Montana Higher Education Student Assistance Corporation

Helena, Montana

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH INDEPENDENT AUDITORS' REPORT

June 30, 2026 (With Comparative Totals for the Year Ended June 30, 2025)

Montana Higher Education Student Assistance Corporation

TABLE OF CONTENTS

June 30, 2026, With Comparative Totals for the Year Ended June 30, 2025

	Page Number
Independent Auditors' Report	1
MANAGEMENT'S FINANCIAL ANALYSIS	5
FINANCIAL SECTION	
Statement of Financial Position With Comparative Totals for 2025	10
Statement of Activities With Comparative Totals for 2025	12
Statement of Functional Expenses	13
Statement of Cash Flows With Comparative Totals for 2025	15
Notes to the Financial Statements	16
SUPPLEMENTARY INFORMATION SECTION	
Schedule of Reach Higher Montana Activity With Comparative Totals for 2025	40

KCOE ISOM LLP

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Montana Higher Education Student Assistance Corporation (the Corporation), which comprise the statement of financial position as of June 30, 2026; 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 accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2026, 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 (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' 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 GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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.

INDEPENDENT AUDITORS' REPORT
(Continued)

Auditors' 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 of material misstatement, whether due to fraud or error, and to issue an auditors' 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 GAAS 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 GAAS, 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.

INDEPENDENT AUDITORS' REPORT
(Continued)

Report on Summarized Comparative Information

We have previously audited the Corporation's June 30, 2025, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 11, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2025, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 40 is presented for purposes of additional analysis and is 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information Included in the Corporation's Annual Report

Management is responsible for the other information included in the Corporation's Annual Report. The other information is comprised of Management's Financial Analysis on pages 5 through 8, but does not include the financial statements and our auditors' 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 thereon.

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.

KCoe Isom, LLP

September 14, 2026
Helena, Montana

MANAGEMENT'S FINANCIAL ANALYSIS

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 year ended June 30, 2026, with comparative totals for June 30, 2025. 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 grants for specific activities. Neither MHESAC nor RHM employ any staff, and 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 the 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 with comparative totals for 2025, which describes the sources and uses of MHESAC's cash during the year.

Although MHESAC's assets and net position are unrestricted by 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 positions that are held in what the Corporation calls 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.

Financial Position Summary

Following is an analysis of MHESAC's financial position on June 30, 2026, with comparative information on June 30, 2025 (expressed in thousands):

June 30		2026		2025
ASSETS				
Cash and cash equivalents	$	15,376	$	16,241
Educational loans receivable - net		200,378		230,888
Other assets		32,785		33,257
TOTAL ASSETS	$	248,539	$	280,386
LIABILITIES AND NET ASSETS				
Current liabilities	$	27,851	$	34,700
Long-term debt and obligations		147,437		169,630
Total Liabilities		175,288		204,330
Net Assets				
Escrow/Trusts		43,455		45,754
General Fund		28,631		29,344
Board-designated endowment		1,165		958
Total Net Assets		73,251		76,056
TOTAL LIABILITIES AND NET ASSETS	$	248,539	$	280,386

On June 30, 2026, MHESAC had cash and cash equivalents of over $15.3 million of which $14.6 million is limited as to use under the bond indenture or the escrow agreement, another $1,000 is board restricted, and the remaining $725,000 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 are, by definition, 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 30-day average SOFR plus .11448 tenor. 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 credit losses to manage the risk of the unguaranteed amount should a borrower default.

During the fiscal year, MHESAC increased the reserve for credit losses based on its evaluation of expected credit losses within the loan portfolio. The reserve, which is netted against the student loans receivable for financial statement presentation, increased from $161,382 to $181,585.

Results of Operations Summary

MHESAC is reporting a negative change in net assets of $2,804,948 for the fiscal year ended June 30, 2026. Please see the following recap of revenue and expenses (expressed in thousands):

Years Ended June 30		2026		2025
Revenue	$	15,452	$	19,611
Expenses		18,257		21,930
Change in Net Assets		(2,805)		(2,319)
Net Assets - Beginning of Year		76,056		78,375
Net Assets - End of Year	$	73,251	$	76,056

The following is an overview of significant changes in financial data from FY25 to FY26:

- Cash and equivalents decreased by $863,886. Operating cash in the general fund decreased by $409,416 while cash held in the Indenture for imminent bond interest payments decreased by $454,470. This is due to the timing of borrower repayments received during any given month as well as cash being held in the investment accounts at the end of fiscal year 2026.

- Net student loan receivables decreased by $30,511,079, which was consistent with the prior year when viewed as a percentage of the portfolio at the beginning of the year.

- Debt consisting of outstanding bonds decreased by $30,242,000.

- MHESAC's net assets decreased by $2,804,948.

- Total operating revenues decreased by $4,156,130. The decrease was due to a combination of the decreasing student loan portfolio and the lower interest rates on the variable rate FFELP student loans.

- Total expenses decreased by $3,670,535. The decrease is due to a smaller amount of bonds outstanding during the year and the decrease in bond interest rates in FY26 because they are variable rate instruments and the average rate decreased during the fiscal year.

- Both the student loans and the bond liability used to fund those assets are tied to the same SOFR index. This means that although interest rates go up and down throughout the years, the net spread between the loans and the bonds remains relatively stable.

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

Although bonds outstanding decreased by 13.5% during the year, bond interest decreased by 24.9%. This was due to the decrease in general interest rates during FY26. Since the bonds are all variable rate instruments, decreases in the SOFR index will reflect as lower bond interest. The flip side to the rate decrease is although student loans receivable decreased by 13.2% during the year, the income on those loans decreased by 23.3%. The expense line for bond interest includes $972,439 for bond discount amortization, which is a noncash expense item.

For Reach Higher Montana, efforts are designed to increase student participation in activities that connect them to education and career paths after high school. 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 or training. Additionally, RHM is responsible for a grant funded program to develop work based learning partnerships around the state. MHESAC incurred costs in FY26 for the Reach Higher Montana initiatives in the amount of $2,678,119. This was offset by grants, sponsor income, and in-kind donations that totaled $646,892.

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. The current outstanding balance of the senior bonds is $157,041,000. All senior bonds carry an AAA rating by S&P Global and AA+ by Fitch.

The 2012 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 SOFR rates plus some spread depending on the class of the bond.

In the fiscal year that ended June 30, 2026, MHESAC redeemed outstanding bonds with all cash available and allowable by the indenture through scheduled and/or targeted redemptions. Redemptions totaled $30,242,000. An analysis of the change to outstanding bonds follows (including $19,500,000 internally held bonds eliminated in the statement of financial position):

		Current Portion		Long-Term Portion
Net bonds outstanding at July 1, 2025	$	33,682,000	$	189,129,932
Scheduled, targeted payments of 2012 Series bonds		(30,242,000)		-
Amortization of bond discount		-		1,203,756
Reclassification to current		23,397,000		(23,397,000)
Net Bonds Outstanding at June 30, 2026	$	26,837,000	$	166,936,688

FINANCIAL SECTION

Montana Higher Education Student Assistance Corporation

STATEMENT OF FINANCIAL POSITION WITH COMPARATIVE TOTALS FOR 2025
(expressed in thousands)

June 30	2026	2025
ASSETS		
Current Assets		
Cash and cash equivalents	$ 725	$ 1,132
Investments	7,081	6,870
Accrued interest receivable	99	149
Educational loans receivable - net	217	268
Prepaid costs - net of accumulated amortization	21	27
Other assets	137	169
Total Current Assets	8,280	8,615
Restricted Assets - Current		
Cash and cash equivalents	14,650	15,105
Accrued interest receivable	12,396	12,492
Educational loans receivable - net	27,491	33,663
Prepaid costs - net of accumulated amortization	25	25
Other assets	317	279
Total Restricted Assets - Current	54,879	61,564
Noncurrent Assets		
Educational loans receivable - net	1,296	1,625
Restricted Assets - Noncurrent		
Endowment cash and cash equivalents	1	4
Endowment investments	1,162	951
Educational loans receivable - net	171,374	195,332
Prepaid servicing fees	11,547	12,295
Total Restricted Assets - Noncurrent	184,084	208,582
TOTAL ASSETS	$ 248,539	$ 280,386

The accompanying notes are an integral part of these financial statements.

Montana Higher Education Student Assistance Corporation

STATEMENT OF FINANCIAL POSITION WITH COMPARATIVE TOTALS FOR 2025
(expressed in thousands)
(Continued)

June 30	2026	2025
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 511	$ 342
Accrued interest payable	276	407
Educational loan revenue bonds payable - current portion	26,837	33,682
Funds held in trust	127	163
Scholarships payable	100	106
Total Current Liabilities	27,851	34,700
Long-Term Liabilities		
Educational loan revenue bonds payable - net	147,437	169,630
Total Liabilities	175,288	204,330
Net Assets		
Without donor restrictions:		
Escrow/Trust	43,455	45,754
General Fund	28,631	29,344
Board-designated endowment	1,165	958
Total Net Assets	73,251	76,056
TOTAL LIABILITIES AND NET ASSETS	$ 248,539	$ 280,386

The accompanying notes are an integral part of these financial statements.

Montana Higher Education Student Assistance Corporation

STATEMENT OF ACTIVITIES WITH COMPARATIVE TOTALS FOR 2025
(expressed in thousands)

Years Ended June 30	2026	2025
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and Support		
Investment income - net	$ 1,022	$ 1,171
Interest on educational loans	14,013	18,270
Loss on early redemption of bonds	(231)	(529)
Amortization of prior-discounted loan purchase	1	1
Contributions and grants of cash and other financial assets	324	322
Contributions of nonfinancial assets	1	3
Subtotals	15,130	19,238
Net assets released from donor restrictions	322	373
Total Revenue and Support Without Donor Restrictions	15,452	19,611
Program Services Expenses		
Student loan operations	15,550	19,256
Grants and public purpose program	2,353	2,289
Total Program Services Expenses	17,903	21,545
Supporting Activities Expenses		
General and administrative expenses	354	385
Total Expenses	18,257	21,930
TOTAL CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(2,805)	(2,319)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Revenue and Support		
Contributions with donor restrictions	322	373
Net assets released from donor restrictions	(322)	(373)
TOTAL CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	-	-
Change in Net Assets	(2,805)	(2,319)
Net Assets - Beginning of the Year	76,056	78,375
Net Assets - End of the Year	$ 73,251	$ 76,056

The accompanying notes are an integral part of these financial statements.

Montana Higher Education Student Assistance Corporation

STATEMENT OF FUNCTIONAL EXPENSES

(expressed in thousands)

Year Ended June 30, 2026	Program Services			Supporting Activities	
	Student Loan Operations	Grants and Public Purpose Program	Total Programs	General and Administrative	Total
Advertising	$ -	$ 11	$ 11	$ -	$ 11
Board and officer	-	-	-	15	15
Bond Interest	10,943	-	10,943	-	10,943
Borrower rebate	26	-	26	-	26
Computer equipment, supplies, and software	-	15	15	-	15
Consolidation loan fees	1,998	-	1,998	-	1,998
Contract labor and services	-	1,496	1,496	272	1,768
Depreciation and leasehold amortization	-	13	13	-	13
Dues and subscriptions	-	14	14	1	15
Grants, scholarships, and other	-	454	454	-	454
Insurance	-	27	27	19	46
Mail and courier	-	2	2	-	2
Operating lease payments	-	27	27	-	27
Other costs	-	-	-	46	46
Printing	-	8	8	-	8
Professional services	-	4	4	1	5
Promotion and event costs	-	77	77	-	77
Servicing fees	2,463	-	2,463	-	2,463
Staff travel and training	-	174	174	-	174
Supplies and copier	-	5	5	-	5
Surveillance fees	39	-	39	-	39
Telecommunications and utilities	-	26	26	-	26
Trustee fee	37	-	37	-	37
Uncollectible account	44	-	44	-	44
Total Expenses by Function Included in the Expense Section on the Statement of Activities	$ 15,550	$ 2,353	$ 17,903	$ 354	$ 18,257

The accompanying notes are an integral part of these financial statements.

Montana Higher Education Student Assistance Corporation

STATEMENT OF FUNCTIONAL EXPENSES
(expressed in thousands)
(Continued)

Year Ended June 30, 2025	Program Services: Student Loan Operations	Program Services: Grants and Public Purpose Program	Total Programs	Supporting Activities: General and Administrative	Total
Advertising	$ -	$ 12	$ 12	$ -	$ 12
Board and officer	-	-	-	22	22
Bond Interest	14,445	-	14,445	-	14,445
Borrower rebate	29	-	29	-	29
Computer equipment, supplies, and software	-	10	10	-	10
Consolidation loan fees	2,284	-	2,284	-	2,284
Contract labor and services	-	1,257	1,257	298	1,555
Depreciation and leasehold amortization	-	13	13	-	13
Dues and subscriptions	-	24	24	-	24
Grants, scholarships, and other	-	478	478	-	478
Insurance	-	27	27	20	47
Mail and courier	-	2	2	-	2
Operating lease payments	-	38	38	-	38
Other costs	-	-	-	43	43
Printing	-	6	6	-	6
Professional services	-	80	80	2	82
Promotion and event costs	-	93	93	-	93
Servicing fees	2,470	-	2,470	-	2,470
Staff travel and training	-	211	211	-	211
Supplies and copier	-	6	6	-	6
Surveillance fees	39	-	39	-	39
Telecommunications and utilities	-	32	32	-	32
Trustee fee	42	-	42	-	42
Uncollectible account	(53)	-	(53)	-	(53)
Total Expenses by Function Included in the Expense Section on the Statement of Activities	$ 19,256	$ 2,289	$ 21,545	$ 385	$ 21,930

The accompanying notes are an integral part of these financial statements.

Montana Higher Education Student Assistance Corporation

STATEMENT OF CASH FLOWS WITH COMPARATIVE TOTALS FOR 2025
(expressed in thousands)

Years Ended June 30		2026		2025
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received on student loans	$	10,855	$	15,400
Income received on investments		2,079		2,480
Bond and note interest paid		(11,199)		(14,858)
Bond fees paid		(37)		(41)
Loan fees paid		(2,021)		(2,331)
Contracted management and servicing fees paid		(1,690)		(1,852)
Administrative expenses paid		(32)		(45)
Grant and public purpose program paid		(1,912)		(2,137)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(3,957)		(3,384)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of educational loans		(369)		(136)
Repayments of educational loans		34,125		40,638
Purchases of investments		(422)		(460)
NET CASH FLOWS FROM INVESTING ACTIVITIES		33,334		40,042
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Repayment of bonds		(30,242)		(39,124)
Net Change in Cash and Equivalents		(865)		(2,466)
Cash and Cash Equivalents - Beginning of Year		16,241		18,707
Cash and Cash Equivalents - End of Year	$	15,376	$	16,241
CASH AND CASH EQUIVALENTS ARE REPORTED ON THE STATEMENTS OF FINANCIAL POSITION				
Cash and cash equivalents - current	$	725	$	1,132
Restricted cash and cash equivalents - current		14,650		15,105
Endowment cash and cash equivalents		1		4
TOTAL CASH AND CASH EQUIVALENTS	$	15,376	$	16,241

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND 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* (IRC). 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 IRC 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 Internal Revenue Service. In addition, the Corporation is subject to income tax on net income that is derived from business activities unrelated to its exempt purpose. Management has 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.

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 on June 30, 2026.

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, SAF, 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.

Interest on Educational Loans The United States Department of Education (U.S. DOE) 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 six to nine 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 U.S. DOE 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 U.S. DOE.

Special Allowance Payments The U.S. DOE 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 30-day average Secured Overnight Financing Rate (SOFR) plus .11448 tenor spread for that quarter increased by various rates, depending on loan type and origination date. For the year ended June 30, 2026, rebates of $200,174 to the federal government 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.

Educational Loan Measurement and Allowance for Credit Losses Education loans receivable are stated at the amount the Corporation expects to collect. The Corporation maintains allowances for credit losses for estimated losses resulting from the inability of its borrowers to make required payments. Management considers the following factors when determining the collectability of specific borrower accounts: outstanding principal amounts, current economic industry trends, forecast of future events, and historical portfolio default rates. If the financial condition of the Corporation's borrowers was to deteriorate, adversely affecting their ability to make payments, additional allowances may be required. Based on management's assessment, the Corporation provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Corporation has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

MHESAC collects payments for student loans that are outstanding. Payment terms for the loans are determined by the federal government and the program the borrower may be participating in. The Corporation has tracked historical portfolio default rates for its loan receivables and compiled a historical credit-loss percentage.

Management believes that the historical portfolio default rate information it has compiled is a reasonable base on which to determine expected credit losses for loans receivables held at June 30, 2026, because the composition of the loans receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its borrowers and its practices have not changed significantly over time). Management has determined that the current and reasonable and supportable forecasted economic conditions are similar to the economic conditions included in the historical information.

Loans receivable as of June 30, 2026 and 2025, were $200,377,871 and $230,888,164 net of the allowance for $181,585 and $161,382, respectively. (See note 6 for more details on Educational Loans Receivable and Allowance for Credit 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.

In addition to the escrow funds, MHESAC has prepaid for servicing by funding an escrow account at SAF. The purpose is to ensure 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 restrictions 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:

June 30, 2026		**Escrow**		**Trust**		**Total**
Cash and other assets	$	4,371,081	$	23,069,750	$	27,440,831
Educational loans receivable - net		980,809		197,883,997		198,864,806
Prepaid servicing fees		4,976,034		6,570,959		11,546,993
Total Assets	$	10,327,924	$	227,524,706	$	237,852,630
Liabilities	$	26,215	$	194,371,891	$	194,398,106
Net Assets		10,301,709		33,152,815		43,454,524
Total Liabilities and Net Assets	$	10,327,924	$	227,524,706	$	237,852,630

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, 2026, 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 $91,870, that have not been recognized at June 30, 2026, because qualifying expenditures have not been incurred.

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

Donated Services and In-Kind Contributions Contributed nonfinancial assets are youth services provided by professional staff and specially trained youth leaders who assist in helping foster youth prepare for life after high school, which are recorded at the fair value of the services received at the date of donation. Contributions of such goods or services of $1,250 were received during the year ended June 30, 2026.

Programs and Endowment Effective July 1, 2016, MHESAC and SAF entered 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, 2026, the balance of endowment investment and cash and cash equivalents was $1,162,415.

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 contracted manager and master servicer and RHM's programs delivery and administration provider, SAF, allocates its expenses to calculate the servicing fees, programs delivery fees, and programs administration fees to MHESAC. The expenses that are allocated include rent, 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 others, which are allocated based on 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.

2. LIQUIDITY AND AVAILABILITY

The following financial assets are expected to be available to support the Corporation:

June 30, 2026		
Cash and cash equivalents	$	725,928
Other assets - accounts receivable		63,646
Other assets - payments in transit		1,932
Investments		7,080,410
Other assets - interest receivable		60,418
Accrued interest receivable		99,492
Education loans receivable - net		216,713
Total Liquidity and Availability	$	8,248,540

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, 96% are held within an indenture of Trust, and therefore available only to fulfill the requirements outlined in that indenture. The Trust has no reach into the non-restricted assets.

Of the non-trust assets, over 99% are financial assets and 77% 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 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, the funds received are adequate to cover daily operating costs.

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

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 noninterest bearing accounts. At June 30, 2026, the book balance was $488,588 and bank balance amount of MHESAC deposits was $509,498 with $27,898 exceeding FDIC limits.

4. FAIR VALUE MEASUREMENTS

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

Fair value measurement assumes the highest and best use of the asset by market participants and requires valuation techniques that maximize use of observable inputs and minimize the use of unobservable inputs.

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

Level 1: Quoted prices in active markets for identical assets or liabilities to which the Corporation 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, 2026, and there were no transfers between levels.

Common Stocks and Equity Funds: 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. These include 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, 2026, 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. There are no level 3 investments held. In note 5, a table is presented measuring the fair value of investments held at year end. Educational loans held by the Corporation at June 30, 2026, are classified within level 3 and are described further in note 9.

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 IRC 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 subordinate 2012 bonds issued under the MHESAC indenture. This activity is eliminated in the financial statements.

Investments in the general fund 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 Corporation.

The Corporation had investments consisting of the following:

June 30, 2026	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Short-Term Operations			
U.S. government obligations	$ 4,853,730	$ 53,532	$ 4,800,198
Corporate bonds	1,256,012	-	1,256,012
Exchange-traded funds	970,668	970,668	-
Total Short-Term Operations	7,080,410	1,024,200	6,056,210
Board-Designated Endowment			
U.S. government obligations	213,454	10,001	203,453
Corporate bonds	76,339	-	76,339
Equity stocks	527,609	527,609	-
Exchange-traded funds	344,148	344,148	-
Total Board-Designated Endowment	1,161,550	881,758	279,792
Total	8,241,960	$ 1,905,958	$ 6,336,002
Other Investments			
MHESAC - 2012-B Bond	19,500,000		
Subtotal	27,741,960		
Less: Internal Holding			
MHESAC - 2012-B Bond	19,500,000		
Total Investments	$ 8,241,960		

Components of investment income include the following:

June 30, 2026	
Interest and investment income	$ 897,422
Realized gain on sale of investments	23,879
Unrealized market value change of investments	129,359
Investments expenses	(28,303)
Investment Income - Net	$ 1,022,357

Maturities on bond investments were as follows:

June 30, 2026		**Market Value**
Due in one year or less	$	2,135,713
Due after one year through five years		3,112,415
Due after five years through ten years		1,073,336
Due after ten years through twenty years		8,013
Due after twenty years		6,525
Total	$	6,336,002

6. EDUCATIONAL LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

The educational loans receivable are loan portfolios purchased from various banks, 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 U.S. DOE 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 credit losses for uncollectible loans.

Educational loans are summarized as follows:

June 30, 2026		
Student/Interim	$	1,311
Deferment/Forbearance/Delinquent/Claim		34,352,052
Repayment status		166,209,489
Education Loans Receivable		200,562,852
Allowance for credit losses		(181,585)
Discount on loan purchase		(3,397)
Education Loans Receivable - Net	$	200,377,870

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

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

Variable interest rates to the borrower are based upon either the 91-day or one-year constant maturity Treasury bill, subject to maximum interest rates ranging from 7.00% to 12.00%. Fixed interest rates range from 3.40% to 8.50% 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 Credit Losses

Under contracts with Ascendium, other guarantors, and the U.S. DOE, 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 the Montana Guaranteed Student Loan Program until they were transitioned to Ascendium (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 has tracked historical-loss information for its student loans and compiled a rolling 12-month average claim rate for each of the loan portfolios. Management believes that the historical-loss information it has compiled is a reasonable base on which to determine expected credit losses for loans receivable held on June 30, 2026, because the composition of the loans receivable at that date is consistent with that used in developing the historical default rate (i.e., the similar risk characteristics of the students and the portfolios do not have new loans added to them). Additionally, management has determined that the current, reasonable, and supportable forecasted economic conditions are consistent with the economic conditions included in the historical information. As a result, the historical-loss rates have not been adjusted for differences in current conditions or forecasted changes. The allowance is based on the current default rates of each segment of the portfolio funding source applied to the nonguaranteed portion of the loan portfolio balance.

Defaulted loans are eligible for claims reimbursement after 270 days of delinquency. Currently, default prevention due diligence is conducted in an attempt to prevent the need for claim submission. The Corporation files a claim prior to 360 days 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, 2026, loans in the amount of $1,591,217 were classified as delinquent more than 270 days, the stage at which a default claim can be filed.

As of June 30, 2026, MHESAC held a loan portfolio of $200,562,852. The average default rate for loans serviced by SAF resulted in a provision for uncollectible educational loans of $181,585 for the year ended June 30, 2026.

Following is a reconciliation of the change in the allowance for credit losses for the year ended June 30, 2026:

Balance - July 1, 2025	$	161,382
Nonguaranteed write-offs		(23,808)
Adjustments per allowance policy		44,011
Balance - June 30, 2026	$	181,585

There is also a discount for a student loan purchase of $3,397 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:

June 30, 2026		
100% Guarantee	$	378,960
98% Guarantee		119,439,943
97% Guarantee		80,743,949
Total Portfolio	$	200,562,852

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. During fiscal year 2026, SAF had two Board members in common with the Corporation's eight Board members.

8. 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:

June 30, 2026		
Bonds Outstanding at June 30, 2025	$	222,811,932
Bond discount amortization during the year		972,439
Loss on early redemption of bonds		231,317
Bonds redeemed during the year		(30,242,000)
Bonds Outstanding		193,773,688
Internal 2012 bond holding		(19,500,000)
Bonds Outstanding at June 30, 2026 - Net	$	174,273,688

A description of significant terms and conditions of each Student Loan Revenue Bond issue outstanding follows:

Issue	Year-End Interest Rate		Original Issue Amount		June 30, 2026
2006 Series C Bonds **	4.923%	$	30,000,000	$	18,000,000
2012 Series A-3 Bonds	4.773%		305,300,000		157,041,000
2012 Series B-1 **	4.923%		19,500,000		19,500,000
Subtotal			354,800,000		194,541,000
Discount			(22,924,281)		(767,312)
Total Bonds		$	331,875,719	$	193,773,688

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

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

Issue	Original Issue Date	Average Interest Rate From Issuance to Current	Maturity Date	Interest Due Status	Index Rate Type	Bond Spread	Outstanding Balance at June 30, 2026
2006 Subordinate Series C	05/03/2006	3.01%	12/20/2046	Monthly	30-day Avg SOFR + Tenor	+120 basis points	$ 18,000,000
2012 Senior Series A-3	05/04/2012	2.67%	07/20/2043	Monthly	30-day Avg SOFR + Tenor	+105 basis points	157,041,000
2012 Subordinate Series B-1	05/04/2012	3.01%	12/20/2044	Monthly	30-day Avg SOFR + Tenor	+120 basis points	19,500,000
Total							$ 194,541,000

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. A pro-rated portion of the bond discount is written off as the bonds associated with the bond discount are paid off early. The loss on the early redemption of Series 2012-A3 was $231,317 in the year ended June 30, 2026, which represents an acceleration of the discount amortization.

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 - A3 Student Loan Revenue Bonds

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

Date		Expected Principal Reduction Amount
July 20, 2026	$	2,044,000
August 20, 2026		2,391,000
September 20, 2026		3,069,000
October 20, 2026		1,254,000
November 20, 2026		2,738,000
December 20, 2026		2,621,000
January 20, 2027		1,200,000
February 20, 2027		3,306,000
March 20, 2027		1,909,000
April 20, 2027		1,220,000
May 20, 2027		2,618,000
June 20, 2027		2,467,000
Total Year Ended June 30, 2027		26,837,000
2028		21,586,000
2029		18,888,000
2030		16,501,000
2031		15,008,000
2032		18,063,000
2033		16,396,000
2034		14,133,000
2035		9,629,000
Total	$	157,041,000

The July and August 2026 payments have been made prior to issuance of these financial statements.

Series 2012 - B1 Student Loan Revenue Bonds

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

Years Ending June 30		Expected Principal Reduction Amount
2035	$	2,980,000
2036		10,286,000
2037		6,234,000
Total	$	19,500,000

2006 Series C Student Loan Revenue Bonds

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

Years Ending June 30		Expected Principal Reduction Amount
2037	$	1,704,000
2038		6,273,000
2039		5,074,000
2040		4,234,000
2041		715,000
Total	$	18,000,000

Retirements

During the year ended June 30, 2026, the Corporation had targeted payments and scheduled redemptions of student loan revenue bonds. These redemptions are summarized in the tables below:

Redemptions

Bond Series	Redemption Date		Redemption Amount
2012 Series A3	July 21, 2025	$	2,113,000
2012 Series A3	August 20, 2025		3,353,000
2012 Series A3	September 22, 2025		1,946,000
2012 Series A3	October 20, 2025		2,477,000
2012 Series A3	November 20, 2025		3,669,000
2012 Series A3	December 22, 2025		2,052,000
2012 Series A3	January 20, 2026		2,022,000
2012 Series A3	February 20, 2026		3,123,000
2012 Series A3	March 20, 2026		2,704,000
2012 Series A3	April 20, 2026		2,110,000
2012 Series A3	May 20, 2026		1,640,000
2012 Series A3	June 22, 2026		3,033,000
Total Redemption Amount		$	30,242,000

Summary of Maturities

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

Years Ending June 30		Revenue Bonds Payable
2027	$	26,837,000
2028		21,586,000
2029		18,888,000
2030		16,501,000
2031		15,008,000
Thereafter		95,721,000
Total	$	194,541,000

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, 2026.

Per the indenture, when the average of the Monthly Senior Trigger Percentage on each of the six months preceding monthly payment dates is less than 101.45% or if the average of the Monthly Subordinate Trigger Percentage on each of the six monthly payment dates is less than 90.00%, 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 30-day Average SOFR rate, until all bonds are paid. The amount of carryover interest on the 2006C and the 2012-B subordinate bonds at June 30, 2026, was $66,451 and $71,989, respectively.

Bond Ratings

As of June 30, 2026, the MHESAC Senior bond is rated AA+ by Fitch Ratings and AAA by Standard & Poor’s Ratings Services. The outstanding subordinate bonds are unrated.

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, including the internally held bond in the amount of $19,500,000:

June 30, 2026		Carrying Amount		Fair Value
Financial Assets				
Cash and cash equivalents	$	15,376,766	$	15,376,766
Accrued interest receivable		12,495,272		12,495,272
Interest receivable		63,535		63,535
Investments		8,241,960		8,241,960
Educational loans receivable		200,377,870		200,419,825
Total Financial Assets	$	236,555,403	$	236,597,358
Financial Liabilities				
Interest payable	$	276,003	$	276,003
Education bonds payable		193,773,688		193,941,300
Total Financial Liabilities	$	194,049,691	$	194,217,303

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, 2026, (level 1 valuation).

Interest Receivable and Payable

The carrying amounts of interest receivable and payable are considered to approximate fair value at June 30, 2026, 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, and equity funds (level 1 valuation). The carrying amount of investments is considered to approximate fair value.

Educational Loans Receivable and Accrued Interest Receivable

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

Educational Bonds Payable

The fair value of the 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).

10. LEASES

On June 30, 2026, MHESAC has one operating lease for office space. MHESAC recognizes an Operating Lease Right-of-Use (ROU) Asset of $6,882, and an offsetting Operating Lease Liability of $6,882. 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.

The lease began on August 1, 2021, and terminated prematurely on October 31, 2025, when RHM moved into different office space with WMP. A new lease with WMP began November 1, 2025 and terminates October 31, 2026. The monthly lease payment for the new lease is $1,733. Operating lease payments related to this lease totaled $33,589 for the fiscal year ended June 30, 2026.

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. The weighted average remaining lease term is .33 years.

As of June 30, 2026, the future lease payments under the operating lease with a remaining term in excess of one year are as follows:

Year Ending June 30		**Original Lease**
2027	$	6,932
Total		6,932
Less: Discount applied		50
Operating Lease Liability	$	6,882

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 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, 2026, SAF billed MHESAC $1,720,821. At June 30, 2026, the reconciliation for billed and actual costs resulted in a balance payable from SAF of $24,628.

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 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.

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 fiscal year 2026, $748,191 was drawn from escrow by SAF.

At June 30, 2026, MHESAC's prepaid servicing fees balance was $11,546,993. The prepaid balance 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 RHM. SAF will provide management services for MHESAC's RHM 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.

RHM has adopted a new strategic direction which results in reduction of contract labor paid by MHESAC to SAF by June 30, 2027. As part of the reduction, management has developed termination benefit packages for impacted staff and accrued that cost of $118,174 to the June 30, 2026 expenses.

During the year ended June 30, 2026, SAF billed MHESAC $330,059 for management services and $1,539,813 for program delivery of the RHM initiatives. The reconciliation for billed and actual management and program delivery resulted in a net balance payable to SAF of $176,656.

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.

12. ENDOWMENT

In fiscal year 2017, the SAF Board-Designated Endowment was transferred, as a donation without restriction, 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, 2026:

		Without Donor Restrictions
Balance - June 30, 2025	$	957,892
Investment income - net		207,640
Balance - June 30, 2026	$	1,165,532

13. NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

June 30, 2026		
Scholarships	$	20,000
Foster Care related activities		1,830
Teacher Externship		17,661
Work-Based Learning Collaborative		242,400
Partnership to Advance Youth Apprenticeship grant		40,176
Total Net Assets Released from Donor Restrictions	$	322,067

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 $295,103 was recognized in the year ended June 30, 2026, with related expenses of $370,307.

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 2020, RHM was awarded Phase II, in April 2023, Phase III, and in April 2025 Phase IV, of the grant for PAYA. These grants support the expansion of high-quality apprenticeship opportunities for high school students across a broad range of industry sectors. Revenue totaling $40,176 was recognized in the year ended June 30, 2026, with related expenses of $76,144.

On November 1, 2023, Arthur M. Blank Family Foundation awarded RHM a contract for Work Based Learning Collaborative. In June 2025, a second award was received, which extends the program to June 30, 2029. RHM is providing leadership and capacity building support for the Collaborative. Revenue totaling $229,285 was recognized in the year ended June 30, 2026, with related expenses of $241,857.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 14, 2026, the date the financial statements were available to be issued.

Effective July 1, 2026, RHM has adopted a new strategic direction which involves the eventual elimination of Outreach programs by June 30, 2027. As part of the elimination, management has developed termination benefit packages for impacted SAF employees who carry out the Outreach activities. The estimated impact to RHM is $118,174 in termination benefits.

MHESAC was notified that effective August 1, 2026, Educational Credit Management Corporation will become the designated guarantor for the FFELP portfolio previously held by Ascendium Education Solutions (Ascendium).

SUPPLEMENTARY INFORMATION SECTION

Montana Higher Education Student Assistance Corporation

SCHEDULE OF REACH HIGHER MONTANA ACTIVITY WITH COMPARATIVE TOTALS FOR 2025

Years Ended June 30		2026		2025
Reach Higher Montana Programs Delivery				
Program delivery	$	679,651	$	648,190
Campus Outreach				
Outreach staff and offices		683,595		587,131
Outreach Programs				
Foster care program		370,307		404,867
Work-Based Learning Collaborative		272,584		279,058
Youth apprenticeship grant less sponsorships included below		107,616		111,492
Scholarships				
Reach Higher Montana scholarships		100,000		100,000
Design-a-Sticker scholarships		11,500		11,000
Dual enrollment scholarships		12,329		5,919
Horse Creek scholarships		14,000		12,000
Jobs for Montana Graduates scholarships		1,500		-
Gilman Family		-		5,000
Judy Martz/Kelly Kuntz scholarships		2,000		11,500
Miscellaneous scholarships		6,750		1,175
Stick with Scholarships		3,500		5,500
Youth Serve Montana		62,500		62,500
Sponsorships				
Helena Area Chamber of Commerce - Helena WINS		-		3,000
Helena College		-		1,500
Helena Education Foundation		3,000		3,000
Highlands College		500		1,000
Leadership Montana		1,000		1,000
Miscellaneous sponsorships		3,352		8,176
Montana Association for Career and Technical Education		1,000		2,000
Montana BPA		1,000		1,000
Montana Business Education		-		1,000
Montana Chamber of Commerce		-		2,250
Montana Chamber Foundation		1,000		-
Montana DECA		1,000		1,000
Montana Council for Economic Education		2,500		2,500
Montana FCCLA		1,000		1,000
Montana FFA Foundation		1,000		1,000
Montana HOSA-Future Health Professionals		1,000		1,000
Montana Post Secondary Educational Opportunity Council		1,000		3,500
Montana Robotics		-		1,000
Montana School Counselor Association		5,015		3,000
PCAN Conference		-		1,000
School Administrators of Montana		1,000		3,500
Skills USA		1,000		1,000
Totals	$	2,353,199	$	2,288,758