u>	 <u>1,956,493</u>
Net assets at the beginning of the year	<u>3,390,208</u>	<u>1,433,715</u>
Net assets at the end of the year	<u>\$ 2,415,188</u>	<u>\$ 3,390,208</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATED STATEMENTS CASH FLOWS  
For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (975,020)	\$ 1,956,493
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Purchase of educational loans	(135,342)	-
Repayments of educational loans	15,862,486	13,421,642
Non-cash adjustments to educational loans	(2,528,658)	(3,058,660)
Unrealized gain on MSLF line of credit	(340,696)	(358,362)
Depreciation	572,194	526,571
Change in investment values	398	(79,425)
Change in assets and liabilities:		
(Increase) decrease in current assets:		
Receivables	(60,100)	855,804
Interest receivable	338,443	342,054
Prepaid costs	106,444	(34,053)
Increase (decrease) in current liabilities:		
Accounts and accrued expenses payable	(473,811)	5,917
Compensated absences	(6,884)	(43,397)
Refundable grant advance	(47,900)	97,600
Grants awarded	2,000	31,708
Funds held for servicing clients	(295,929)	1,149,773
Net cash provided by operating activities	12,017,625	14,813,665
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(386,256)	(831,809)
Proceeds from sale of fixed assets	1,775	1,492
Purchase of investments	(29,112)	(76,643)
Proceeds from sale of investments	20,000	-
Net cash used in investing activities	(393,593)	(906,960)

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

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on line of credit	(15,400,000)	(8,075,000)
Repayments on notes/loans payable	(337,387)	(462,285)
Repayments on lease obligations	<u>(65,134)</u>	<u>(68,707)</u>
Net cash used in financing activities	<u>(15,802,521)</u>	<u>(8,605,992)</u>
Net increase (decrease) in cash and cash equivalents	(4,178,489)	5,300,713
Cash and cash equivalents, beginning of year	<u>12,015,469</u>	<u>6,714,756</u>
Cash and cash equivalents, end of year	<u>\$ 7,836,980</u>	<u>\$ 12,015,469</u>
Supplemental schedule of noncash investing and financing activities:		
Cash paid for interest	<u>\$ 1,012,938</u>	<u>\$ 1,092,215</u>
Cash and cash equivalents are reported on the consolidated statement to financial position as follows:		
Cash and cash equivalents, current	\$ 4,961,208	\$ 6,801,058
Cash and cash equivalents, restricted	2,691,818	5,092,784
Endowment cash and cash equivalents	<u>183,954</u>	<u>121,627</u>
	<u>\$ 7,836,980</u>	<u>\$ 12,015,469</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Principles of Consolidation:**

Student Assistance Foundation (herein referred to as SAF or the Corporation) is a Montana not-for-profit corporation incorporated in July of 1999 to provide education finance services to Montana students and support services for student financial aid industry participants. SAF was formed as part of a major restructuring plan adopted by the Montana Higher Education Student Assistance Corporation (MHESAC) Board of Directors in response to changes in the student loan industry and in an effort to expand financial aid benefits available to Montana students. As part of this plan, on February 1, 2000, the employees and operating assets of MHESAC were transferred to SAF, and MHESAC contracted with SAF for student loan servicing and management functions. SAF provided student loan servicing for up to 9 national clients during the year. SAF provides financial support as well as a variety of counseling and information services to Montana students in post-secondary education. SAF has two affiliates: Montana Student Loan Funding, LLC (MSLF) a limited liability corporation with SAF as the sole member and Tru Student, Inc. (Tru Student), a wholly owned subsidiary. Tru Student provided student loan servicing for up to 6 national clients.

On June 28, 2003, MSLF was created as a limited liability corporation with SAF as the sole member. The corporation is a bankruptcy remote company that was formed to acquire and originate student loans. Bankruptcy remote status provides that all debts, obligations and liabilities are solely that of the established company and neither the members, special members nor any managers are obligated for those activities including insolvency of the bankruptcy remote vehicle. Previously, the loan activity conducted by MSLF was for the specific purpose of an eventual sale to MHESAC with no obligation by MHESAC to acquire the loans until it was able to obtain financing for that specific purpose. Due to changes in the economic environment, it is not MHESAC's intent to obtain financing or purchase the MSLF loan portfolio in the foreseeable future. See Notes 4 and 13. The accompanying consolidated financial statements include the accounts of MSLF. All significant intercompany transactions and accounts have been eliminated.

On December 17, 2009, Tru Student was created as a for-profit corporation and was subsequently merged with TS Merger Corporation on June 11, 2010 but retained the Tru Student Inc. name. 1000 shares of stock are authorized with a par value of \$0.01 per share, and 300 shares were issued and outstanding. The corporation is a bankruptcy remote company that will perform student loan servicing functions for loans made under part B of Title IV of the Higher Education Act of 1965 for Student Assistance Foundation of Montana (SAF) along with other holders of such loans. Tru Student has entered into a memorandum of understanding with the Department of Education for the intention of becoming a federal contractor as a servicer of Direct Loans.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

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

**Organization and Principles of Consolidation (Continued):**

Bankruptcy remote status provides that all debts, obligations and liabilities are solely that of the established company and neither the members, special members nor any managers are obligated for those activities including insolvency of the bankruptcy remote vehicle. SAF owns 100% of the common stock issued by Tru Student at June 30, 2011. The accompanying consolidated financial statements include the accounts of Tru Student. All significant intercompany transactions and accounts have been eliminated.

**Basis of Presentation:**

The consolidated 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.

**Income Tax Status:**

SAF is a not-for-profit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3). Income derived from rehabilitation loan servicing is considered unrelated business income and is subject to taxation. The Corporation recognized tax expense recapture of (\$2,376) for the year ended June 30, 2011 and tax expense of \$78,024 for the year ended June 30, 2010.

MSLF is a Limited Liability Company and is a single member disregarded entity that was created to support the activities of MHESAC, a tax-exempt entity under Internal Revenue Code Section 501(c)(3). All income is considered related to the underlying purpose of providing support to MHESAC and is therefore considered exempt from taxation. Accordingly, no provision for income taxes for this activity is necessary in the accompanying financial statements.

Tru Student is a nonpublic for-profit corporation and accounts for income taxes in accordance with GAAP which requires a tax liability to be recorded for any income tax owed for continuing operations or other taxable activity and disclosure of the significant components of income tax expense. The Corporation recognized tax expense of \$100 for the year ended June 30, 2011. Deferred tax assets and liabilities caused by a difference between the tax basis of an asset or liability and its reported amount are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the new rate enactment date. Income tax credits are accounted for by the flow-through method, which recognizes the credits as reductions of income tax expense in the year utilized. There are no significant deferred tax assets or liabilities as of June 30, 2011.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

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

**Income Tax Status (Continued):**

Generally, the returns of the Corporation and its affiliates are no longer subject to review by federal taxing authorities for years prior to the tax year ended June 30, 2008 and Montana taxing authorities for years prior to the tax year ended June 30, 2006.

**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.

**Classification of Net Assets:**

The Corporation reports information regarding its financial position and activities according to three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets are reported as follows:

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation or the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Corporation had temporarily restricted net assets of \$19,781 at June 30, 2011 and \$11,000 at June 30, 2010 (see Note 10).

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation, but permit the use of all or part of the income earned on any related investment for general or specific purposes. The Corporation had no permanently restricted net assets at June 30, 2011 or 2010.

**Contributions:**

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

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

**Promises to Give:**

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. There were no unconditional promises to give at June 30, 2011 and 2010. Conditional promises to give are recognized when the conditions on which they depend are substantially met as more fully described in Note 8. Payments received on conditional grants are reported as refundable grant advances until the conditions have been met (see Note 17).

**Marketing, Advertising and Outreach:**

The Corporation expenses public purpose program marketing, advertising and promotional costs as incurred. Advertising expense of \$24,265 and \$27,200 for the years ended June 30, 2011 and June 30, 2010, respectively, is included in Grants and public purpose program expense.

**Functional Allocation of Expenses:**

The costs of the Corporation's various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Fundraising Expenses:**

Fundraising expenses represent the Corporation's public benefit program solicitation efforts.

**Cash and Cash Equivalents:**

Cash and cash equivalents includes all checking, money market accounts and highly liquid securities with a maturity of three months or less at the date of the purchase.

**Accounts Receivable:**

Accounts receivable consist primarily of servicing and management fees due from MHESAC, loan servicing fees, and receivables from cost sharing arrangements with the Montana Guaranteed Student Loan Program (MGSLP) and Office of the Commissioner of Higher Education (OCHE). No allowance for uncollectible accounts was recorded for June 30, 2011 and June 30, 2010 for servicing fee related receivables as management believes that substantially all accounts are collectible.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

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

**Property and Equipment:**

Equipment is capitalized at cost and depreciated using the straight-line method over estimated lives of 3 to 5 years. Assets acquired with a purchase price less than \$1,000 are expensed in the year purchased. Equipment under capital lease is capitalized at the net present value of future lease payments and depreciated over the life of the lease. Donated assets are recorded at fair value as of the date of donation and expensed or capitalized similarly to purchased assets.

Construction Work in Progress of \$55,003 reported at June 30, 2010 included cost of building improvements and remodel. The total cost of the project was \$111,955 and the completion date was August 1, 2010.

SAF purchased the land and building at 2500 Broadway Street from MHESAC. The building is depreciated using the straight-line method over an estimated life of 40 years.

Depreciation expense for the years ended June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Loan Servicing	\$ 491,014	\$ 470,857
Included in Affiliated Client Expenses	33,896	20,293
Included in Grants and Public Purpose Program Expenses	<u>47,284</u>	<u>35,421</u>
	<u>\$ 572,194</u>	<u>\$ 526,571</u>

**Investments:**

Investments consist of certificates of deposit, bonds, corporate issues, and land that is held for investment. These investments are carried at fair value. Interest and dividends subject to donor restrictions are reported as increases in temporarily restricted net assets. When the restrictions are met, they are reclassified to unrestricted net assets. Unless gains and losses on donor-restricted investments are specifically restricted by the donor, they are reported as increases or decreases in unrestricted net assets.

**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.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

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

**Special Allowance Payments:**

The United States Department of Education provides a special allowance or subsidy to lenders participating in the Federal Family Education Loan Program (FFELP) if the interest rate is below the guaranteed interest rate. Conversely, if the interest rate is above the guaranteed interest, the excess portion of the borrower payment is remitted to the Federal government. This allowance is paid on the average quarterly unpaid principal balance of student loans, based on an annual rate equal to the average rate of 91-day U.S. Treasury Bills or 3-month Commercial Paper Rates for that quarter increased by various rates, depending on loan origination date. If the average yield rate is lower than the interest rate paid by the borrower, then the excess portion of the borrower payment is rebated to the federal government. As of June 30, 2011 and 2010, rebates of \$4,850,360 and \$5,164,947, respectively, were netted in special allowance revenue on the financial statements.

**Income Based Repayment (IBR) Plan:**

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.

**Prepaid Costs:**

Expenses which are considered to have future benefits are recorded as prepaid assets. Prepaid costs are amortized over the periods benefited.

**Allowance for Uncollectible Loans:**

The educational loans receivable are loan portfolios purchased from various banks and other financial institutions and originated or consolidated in the national market. Under contracts with the Montana Guaranteed Student Loan Program (MGSLP) and United States Department of Education, MSLF is guaranteed reimbursement of principal and accrued interest on defaulted educational loans for which the applicable due diligence procedures have been performed. The Corporation receives 100% reimbursement on loans disbursed prior to October 1, 1993. Loans disbursed after that date are reimbursed at 97%. A provision for uncollectible educational loans of \$8,315 and \$5,280 has been made for these loans for the year ended June 30, 2011 and June 30, 2010 respectively, based on default rates and balances during the fiscal period.

**Assets Restricted by MSLF Agreement:**

As more fully explained in Note 5, certain MSLF assets are restricted under the terms of the indenture governing the line of credit with Citicorp. These assets are presented as other assets in the statement of financial position.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

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

**Reclassifications:**

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

**NOTE 2. CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash deposits. SAF, Tru Student and MSLF maintain cash deposits at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts and unlimited deposit insurance coverage on noninterest-bearing accounts.

At June 30, 2011, the carrying amount of those deposits was \$5,143,810 and the bank balance was \$5,460,340 with \$1,901,587 in excess of FDIC insured limits. At June 30, 2010, the carrying amount of those deposits was \$6,917,666 and the bank balance was \$7,163,678 with \$6,480,591 in excess of FDIC insured limits.

**NOTE 3. INVESTMENTS**

For the years ended June 30, 2011 and 2010 there is no significant difference between cost and fair value for certificate of deposits. The fair value of land held for investment is \$1,456,000 at June 30, 2011 and 2010, with a related cost of \$1,005,198. The fair value measurement used for this valuation was a Level 2 – significant other observable input in the form of a real estate market valuation. Certificates of deposit are not subject to investment categorization requirements (see Note 16).

At June 30, 2011 and 2010, the Corporation had investments consisting of the following:

	<u>2011</u>	<u>2010</u>
Certificates of deposit	\$ 543,902	\$ 535,188
Land held for investment	<u>1,456,000</u>	<u>1,456,000</u>
Total Investments	<u>\$ 1,999,902</u>	<u>\$ 1,991,188</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 3. INVESTMENTS (CONTINUED)**

Components of investment income include the following:

	<u>2011</u>	<u>2010</u>
Unrealized gain on land held for investment	\$ <u>          -</u>	\$ <u>  79,000</u>
Interest and dividends	\$ <u>  10,036</u>	\$ <u>  14,621</u>

**NOTE 4. EDUCATIONAL LOANS RECEIVABLE**

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

Educational loans are summarized as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Student/interim status	\$ <u>  4,066,371</u>	\$  7,961,409
Repayment status	<u> 190,122,089</u>	199,422,502
Less allowance for uncollectibles	<u>          (8,315)</u>	<u>          (5,280)</u>
Total	<u>\$  194,180,145</u>	<u>\$ 207,378,631</u>

Following is a breakdown of the different loan types held by MSLF at June 30, 2011 and 2010 (gross loan amounts):

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Stafford	\$ <u> 17,583,375</u>	\$  20,146,273
PLUS	<u>   3,739,989</u>	4,039,959
Consolidation	<u> 172,865,096</u>	183,197,679
Less allowance for uncollectibles	<u>          (8,315)</u>	<u>          (5,280)</u>
Total	<u>\$  194,180,145</u>	<u>\$ 207,378,631</u>

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 4. EDUCATIONAL LOANS RECEIVABLE (CONTINUED)**

Depending on factors specified in the Higher Education Act, educational loans have either fixed or variable interest rates to the borrower and various maximum repayment terms. Fixed interest rates on Consolidation loans are based upon the weighted average interest rates of the loans consolidated rounded up to the nearest one-eighth. Consolidation loans disbursed on or after November 13, 1997 have a maximum interest rate of 8.25%. Variable interest rates are based upon either the 91 day or one year constant maturity Treasury bill, subject to maximum interest rates ranging from 7.00% to 12.00%. All Stafford and PLUS loans disbursed on or after July 1, 1994 and before July 1, 2006 are variable rate and have maximum interest rates of 8.25% and 9.00%, respectively. Unsubsidized Stafford loans disbursed after July 1, 2006 have a fixed rate to the borrower of 6.80%. Subsidized Stafford loans disbursed after July 1, 2006 and before July 1, 2008 have a fixed rate to the borrower of 6.80%. Subsidized Stafford loans disbursed after June 30, 2008 and before July 1, 2012 have a decreasing rate each year between 6.00% and 3.40%, depending on the actual year disbursed. PLUS loans disbursed after July 1, 2006, have a fixed rate to the borrower of 8.50%. 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.

MHESAC previously acquired two large portfolios in 2005 and 2006 from MSLF. Due to dramatic changes in the economic environment and MSLF's financial position in the indenture, it is not MHESAC's intent to obtain financing or purchase the MSLF loan portfolio. SAF continues to service these loans. See Note 13 for more details on the relationship between MSLF and MHESAC.

**NOTE 5. LONG-TERM DEBT**

At June 30, 2011 and 2010, long term debt consisted of the following:

	<u>2011</u>	<u>2010</u>
Note payable to MHESAC, bearing interest at the rate of 8.22%; payable in monthly installments of \$28,526 through February 2019; secured by real property.	\$ 1,883,706	\$ 2,060,872

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 5. LONG-TERM DEBT (CONTINUED)**

	<u>2011</u>	<u>2010</u>
Note payable to First Interstate Bank for land, bearing interest at the rate of 6.00% with payments of \$6,528 through March 2016 and a balloon payment for the remainder; secured by land.	514,735	560,506
Note payable to Montana Business Assistance Connection, bearing interest at the rate of 6.0%; payable in monthly installments of \$10,150.60 through December 2011; unsecured.	<u>59,856</u>	<u>174,306</u>
Total notes payable	<u>2,458,297</u>	2,795,684
Less current maturities	<u>(301,141)</u>	<u>(852,128)</u>
Long-term notes payable	<u>\$ 2,157,156</u>	<u>\$ 1,943,556</u>

Future maturity requirements of long-term debt for the five years subsequent to June 30, 2011 are as follows (see Note 18 for real estate loan refinancing subsequent event):

	<u>Pre- Refinance</u>	<u>Post- Refinance</u>
2012	\$ 301,141	\$ 221,417
2013	261,327	197,166
2014	282,612	207,758
2015	305,659	218,921
2016	567,401	467,124
Thereafter	<u>740,157</u>	<u>3,912,206</u>
	<u>\$ 2,458,297</u>	<u>\$ 5,224,592</u>

**MSLF:**

A Citicorp Line of Credit was established by indenture, originally dated August 5, 2003, for the express purpose of acquiring and originating student loans. The original line of credit had a maximum of \$100,000,000 and a maturity date of August 5, 2008 subject to annual renewals. On July 23, 2008 an amendment extending the Citicorp line of credit until September 8, 2008 was completed. On September 4, 2008, Citicorp advised MSLF that the Line of Credit was not extended under the annual renewal option of the agreement and provided a notification that the coverage condition was not satisfied in relationship to the required portfolio valuation of the collateral (educational loans). Collateral for the line of credit includes the loans acquired with the proceeds, related guarantee agreements, borrower interest, all funds on deposit in the accounts established under the indenture and personal property of MSLF.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 5. LONG-TERM DEBT (CONTINUED)**

**MSLF (Continued):**

Citicorp requested the margin between the portfolio carrying amount and the portfolio valuation be deposited in the trust account to cure the coverage condition. MSLF management chose not to satisfy this request due to economic feasibility. A subsequent notification on September 9, 2008 indicated a termination event had occurred under the existing agreement and Citicorp could exercise all rights and remedies under the agreement. These remedies include charging an additional 2% interest rate above the alternate base rate on total outstanding advances, conducting additional portfolio valuations and exercising all enforcement rights with respect to the collateral.

The indenture was placed in a coverage condition event of termination status with Citicorp electing to continue the relationship and implementing an increase in “on-going” pricing and accruing additional interest that will become payable upon full repayment of the principal. The probability of the additional deferred interest being paid is remote; therefore, no accrual has been recorded in the financial statements of MSLF.

In accordance with the indenture amendment dated October 28, 2010, the deferred interest fees calculated after this amendment date are waived by Citicorp. The unrecorded deferred charges under this agreement at June 30, 2011 totaled \$17,970,364.

As of the financial statement date, Citicorp had not elected to pursue any other remedy activities to date. They had retained all of their rights under the existing agreement leaving the obligation at status quo while disallowing any additional advances until Citicorp determines a course of action under the terms of the agreement (see subsequent event disclosed in Note 18). The credit line on June 30, 2011 and 2010 was \$203,676,598 and \$219,076,598, respectively. The maximum amount is now restricted to the current amount of the outstanding credit line. An allowance of \$5,774,109 and \$5,433,412 has been recorded as of June 30, 2011 and 2010, respectively, to reflect the difference between the outstanding line of credit and the value of the net collateral assets that secure the debt as of those dates.

The interest rate is reset on the first of each month and is the commercial paper rate established by Citicorp on behalf of its conduit lenders.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 5. LONG-TERM DEBT (CONTINUED)**

**MSLF (Continued):**

The balance of advances drawn on the line of credit as of June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Citicorp line of credit; bearing variable interest of .191% at June 30, 2011 and .392% at June 30, 2010; with a maturity date of August 5, 2008 (annual renewals discontinued effective July 23, 2008); secured by student loans	<u>\$ 203,676,598</u>	<u>\$ 219,076,598</u>

**NOTE 6. CAPITAL LEASES**

At June 30, 2011, the Corporation held furniture and computer equipment under several capital leases containing purchase options under which the company may purchase the furniture and equipment for \$1 for each of the four leases. Since SAF intends to exercise this option, the equipment and furniture and the related liabilities under the capital leases are recorded at acquisition at the present value of the future payments due under the lease. The discount rates used to determine the present value ranged from 4.00% to 8.25%. The related liability under capital lease at June 30, 2011 and 2010 was \$149,126 and \$214,260, respectively, and is due in monthly installments of \$5,670. The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2011:

		\$ 68,040
2012		68,040
2013		23,927
2014		<u>23,927</u>
	Total minimum lease payments	160,007
	Less the amount representing interest	10,881
	Less current portion	<u>60,860</u>
	Present value of net minimum lease payments, long-term	<u>\$ 88,266</u>

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 7. OPERATING LEASES**

The Corporation has operating leases for furniture and equipment with various providers. Four leases at June 30, 2011 and twelve leases at June 30, 2010 were classified as operating leases. Total rent expense on such leases for the fiscal year ended June 30, 2011 and 2010 were \$26,539 and \$98,096, respectively.

As of June 30, 2011 future minimum lease payments under operating leases with a remaining term in excess of one year are as follows:

2012	\$ 12,193
2013	5,298

**NOTE 8. CONDITIONAL PROMISES TO GIVE**

A conditional promise to give from the Lumina Foundation for Education for College Goal Sunday events was received in the form of a grant with awards disbursed over a three year period. The first award of \$30,000 was received in fiscal year 2008, the second award of \$10,000 was received in fiscal year 2009 and the final award of \$10,000 was received in fiscal year 2010.

**NOTE 9. ENDOWMENT**

Student Assistance Foundation has established the SAF Permanent Endowment to provide funds for grants and scholarships and funding for additional programs that will enhance access to post-secondary education for Montana students and citizens in the future. The endowment may include both donor-restricted endowment funds and funds generated by SAF from program revenues. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2007, the State of Montana adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Accordingly, SAF classifies as permanently restricted net assets the original value of gifts donated to the endowment and accumulated earnings associated with a specific gift, if required by the donor.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 9. ENDOWMENT (CONTINUED)**

An initial contribution in the amount of \$60,000 was made by the Board in accordance with this policy in the year ended June 30, 2009 with an additional \$60,000 and \$60,500 contributed in the years ended June 30, 2011 and June 30, 2010 respectively. Earnings of \$2,066 and \$1,758 were added during the years ended 2011 and 2010, respectively. SAF considers the following factors in making a determination to expend donor-restricted endowment funds.

- Preservation of the funds
- Investment policies adopted

To provide an ongoing source of support for SAF's public benefit activities, distributions from the Endowment Fund shall be used to support SAF's programs and educational grants directly benefiting students and shall not be used to support SAF's operating expenses. The Endowment Fund must grow to a minimum level before payout commences. Once the Endowment Fund reaches the minimum level, the Endowment Fund will annually distribute the fund's net income not to exceed 4% of the Endowment Fund's assets based on an average of the preceding three years.

At least annually, and more frequently if warranted, the Programs and Development Committee shall determine the asset allocation between equity, bonds and cash based on market outlook. The Programs and Development Committee will review the Endowment Fund's statements from the institution(s) holding the Endowment Fund assets. The committee will verify these statements monthly to confirm adherence to the proposed asset allocation and will re-balance the Endowment Fund as necessary.

The performance of the Programs and Development Committee strategy shall be measured against the S&P 500 index for stocks and measured against Lehman Brothers for bonds or other appropriate broad based equity or bond indices. Measurement shall be reviewed annually and measured over a 3-year period.

The following describes the composition of net assets of the endowment as of June 30, 2011 and 2010, respectively, and the changes in endowment net assets for the years then ended:

	<u>Unrestricted</u>
<u>2010:</u>	
July 1, 2009	\$ 60,567
Contributions	60,500
Investment Return:	
Interest	1,758
June 30, 2010	122,825

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 9. ENDOWMENT (CONTINUED)**

	<u>Unrestricted</u>
<u>2011:</u>	
Contributions	60,000
Investment Return:	
Interest	2,066
June 30, 2011	<u>\$ 184,891</u>

**NOTE 10. NET ASSETS**

At June 30 net assets consist of the following:

Unrestricted:			<u>2011</u>		<u>2010</u>
Undesignated	\$	<b>2,210,515</b>		\$	3,256,383
Board designated for endowment		<b>184,892</b>			122,825
Total unrestricted		<b>2,395,407</b>			3,379,208
 Temporarily Restricted:					
KnowHow2Go		<b>19,781</b>			7,575
High School Business Challenge		-			3,425
Total temporarily restricted		<b>19,781</b>			11,000
 Total net assets	 \$	 <b>2,415,188</b>		 \$	 3,390,208

During the year ended June 30, 2011 and 2010, temporarily restricted net assets were released from restrictions as follows:

Expiration of donor restriction by expenditure for:			<u>2011</u>		<u>2010</u>
Circle of Success (Access Circle)	\$	<b>34,614</b>		\$	47,622
College Goal Sunday		<b>14,949</b>			22,654
High School Business Challenge		<b>5,550</b>			5,250
MCIS		-			7,500
KnowHow2Go		<b>35,694</b>			36,125
Rural Montana Saves		-			250
Access Grants		<b>961</b>			-
ETV Foster Care		<b>232,524</b>			151,304
Total temporarily restricted net assets released	\$	<b>324,292</b>		\$	270,705

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 11. RETIREMENT PLAN**

Effective February 1, 2000, the MHESAC 403(b) Tax Sheltered Investment Program was amended and renamed the Student Assistance Foundation of Montana 403(b) Tax Sheltered Investment Program. In June 2010, the Student Assistance Foundation of Montana 401(k) Plan was adopted and the 403(b) plan “frozen” with no additional contributions allowed to that plan. As with the 403(b) plan, the 401(k) plan is a defined contribution pension plan and covers all employees working at least 20 hours per week. Employees may contribute to the 401(k) plan immediately upon employment. After a six-month waiting period, the Corporation matches each participant’s contribution up to six percent of the participant’s salary. Contributions began into the 401(k) plan in June 2010. SAF incurred pension costs of \$436,288 in the year ended June 30, 2011 and \$473,230 in the year ended June 30, 2010. Tru Student adopted the SAF plan for Tru Student employees as well during the year ended June 30, 2011.

**NOTE 12. COMMITMENTS AND CONTINGENCIES**

**Management and Servicing Agreements:**

SAF has entered into management and servicing agreements with MHESAC. SAF provides portfolio servicing for a term equal to the life of each of MHESAC’s related financings. Management services will be provided to MHESAC for an 18-year term beginning February 1, 2000. The cost of these services is an amount equal to the allocable cost incurred by SAF in performing its duties and obligations under the agreements plus, for the period prior to February 1, 2003, fifteen percent of these costs.

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

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 12. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Management and Servicing Agreements (Continued):**

On August 1, 2003, SAF entered into a servicing agreement with MSLF to provide student loan portfolio servicing in accordance with procedures established by the Higher Education Act and Guarantee Program regulations for a term that will extend as long as any warehoused loans or other secured obligation remains outstanding, unless the agreement is otherwise terminated in accordance with the terms stated. The cost of these services is a monthly fee based on an amount equal to .065% of the average outstanding principal balance of all financed FFELP loans during the immediate preceding month for the period up to October 1, 2010. At that time, MSLF and SAF agreed to an amendment of the contract to reduce the servicing fee to .0495% per month. MSLF also pays rent for office space in the SAF building. SAF received \$622,387 and \$561,767 in servicing fees from MSLF during the years ended June 30, 2011 and 2010, respectively. There were intercompany payables of \$95,971 and \$134,257 as of June 30, 2011 and 2010, respectively. All significant intercompany transactions and accounts have been eliminated.

**Group Benefits Plan:**

SAF provides a medical and dental insurance coverage plan for its employees. Effective July 1, 2007, SAF opted for an insured plan to include medical and vision coverage with Allegiance, and dental and life insurance with Lincoln Financial. During the fiscal year Tru Student adopted the SAF group benefit plan for Tru Student employees as well.

**Line of Credit:**

On December 10, 2010, SAF extended a bank line of credit with First Interstate Bank, originally secured on April 3, 2003 for operating purposes. The \$1,000,000 line is secured by a certificate of deposit. Interest on the line is charged at 5.0%. On June 30, 2011 and June 30, 2010 there was a zero balance. The credit agreement expires on December 1, 2011.

MSLF secured a line of credit with Citicorp on August 5, 2003 for the express purpose of acquiring and originating student loans. As of June 30, 2011, MSLF had drawn \$203,676,598 to acquire student loans. Note 5 details the requirements of the line of credit and the current termination event status.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 12. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Remote Services Agreement:**

On February 1, 2001, SAF entered into an agreement with the Pennsylvania Higher Education Assistance Agency (PHEAA) for remote system access for the effective computer processing of loans serviced by SAF. The agreement requires PHEAA to maintain the remote system in accordance with Title IV of the Higher Education Act of 1965, as amended. A subsequent amendment to the original agreement on February 1, 2004 extends the term of the agreement for ten years from the date of the amendment with provisions for automatic one year renewal options. Fees for access and maintenance of the remote system vary depending on volume and services provided.

**NOTE 13. RELATED PARTY TRANSACTIONS**

**SAF Relationship with MHESAC:**

On February 1, 2000, SAF entered into an agreement with Montana Higher Education Student Assistance Corporation (MHESAC) to provide management and servicing functions to MHESAC as described in Note 12. For fiscal year 2011, SAF had one of its nine board members in common with MHESAC's seven board members. Effective February 1, 2000, MHESAC transferred, for fair value, all of its operations and non-financial assets, including personnel, all furniture and equipment, as well as its interest in the office building and land, to SAF. These assets were transferred in exchange for notes more fully described in Note 5.

**MSLF Relationship with MHESAC:**

Previously, the loan activity conducted by MSLF was for the specific purpose of an eventual sale to MHESAC with no obligation by MHESAC to acquire the loans until it was able to obtain financing for that specific purpose as defined by a purchase agreement between the two companies. The agreement recognized that the purchase of the loans would occur at such time as market conditions permitted MHESAC to permanently finance such loans through the issuance of bonds or notes which are economically feasible and justifiable to MHESAC. During fiscal year 2009 it became clear that MHESAC will not be able to finance these loans in the foreseeable future. The value of the loans has more appropriately been adjusted to reflect this turn of events. The loans represented an income generating asset that had a determinable value based on the indenture and purchase agreement between MSLF and MHESAC. Due to dramatic changes in the economic environment and MSLF's financial position in the indenture, it is no longer MHESAC's intent to obtain financing or purchase the loan portfolio in the foreseeable future.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 13. RELATED PARTY TRANSACTIONS (CONTINUED)**

**Shared Cost Agreements:**

The Corporation has a sublease and shared cost agreement with Montana Guaranteed Student Loan Program (MGSLP) and Office of the Commissioner of Higher Education (OCHE), both agencies of the Board of Regents of Montana. SAF and the Board of Regents had two common board members. The costs shared are primarily related to computer operations, personnel and building operations.

The sublease and shared cost amounts and the related accounts receivable and accounts payable were as follows for the year ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Sublease and Shared Costs		
Payments from:		
MGSLP	\$ 432,214	\$ 426,410
OCHE	256,576	277,920
Accounts receivable:		
Payments due from:		
MGSLP	31,686	67,308
OCHE	11,748	9,491

Total net receivables/payables from these agreements, including the balance due from MHESAC disclosed in Note 12, was \$159,111 at June 30, 2011 and \$58,471 at June 30, 2010.

**NOTE 14. RISK MANAGEMENT**

SAF faces a number of risks of loss, including a) damage to and loss of property, b) employee torts, c) professional liability, i.e. errors and omissions, and d) workers' compensation. A variety of methods are used to provide insurance for these risks. Commercial policies transferring all risks of loss except for relatively small deductible amounts are purchased for property damage, employee torts, and professional liabilities. SAF participates in a state-wide workers' compensation plan.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 15. MAJOR CUSTOMER**

Fees from MHESAC accounted for 78% and 74% of SAF's total revenues for the years ended June 30, 2011 and 2010, respectively. There was no receivable related to these revenues at June 30, 2010. Accounts receivable relating to these revenues accounted for 18.7% and 0% of SAF's total receivables as of June 30, 2011 and 2010, respectively.

**NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Significant observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or inputs other than quoted prices that are observable or can be corroborated by observable market data. This level input must be observable for substantially the full term of the assets or liabilities;
- Level 3 – Significant unobservable inputs for situations in which there is little, if any, market activity.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2011 and 2010

**NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

<u>Financial Instrument</u>	<u>Fair and Carrying Value</u>	Quoted Prices In Active Markets - Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>2011:</b>			
<u>Assets:</u>			
Land Held for Investment	<b>1,456,000</b>	-	<b>1,456,000</b>
<u>Liabilities:</u>			
MSLF line of credit	<b>197,902,489</b>	-	<b>197,902,489</b>
<b>2010:</b>			
<u>Assets:</u>			
Land Held for Investments	1,456,000	-	1,456,000
<u>Liabilities:</u>			
MSLF line of credit	213,643,186	-	213,643,186

The following valuation methods are used to determine the fair value of the above items on a recurring basis:

**Land Held for Investment:**

The fair value measurement used for land held for investment is a real estate market valuation (market approach).

**MSLF Line of Credit:**

Fair value for the MSLF line of credit is based on the contractual value of the underlying collateral for the loan (liquidation value). GAAP permits entities to measure many financial instruments and certain other items at fair value. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The Corporation has elected to apply this guidance to the MSLF line of credit.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

There were no changes in these valuation approaches during 2011. The table below summarizes the change in fair value:

	<u>2011</u>	<u>2010</u>
Beginning Balance	\$ 213,643,185	\$ 222,076,547
Net change from repayments of loan	(15,400,000)	(8,075,000)
Unrealized gain on beginning valuation	<u>(340,696)</u>	<u>(358,362)</u>
Ending Balance	<u>\$ 197,902,489</u>	<u>\$ 213,643,185</u>

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

	<u>2011</u>		<u>2010</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Interest receivable	\$ 2,427,279	\$ 2,427,279	\$ 2,765,983	\$ 2,765,983
Investments – certificates of deposit	543,902	543,902	535,188	535,188
Educational loans receivable, net	<u>194,180,145</u>	<u>184,684,288</u>	<u>207,378,631</u>	<u>198,380,001</u>
Total financial assets	<u>\$ 197,151,326</u>	<u>\$ 187,655,469</u>	<u>\$ 210,679,802</u>	<u>\$ 201,681,172</u>
Financial liabilities:				
Funds held for servicing client	\$ 3,155,929	\$ 3,155,929	\$ 3,451,858	\$ 3,451,858
Interest payable	32,624	32,624	71,513	71,513
Notes payable	2,458,297	2,458,297	2,795,684	2,795,684
Capital lease obligations	<u>149,126</u>	<u>149,126</u>	<u>214,260</u>	<u>214,260</u>
Total financial liabilities	<u>\$ 5,795,976</u>	<u>\$ 5,795,976</u>	<u>\$ 6,533,315</u>	<u>\$ 6,533,315</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, 2011.

**Interest receivable and payable:**

The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2011, given their short-term nature. The fair value hierarchy used in this determination is the same as the underlying asset or liability.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Investments – certificates of deposit:**

The carrying amount of certificates of deposit is considered to approximate fair value.

**Educational Loans Receivable:**

The fair value was estimated by reference to sale information from the limited marketplace and by discounting the future cash flows using current rates of return required by investors in similar assets. A number of significant inputs into the models are internally derived and not observable to market participants.

**Obligations Under Capital Lease:**

Carrying value of the various leases is calculated as the net present value of the future payments as of the report date as more fully described in Note 6. Management considers fair value of these instruments to approximate carrying value.

**Funds Held for Servicing Client:**

Carrying value of these funds is the balance of cash received for principal and interest payments on educational loans receivable serviced under contract but not yet remitted to lender clients. Management considers fair value of these instruments to approximate carrying value.

**Notes Payable:**

At the date of inception, the rate for the real estate note payable was determined by averaging the corporate borrowing rate for comparable companies for notes of similar maturities. Other notes payable are carried at current balances due. Management considers fair value of these instruments to approximate cost.

**NOTE 17. REFUNDABLE GRANT ADVANCES**

For the year ended June 30, 2010, a grant of \$140,000 was received from the Lumina Foundation for the KnowHow2Go grant, which will disburse awards over a three year period. This grant will be used to develop a sustainable statewide college access network in Montana, providing advocacy and policy efforts. The first award of \$42,400 was recognized in the year ended June 30, 2010 and the second award of \$47,900 was recognized in the year ended June 30, 2011. The remaining award of \$49,700 is classified as refundable grant advance at June 30, 2011.

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011 and 2010

**NOTE 18. SUBSEQUENT EVENTS**

**Related Party Transactions:**

On August 11, 2011, SAF executed a refinancing of the SAF Building with Valley Bank for a 20-Year Building Note of \$4,650,000 with an interest rate of 5.0%. A portion of the proceeds were used to satisfy the existing building note with MHESAC of \$1,868,513. The 18 year MHESAC note for the sale of land and the building was originally executed on February 1, 2000 for \$2.9 million at a fixed rate of 8.22%. The note was satisfied in full on August 11, 2011.

On September 1, 2011, SAF executed an agreement with Tru Student providing for a 5-year operating loan of \$2,250,000 to Tru Student with an interest rate of 5.00%. In addition, on September 1, 2011, SAF purchased an additional 100 shares of Tru Student common stock with a par value of \$0.01 per share resulting in a total of 400 shares of stock being issued and outstanding. The common stock purchase totaled \$500,000 and resulted in an increase of additional paid in capital of \$499,999. Tru Student satisfied the outstanding advance owed SAF at June 30, 2011 with the proceeds from this loan.

**Additional Events:**

In August, 2011, two lines of credit with Valley Bank totaling \$1,750,000 were established for Tru Student with an interest rate of 5.2%.

On September 16, 2011, Montana Student Loan Funding, LLC received word that Citibank has made a decision to dissolve the current MSLF credit facility. Citibank has asked MSLF to enter into a consensual foreclosure (strict foreclosure) to collapse the current facility and transfer asset ownership to Citibank in consideration for complete payoff of obligations under the facility. It is estimated the foreclosure will be completed by the end of December 2011. SAF will continue to service the loans in the meantime.

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

ACCOMPANYING INFORMATION

INDEPENDENT AUDITOR'S REPORT  
ON ACCOMPANYING INFORMATION

To the Board of Directors  
Student Assistance Foundation  
of Montana  
Helena, Montana 59601

Our report on our audits of the consolidated financial statements of Student Assistance Foundation of Montana and Affiliates for 2011 and 2010 appears on page 1. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedules presented on pages 34 to 41 and the schedule of grant and public programs expense on page 42 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, and results of operations of the individual entities. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.



Helena, Montana  
September 22, 2011

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STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION  
June 30, 2011 with Comparative Totals for 2010

ASSETS	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 4,914,301	\$ 1,053	\$ 45,854
Accounts receivable:			
Lender services	-	-	-
Montana Student Loan Funding	95,971	-	-
Student Assistance Foundation	-	-	17,040
Tru Student	73,555	-	-
Other client & miscellaneous receivables	499,910	-	44,454
Related parties	43,434	-	-
Due from MSLF	193,324	-	-
Due from Tru Student	497,416	-	-
Interest receivable	-	2,426,342	-
Investments	2,251,679	-	-
Prepaid costs, net	296,425	-	39,695
Funds held for loan servicing client	-	153,396	-
Total current assets	<u>8,866,015</u>	<u>2,580,791</u>	<u>147,043</u>
<b>PROPERTY AND EQUIPMENT, at cost</b>			
Land and building	2,883,045	-	-
Building improvements	1,263,931	-	-
Construction work in progress	-	-	-
Equipment and furniture	<u>3,900,885</u>	<u>-</u>	<u>1,775</u>
	8,047,861	-	1,775
Less: accumulated depreciation	<u>4,334,033</u>	<u>-</u>	<u>266</u>
Total property and equipment	<u>3,713,828</u>	<u>-</u>	<u>1,509</u>
<b>OTHER RESTRICTED ASSETS</b>			
Cash and cash equivalents	-	2,691,818	-
Endowment cash and cash equivalents	183,954	-	-
Endowment interest receivable	937	-	-
Educational loans receivable			
Student loans receivable	-	194,188,460	-
Less: allowance for uncollectible accounts	-	(8,315)	-
Prepaid costs, net	<u>-</u>	<u>3,000</u>	<u>-</u>
Total other restricted assets	<u>184,891</u>	<u>196,874,963</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 12,764,734</u>	<u>\$ 199,455,754</u>	<u>\$ 148,552</u>

See Independent Auditor's Report.

Consolidating Adjustments	Consolidated	
	2011	2010
\$ -	\$ 4,961,208	\$ 6,801,058
-	-	9,578
(95,971)	-	-
(17,040)	-	-
(73,555)	-	-
-	<b>544,364</b>	441,060
-	<b>43,434</b>	76,799
(193,324)	-	-
(497,416)	-	-
-	<b>2,426,342</b>	2,764,785
(251,777)	<b>1,999,902</b>	1,991,188
-	<b>336,120</b>	442,564
(153,396)	-	-
(1,282,479)	<b>10,311,370</b>	12,527,032
-	<b>2,883,045</b>	2,883,045
-	<b>1,263,931</b>	1,227,878
-	-	55,003
-	<b>3,902,660</b>	3,752,905
-	<b>8,049,636</b>	7,918,831
-	<b>4,334,299</b>	4,015,780
-	<b>3,715,337</b>	3,903,051
-	<b>2,691,818</b>	5,092,784
-	<b>183,954</b>	121,627
-	<b>937</b>	1,198
-	<b>194,188,460</b>	207,383,911
-	<b>(8,315)</b>	(5,280)
-	<b>3,000</b>	3,000
-	<b>197,059,854</b>	212,597,240
\$ (1,282,479)	\$ <b>211,086,561</b>	\$ 229,027,323

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)**  
**June 30, 2011 with Comparative Totals for 2010**

LIABILITIES AND NET ASSETS	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
<b>CURRENT LIABILITIES</b>			
Other accounts payable and accrued expenses	\$ 1,230,329	\$ 316,745	\$ 120,417
Funds held for loan servicing client	3,309,325	-	-
Special allowance payment payable	-	1,204,361	-
Accrued interest payable	-	32,624	-
Grant program liability	1,253,000	-	-
Due to parent corporation	-	193,324	497,416
Compensated absence liability	966,307	-	18,615
Current obligation under capital lease	60,860	-	-
Current maturities of notes payable	301,141	-	-
Current refundable grant advance	49,700	-	-
Current maturities of MSLF line of credit:			
MSLF line of credit	-	203,676,598	-
Less fair value adjustment	-	(5,774,109)	-
Total current liabilities	7,170,662	199,649,543	636,448
<b>LONG-TERM LIABILITIES</b>			
Notes payable, net of current maturities	2,157,156	-	-
Refundable grant advance	-	-	-
Obligation under capital lease	88,266	-	-
Total long-term liabilities	2,245,422	-	-
Total liabilities	9,416,084	199,649,543	636,448
<b>NET ASSETS</b>			
Capital stock, common, \$.01 par	-	-	3
Additional paid-in-capital	-	-	251,774
Unrestricted:			
Undesignated, unrestricted	3,143,977	(193,789)	(739,673)
Board designated for endowment	184,892	-	-
Total unrestricted	3,328,869	(193,789)	(487,896)
Temporarily restricted	19,781	-	-
Total net assets	3,348,650	(193,789)	(487,896)
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 12,764,734</b>	<b>\$ 199,455,754</b>	<b>\$ 148,552</b>

See Independent Auditor's Report.

Consolidating Adjustments	Consolidated	
	2011	2010
\$ (186,566)	\$ 1,480,925	\$ 1,926,762
(153,396)	3,155,929	3,451,858
-	1,204,361	1,193,446
-	32,624	71,513
-	1,253,000	1,251,000
(690,740)	-	-
-	984,922	991,806
-	60,860	65,134
-	301,141	852,128
-	49,700	47,900
-	203,676,598	219,076,598
-	(5,774,109)	(5,433,412)
<u>(1,030,702)</u>	<u>206,425,951</u>	<u>223,494,733</u>
-	2,157,156	1,943,556
-	-	49,700
-	88,266	149,126
<u>-</u>	<u>2,245,422</u>	<u>2,142,382</u>
<u>(1,030,702)</u>	<u>208,671,373</u>	<u>225,637,115</u>
(3)	-	-
(251,774)	-	-
-	2,210,515	3,256,383
-	184,892	122,825
(251,777)	2,395,407	3,379,208
-	19,781	11,000
<u>(251,777)</u>	<u>2,415,188</u>	<u>3,390,208</u>
<u>\$ (1,282,479)</u>	<u>\$ 211,086,561</u>	<u>\$ 229,027,323</u>

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES**  
For the Year Ended June 30, 2011 with Comparative Totals for 2010

	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
<b>UNRESTRICTED NET ASSETS</b>			
Revenue and Support:			
Management & servicing fee income	\$ 13,504,164	\$ -	\$ -
Interest on educational loans	-	4,570,124	-
Loan servicing income	2,352,777	-	317,496
Lender services income	-	-	-
Income from investments			
Investment Income	6,786	1,184	-
Interest on endowment	2,066		
Unrealized gain on land valuation	-	-	-
Unrealized gain on MSLF line of credit	-	340,696	-
Intercompany contract revenue	307,738	-	117,172
Contributions and grants	140,769	-	-
Other income	574,589	-	720
	<u>16,888,889</u>	<u>4,912,004</u>	<u>435,388</u>
Net assets released from restrictions	<u>324,292</u>	<u>-</u>	<u>-</u>
Total unrestricted revenue and support	<u>17,213,181</u>	<u>4,912,004</u>	<u>435,388</u>
Program Operating Expenses:			
Loan Servicing			
Salaries, payroll taxes and employee benefits	8,842,373	-	331,615
Contract sub-servicing fees	1,163,788	662,387	144,839
Professional services	590,699	-	146,852
Advertising	71,381	-	877
Marketing and outreach	1,613	-	-
Contract services and labor	262,415	-	321,445
Staff travel and training	172,823	-	8,056
Insurance	70,805	-	4,895
Office supplies and copier charges	53,857	-	9
Computer charges	499,482	-	19,602
Telecommunications and utilities	294,393	-	1,866
Mail, postage and courier	482,382	-	8,888
Printing	57,372	-	1,204
Dues, subscriptions and memberships	75,119	-	878
Recruitment and relocation	3,705	-	-
Automobile expense	2,436	-	-
Repairs, maintenance and service	52,812	-	676
Depreciation	490,825	-	189
Conversion costs	-	1,881,112	-
Loan fees	-	879,052	-
Operating lease payments	25,032	-	-
Other costs	303,351	69,518	2,105
Interest	185,012	757,878	-
Grants and public purpose program	2,834,139	-	-
Servicing costs allocated to MSLF	662,387	-	-
Servicing costs allocated to SAF	-	-	109,432
Servicing costs allocated to Tru Student	454,197	-	-
Lender services	6,660	-	-
	<u>17,659,058</u>	<u>4,249,947</u>	<u>1,103,428</u>
Total program operating expenses	<u>17,659,058</u>	<u>4,249,947</u>	<u>1,103,428</u>

See Independent Auditor's Report.

Consolidating Adjustments	Consolidated	
	2011	2010
\$ -	<b>\$ 13,504,164</b>	\$ 15,273,908
-	<b>4,570,124</b>	5,238,686
(807,226)	<b>1,863,047</b>	3,648,121
-	-	263,590
-	<b>7,970</b>	12,863
-	<b>2,066</b>	1,758
-	-	79,000
-	<b>340,696</b>	358,362
(424,910)	-	-
-	<b>140,769</b>	28,268
(3,882)	<b>571,427</b>	633,619
(1,236,018)	<b>21,000,263</b>	25,538,175
-	<b>324,292</b>	270,705
(1,236,018)	<b>21,324,555</b>	25,808,880
-	<b>9,173,988</b>	10,259,800
-	<b>1,971,014</b>	2,020,776
-	<b>737,551</b>	693,909
-	<b>72,258</b>	66,211
-	<b>1,613</b>	3,594
-	<b>583,860</b>	318,324
-	<b>180,879</b>	242,566
-	<b>75,700</b>	73,723
-	<b>53,866</b>	75,134
-	<b>519,084</b>	635,734
-	<b>296,259</b>	293,308
-	<b>491,270</b>	636,803
-	<b>58,576</b>	54,684
-	<b>75,997</b>	76,547
-	<b>3,705</b>	3,727
-	<b>2,436</b>	2,076
-	<b>53,488</b>	54,298
-	<b>491,014</b>	470,857
-	<b>1,881,112</b>	1,982,132
-	<b>879,052</b>	971,701
-	<b>25,032</b>	93,905
(3,882)	<b>371,092</b>	348,372
-	<b>942,890</b>	1,016,283
-	<b>2,834,139</b>	2,841,818
(662,387)	-	-
(117,172)	<b>(7,740)</b>	-
(452,577)	<b>1,620</b>	-
-	<b>6,660</b>	93,142
(1,236,018)	<b>21,776,415</b>	23,329,424

STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES  
CONSOLIDATING SCHEDULE OF ACTIVITIES (CONTINUED)  
For the Year Ended June 30, 2011 with Comparative Totals for 2010

	Student Assistance Foundation	Montana Student Loan Funding	Tru Student
Fundraising Expenses	<u>261,674</u>	<u>-</u>	<u>-</u>
General and Administrative Expenses:			
Salaries, payroll taxes and employee benefits	118,678	-	-
Board and officer	38,924	7,800	9,623
Professional services	37,633	-	-
Insurance	14,115	-	-
Income taxes	(2,376)	-	100
Other	<u>45,770</u>	<u>-</u>	<u>-</u>
Total general and administrative expenses	<u>252,744</u>	<u>7,800</u>	<u>9,723</u>
Total expenses	<u>18,173,476</u>	<u>4,257,747</u>	<u>1,113,151</u>
Increase (decrease) in unrestricted net assets	<u>(960,295)</u>	<u>654,257</u>	<u>(677,763)</u>
TEMPORARILY RESTRICTED NET ASSETS			
Revenue and Support:			
Contributions	333,073	-	-
Net assets released from restrictions	<u>(324,292)</u>	<u>-</u>	<u>-</u>
Increase in temporarily restricted net assets	<u>8,781</u>	<u>-</u>	<u>-</u>
Increase(decrease) in net assets	(951,514)	654,257	(677,763)
Net assets at the beginning of the year	<u>4,300,164</u>	<u>(848,046)</u>	<u>38,090</u>
Common stock issued	-	-	2
Contributed capital	<u>-</u>	<u>-</u>	<u>151,775</u>
Net assets at the end of the year	<u>\$ 3,348,650</u>	<u>\$ (193,789)</u>	<u>\$ (487,896)</u>

See Independent Auditor's Report.

	<u>Consolidated</u>	
Consolidating Adjustments	2011	2010
-	<u>261,674</u>	<u>270,920</u>
-	<b>118,678</b>	82,131
-	<b>56,347</b>	51,846
-	<b>37,633</b>	-
-	<b>14,115</b>	14,000
-	<b>(2,276)</b>	78,024
-	<b>45,770</b>	<u>35,992</u>
-	<b>270,267</b>	<u>261,993</u>
(1,236,018)	<b>22,308,356</b>	<u>23,862,337</u>
-	<b>(983,801)</b>	<u>1,946,543</u>
-	<b>333,073</b>	280,655
-	<b>(324,292)</b>	<u>(270,705)</u>
-	<b>8,781</b>	<u>9,950</u>
-	<b>(975,020)</b>	1,956,493
(100,000)	<b>3,390,208</b>	<u>1,433,715</u>
(2)	-	-
(151,775)	-	-
<u>\$ (251,777)</u>	<u>\$ 2,415,188</u>	<u>\$ 3,390,208</u>

**STUDENT ASSISTANCE FOUNDATION OF MONTANA AND AFFILIATES**  
**SCHEDULE OF CONSOLIDATED GRANT AND PUBLIC PROGRAMS EXPENSE**  
For the Years Ended June 30, 2011 with Comparative Totals for 2010

	2011	2010
<b>Operating &amp; overhead expenses</b>		
Program administration	\$ 322,303	\$ 219,325
<b>Campus outreach</b>		
Outreach staff & offices	725,512	571,655
<b>Outreach program</b>		
College Goal Sunday	56,537	81,896
Foster Care Program	234,146	145,368
Montana College Access/KnowHow2Go	51,070	50,335
SAT/ACT practice tests	15,000	15,000
<b>Grants awarded</b>		
Access grants	1,250,000	1,250,000
Gear Up contribution	6,058	5,000
Helena Symphony Youth Concert	5,000	-
Inspiring Young Minds Grant	-	4,250
Jobs for Montana's Graduates	-	28,180
MASFAA - Professional Development	-	10,000
Missoula County Graduation Matters	-	25,000
Montana Credit Unions - AFL Grant	-	25,000
Webwriters	8,579	9,215
<b>Scholarships</b>		
Circle of Success	56,000	56,000
Community Service Scholarships	-	70,000
Bozeman Schools Worthy Students Scholarships	10,000	-
High School Business Challenge	8,000	5,250
Jobs for Montana Graduates	3,000	2,000
Miscellaneous Scholarships	3,000	2,000
Missoula Education Foundation Scholarships	10,000	-
MPSEOC Scholarship	5,000	-
University of Montana Endowment	-	20,000
<b>Sponsorships</b>		
Bozeman School Foundation	-	10,000
Donors Choose.org	3,489	-
Exploration Works	1,500	5,000
GearUp Teacher Training	-	10,000
Grand Street Theatre	-	5,000
Havre Public Schools Foundation	-	5,000
Helena Education Foundation	7,200	13,500
High School Musical	-	3,000
Highwood Public Schools	2,500	-
Holter Museum of Arts Youth Education	-	1,500
Jobs for Montana Graduates Conference	20,000	-
MAPS Media Institute	-	10,000
MCIS program	-	175,835
Miscellaneous Sponsorships	14,745	7,509
Montana Financial Education Coalition	2,000	-
Montana Indian Education Association	2,500	-
MPSEOC Sponsorship	8,500	-
OPI Student Advisory Board Summit	2,500	-
	\$ 2,834,139	\$ 2,841,818

See Independent Auditor's Report.

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  
Student Assistance Foundation  
of Montana  
Helena, Montana

We have audited the financial statements of Student Assistance Foundation of Montana and Affiliates (the Corporation) (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of management, audit committee, Board of Directors and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Anderson Zurmuehlen & Co., P.C." The signature is written in a cursive, flowing style.

Helena, Montana  
September 22, 2011