CONSOLIDATED FINANCIAL STATEMENTS

Brazos Higher Education Service Corporation, Inc.
Years Ended June 30, 2020 and 2019
With Independent Auditor's Report

Brazos Higher Education Service Corporation, Inc.

Consolidated Financial Statements

(In Thousands)

Years Ended June 30, 2020 and 2019

Contents

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CPAs & Advisors

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Brazos Higher Education Service Corporation, Inc.

We have audited the accompanying consolidated financial statements of Brazos Higher Education Service Corporation, Inc. (a not-for-profit organization), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of changes in fund balance and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brazos Higher Education Service Corporation, Inc. as of June 30, 2020 and 2019, and the changes in its fund balance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Dallas, Texas
October 27, 2020

Brazos Higher Education Service Corporation, Inc.

Consolidated Balance Sheets

(In Thousands)

	June 30, 2020	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 13,646	$ 11,095
Interest receivable	938	1,268
Accounts receivable	103	55
Prepaid expenses	91	75
Total current assets	14,778	12,493
Property and equipment:		
Land	68	68
Buildings	1,562	1,778
Office equipment	231	241
Building improvements	187	187
Automobiles	23	23
Less: accumulated depreciation	(1,644)	(1,742)
Total property and equipment, net	427	555
Other long-term assets:		
Long-term investments	29,478	17,458
Notes receivable from affiliates	28,552	36,836
Prefunded benefit expense	4,098	4,054
Total long-term assets	62,128	58,348
Total assets	$ 77,333	$ 71,396

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

Brazos Higher Education Service Corporation, Inc.
Consolidated Balance Sheets (continued)
(In Thousands)

	June 30, 2020	June 30, 2019
Liabilities and fund balance		
Current liabilities:		
Accounts payable	$ 44	$ 5
Accrued expenses	473	479
Current portion of long-term debt	365	-
Total current liabilities	882	484
Long-term liabilities:		
Long-term debt	446	-
Prefunded benefit expense	4,098	4,054
Total long-term liabilities	4,544	4,054
Fund balance:		
Unrestricted fund balance	71,907	66,858
Total fund balance	71,907	66,858
Total liabilities and fund balance	$ 77,333	$ 71,396

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

Brazos Higher Education Service Corporation, Inc.
Consolidated Statements of Changes in Fund Balance
(In Thousands)

	For the Years Ended June 30, 2020	For the Years Ended June 30, 2019
Operating revenues:		
Administrative fees	$ 7,462	$ 8,248
Gain on early call of long-term investments	-	569
Interest on investments	946	1,159
Gain on dissolution	-	387
Gain on sale of long-term investments	215	13
Gain on sale of property and equipment	138	-
Other	856	755
Total operating revenue	9,617	11,131
Operating expenses:		
Salaries and payroll taxes	6,065	6,031
Prefunded benefit expense	-	250
Office expense	416	441
Depreciation and amortization	74	80
Professional fees	173	181
Contract labor	193	118
Travel expense	40	43
Pension expense	522	518
Insurance	92	98
Loss on common stock investment	45	-
Impairment of long-term investment	500	-
Provision for bad debt	602	-
Other	225	218
Total operating expenses	8,947	7,978
Revenue over expenses before estate contribution	670	3,153
Estate contributions	4,379	12,309
Estate distributions	-	(9,300)
Fund balance, beginning of period	66,858	60,696
Fund balance, end of period	$ 71,907	$ 66,858

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

Brazos Higher Education Service Corporation, Inc.
Consolidated Statements of Cash Flows
(In Thousands)

	For the Years Ended	
	June 30, 2020	**June 30, 2019**
Operating activities:		
Revenue over expenses before estate contributions	$ 670	$ 3,153
Adjustment to reconcile revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	74	80
Long-term investment (discount) premium amortization	(15)	(23)
(Gain) loss on common stock investment	45	(13)
Impairment of long-term investment	500	-
Provision for bad debt	602	-
Gain on disolution	-	(387)
Gain on sale of property and equipment	(138)	-
Gain on sale of long-term investments	(215)	(569)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(48)	5
Interest receivable	(272)	(258)
Prepaid expenses	(16)	(7)
Prefunded benefits expense	(44)	1,359
Other assets	-	617
Increase (decrease) in liabilities:		
Accounts and other payables	39	(12)
Prefunded benefits expense	44	(1,359)
Accrued expenses	(6)	31
Interest payable	-	(4)
Net cash provided by operating activities	$ 1,220	$ 2,613

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

Brazos Higher Education Service Corporation, Inc.
Consolidated Statements of Cash Flows (continued)
(In Thousands)

	For the Years Ended	
	June 30, 2020	**June 30, 2019**
Investing activities:		
Proceeds from notes receivable	$ -	$ 2,154
Issuance of notes receivable from affiliates	(32,286)	(13,500)
Proceeds from notes receivable from affiliate	40,570	4,737
Proceeds from long-term receivable from affiliate	-	1,723
Proceeds from sale of fixed assets	192	-
Purchase of long-term investments	(22,700)	(10,407)
Proceeds from sale of long-term investments	8,806	18,018
Proceeds from residual certificate	1,559	1,901
Proceed from redemption of long-term securities	-	200
Net cash provided by (used in) investing activities	(3,859)	4,826
Financing activities:		
Proceeds from the issuance of long-term debt	811	-
Repayment of notes payable	-	(1,013)
Estate contributions	4,379	12,309
Estate distributions	-	(9,300)
Net cash provided by financing activities	5,190	1,996
Net change in cash and cash equivalents	2,551	9,435
Cash and cash equivalents, beginning of year	11,095	1,660
Cash and cash equivalents, end of year	$ 13,646	$ 11,095
Supplemental disclosure of cash and noncash items:		
Cash paid during the period for interest	$ -	$ 8
Non-cash cancellation and transfer of long-term investment to residual certificate	$ 1,600	$ -

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

1. Organization

Brazos Higher Education Service Corporation, Inc. (the Company or BHESC), a Texas not-for-profit public benefit corporation, by contract and for compensation, serves as Master Servicer and provides headquarter facilities, management, administrative support, marketing and accounting services. BHESC also oversees the sub-contracting of servicing, and collection activities. These services are compensated at an agreed-upon rate for the following affiliated not-for-profit entities:

- Brazos Higher Education Authority, Inc. (BHEA)
- Brazos Student Finance Corporation (BSFC)
- Bosque Higher Education Authority, Inc. (Bosque)
- Federated Student Finance Corporation (FSFC)
- Acapita Education Finance Corporation (AEFC)
- Brazos Education Loan Authority, Inc. (BELA)

All of the entities operate in the student loan higher education industry and are controlled by common officers and directors with the ability to influence the business performed by each entity. Should any of the administrative services performed by the Company have an adverse effect on any of the affiliated entities, that entity could demand recourse from the Company for such actions.

Individual balances comprising the respective receivable from/payable to affiliates captions include normal daily operating transactions. No interest is assessed on those transactions.

The Company currently holds and manages subservicing agreements for loan servicing duties performed by American Education Services, Nelnet Diversified Solutions LLC., and Navient (formerly known as Sallie Mae Servicing Corporation) on behalf of affiliated entities.

Brazos Asset Corporation (BAC) is a wholly-owned subsidiary of the Company and finances various investments.

InterviewStream, Inc. (InterviewStream) is a majority-owned subsidiary of BAC and provides proprietary hosted prerecorded and live video interviewing technology solutions to more than 500 clients throughout the United States in the enterprise, staffing, executive search, career transition, and higher education markets. During the 2019 fiscal year, InterviewStream ceased operations resulting in its dissolution. See *Note 2*.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States and, accordingly, reflect all significant receivables, payables and other liabilities. The accounts of the Company are maintained in accordance with the principles of fund accounting. This is a system under which resources are classified for accounting purposes into funds established for specific purposes. As of June 30, 2020 and 2019, all fund balance is classified as unrestricted.

Principles of Consolidation

The accompanying consolidated financial statements include the financial statements of BAC and InterviewStream. All material intercompany transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents consist of money market funds with original maturities of 90 days or less. The carrying value of cash and cash equivalents approximates fair value. The Company had $13,646 and $11,095 in money market funds that were classified as cash equivalents at June 30, 2020 and 2019, respectively.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company considered all accounts receivable to be collectible as of June 30, 2020 and 2019; accordingly, no allowance was provided.

(In Thousands)

Property and Equipment

Property and equipment are reported at cost less accumulated depreciation and depreciated over the estimated useful lives of the individual assets using the straight-line method. The estimated lives used in computing depreciation are as follows:

Buildings	30 years
Office equipment	3–10 years
Building improvements	10 years
Automobiles	3–5 years

When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the current consolidated statements of changes in fund balance. The Company capitalizes all assets or betterments over $10. Depreciation expense for the years ended June 30, 2020 and 2019 was $74 and $80, respectively.

Notes Receivable

Notes receivable are stated at their outstanding principal amount, net of allowance for uncollectible notes. The Company provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. A note receivable is considered delinquent when the debtor has missed three or more payments. At that time, the note is placed on nonaccrual status and interest accrual ceases and does not resume until the note is no longer classified as delinquent. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower. As of June 30, 2020 and 2019, there were no notes considered to be in nonaccrual status.

Long-Lived Assets

As required by the applicable guidance, the Company periodically reviews the carrying amounts of property and equipment, identifiable intangible assets, and excess of cost over fair value of net assets acquired, both purchased in the normal course of business and acquired through acquisition, to determine whether current events or circumstances warrant adjustments to such carrying amounts by considering, among other things, the future cash inflows expected from the use of the asset and its eventual disposition, less the future cash outflows expected to be necessary to obtain those inflows. Management reviews the valuation and amortization periods of excess of cost over fair value of net assets acquired on a periodic basis, taking into consideration any events or circumstances that might result in diminished fair value or revised useful lives.

There was no impairment loss deemed necessary by management for the years ended June 30, 2020 and 2019.

Dissolution of InterviewStream Assets

During December 2016, InterviewStream sold all the fixed assets and software rights of its proprietary hosted prerecorded and live video interviewing technology solutions to a third party for consideration of $4,318. Part of the consideration is a $3,000 note receivable with a variable interest rate of 1-year LIBOR plus 10%. During 2017, all assets associated with this sale were transferred to the third party.

During March 2019, InterviewStream received the remaining balance of $1,607 on the note receivable from the third party thereby satisfying this receivable. Subsequent to this transaction, the operations of InterviewStream were discontinued and InterviewStream was dissolved in April 2019.

Fund Balance

Fund balance, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Fund balance without donor restrictions are available for use in general operations and not subject to donor restrictions.

Fund balance with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition

BHESC – BHESC's primary source of revenue is administrative fees (see Administrative Fees in *Note 2* for further discussion). Revenues are recognized upon performance of the services in the period provided.

BAC – BAC's primary source of revenue is interest income. Revenues are recognized upon accrual of the interest as earned.

(In Thousands)

Administrative Fees

The Company performs general and administrative services for its affiliated and nonaffiliated entities. These services are based on maintenance and operations (M&O) fees charged against the outstanding student loan balance in each company. The basis points are set by the indenture of each entity's respective financing agreements and are subject to changes based on factors stipulated in the indentures. Additionally, within certain indentures there are triggers that reduce the M&O fees paid by each entity.

Included in administrative fees were the following servicing fees from affiliated entities.

	Years Ended June 30,	
	2020	**2019**
BHEA	$ 2,240	$ 2,517
BSFC	543	574
AEFC	544	628
FSFC	88	100
Bosque	338	241
BELA	1,938	2,141
BSFC-PSLT	16	21
BELC	24	20
Total	$ 5,731	$ 6,242

The Company receives beneficial interest in student loans in lieu of future administrative fees from affiliates. Revenue earned from the beneficial interest in these loans was $1,731 and $2,006 for the years ended June 30, 2020 and 2019, respectively, which is included in administrative fees on the consolidated statements of changes in fund balance. The titles to these loans are held by BSFC. The Company records the net revenues from these loans as the funds are received.

Premium and Discount on Investment Bonds Purchased

During years ended June 30, 2020 and 2019, the Company recognized $15 and $23, respectively, of amortization of the purchase discount in interest on investments on the consolidated statements of changes in fund balance. Discount is amortized using the straight-line method over the life of the investments.

Income Taxes

BHESC is a not-for-profit public benefit corporation that is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Company is also exempt from state income tax. Income which is not related to its exempt purposes, less applicable deductions, is subject to federal income taxes. The Company had no net unrelated business income for the years ended June 30, 2020 and 2019. As such, no provision for federal or state income taxes has been provided in the accompanying consolidated financial statements.

The Company files federal information returns in the United States. The Company may be subject to examinations for the tax years ended June 30, 2017 and later by the Internal Revenue Service. The Company is not currently under examination for any open tax year.

The Company follows the accounting standard related to the accounting for uncertainty in income taxes. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company currently has no uncertain tax positions.

BAC is a for-profit corporate subsidiary of the Company. The separate tax accounts for BAC are included in *Note 9* of these consolidated financial statements. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those 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 income in the period that includes the enactment date.

Estate Contributions and Distributions

Estate distributions are a release of excess funds to another Brazos affiliate, allowed under an existing notes payable agreement. Estate contributions are receipt of excess funds from Brazos affiliates. These estate contributions and distributions are discussed in *Note 10*, Related-Party Transactions. These amounts do not meet the criteria of income or expense and are thus treated as estate contributions and distributions.

(In Thousands)

Estimates in Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 reporting period. Actual results may differ from those estimates. Key accounting policies that include significant judgments and estimates include determination of useful lives of fixed assets, intangible asset lives and impairment, fair value of obligations under contingent consideration arrangements, self-health insurance accrual, deferred tax calculations and related reserves, and long-term investment amortization.

Concentrations of Credit Risk

All bank accounts, interest bearing and noninterest bearing, are insured by the FDIC up to $250 per depositor at each separately chartered FDIC-insured depository institution. The Company's cash balances that were uninsured as of June 30, 2020 were $1,903.

3. Long-Term Investments

Long-term investments were as follows:

	Years Ended June 30,	
	2020	**2019**
Corporate bonds, net unamortized discount of $-0- and unamortized premium of $66	$ -	$ 8,434
Related party bonds, net of unamortized premium of $29 and discount of $94	21,529	3,407
Common stock	2,969	178
Allen Exchange Partners, LTD investment	2,432	2,932
Residual certificate	2,548	2,507
Total	$ 29,478	$ 17,458

Corporate Bonds

In prior fiscal years, the Company purchased bonds through a third-party broker, various corporate bonds with a par value of $3,350 at a premium of $165. The Company designated these securities as held-to-maturity. During 2019, the Company sold these bonds through a third-party broker and recorded a loss of $47.

During 2019, the Company purchased bonds through a third party broker, various corporate bonds with a par value of $8,500 at a net discount of $81. The Company designated these securities as held-to-maturity. The Company sold these bonds through a third-party broker and recorded a loss of $83 during the year ended June 30, 2020.

Related Party Bonds

The Company purchased bonds in November 2015 with a face value of $3,000 at a discount of $368. The Company designated these securities as held-to-maturity. These bonds were sold through a third party broker resulting in a gain of $203 during the year ended June 30, 2019.

The Company also purchased bonds in November 2015 with a face value of $2,000 at a discount of $245. The Company designated these securities as held-to-maturity. These bonds were sold through a third party broker resulting in a gain of $133 during the year ended June 30, 2019.

The Company purchased additional bonds in February 2016 with a face value of $6,000 at a discount of $195. The Company designated these securities as held-to-maturity. Securities with a par value of $3,300 were sold through a third party broker resulting in a gain of $76 during the year ended June 30, 2019.

In January 2017, the Company purchased bonds with a face value of $9,300 at a discount of $465. The Company designated these securities as held-to-maturity as management had the intent and ability to hold the securities until maturity, at which time the Company expects to receive full value for the securities. Securities with a par value of $5,100 were called at par resulting in a gain of $204 during the year ended June 30, 2019.

In February 2019, the Company purchased bonds with a face value of $2,000 at a discount of $13. The Company designated these securities as held-to-maturity as management had the intent and ability to hold the securities until maturity, at which time the Company expects to receive full value for the securities.

In November 2019, the Company purchased bonds with a face value of $19,500 at a discount of $46. The Company designated these securities as held-to-maturity as management had the intent and ability to hold the securities until maturity, at which time the Company expects to receive full value for the securities.

In November 2019, the Company purchased bonds with a face value of $100 at par. These bonds along with an additional $1,500 of bonds issued by BSFC were surrendered and cancelled in return for a residual equity certificate in the amount of $1,600.

Common Stock

The Company had an investment of $0 and $165 as of June 30, 2020 and 2019, respectively, in common stock of an insurance company. The Company recorded $13 in fair value gain during the year ended June 30, 2019. During FY 2020, the Company sold this stock for $165 and recognized a loss of $13.

In June 2020, the Company purchased common stocks for $3,000. The Company recorded $32 in fair value loss during the year ended June 30, 2020.

Allen Exchange Partners, LTD

In April 2015, BAC entered into a limited partnership, collectively known as the Allen Exchange Partners, LTD (AEP). BAC is a 20% limited partner of AEP. BAC has agreed to forward up to $2,500 of capital contributions to AEP. As part of this agreement, BAC has advanced $2,932 to AEP. As part of the investment, AEP has agreed to pay interest on the capital investment of 5% per annum. Outstanding earned and accrued interest as of June 30, 2020 and 2019 is $0 and $455, respectively. AEP is performing the construction of a daycare facility. Upon completion of the facility, the facility will be sold to a third party and the proceeds used to pay the interest plus return the capital invested by each of the partners. Any excess proceeds will be returned to the partners on a pro-rata basis and be reported as capital gains. The carrying value of the investment is based on the book value of the Company's cash contributions into the partnership, less a $500 impairment reserve.

The original completion date of this project was October 2016. However, construction delays have extended the project's completion date. Construction delays have continued through the 2020 fiscal year which has led to the Company negotiating for the return of the investment in Allen Exchange Partnership (AEP). AEP is currently planning to sell the property and return the capital to each of the partners.

During the 2020 fiscal year, the Company became aware that the property market value had decreased by an estimated $500 which has been recorded as a fair value impairment adjustment or loss for fiscal year 2020. In addition to this impairment, it is unlikely the interest accrued on this investment will be paid. Accordingly, the Company has recorded an allowance for the interest accrual in the amount of $602. For the fiscal year ended June 30, 2020, the Company had recorded a bad debt expense of $602 and fair value adjustment loss of $500 and related to this investment, respectively.

***Residual Certificate*s**

During the year ended June 30, 2017, the Company invested $8,091 to purchase the rights to the residual equity in the BSFC-PSLT 2012 A-1 Indenture. The Indenture is invested in private student loan notes payable. The Company received distributions of $1,559 and $1,901 during the years ended June 30, 2020 and 2019, respectively. The residual certificate is recorded at lower of cost or market.

During the year ended June 30, 2020, the Company surrendered its bond investment in an affiliated entity in return for a residual certificate in the amount of $1,600 for the rights of residual equity in the BSFC 1999 Indenture. The Indenture is invested in government and private student loan notes payable.

4. Notes Receivable from Affiliates

BHEA

On February 15, 2018, two promissory notes in the original amounts of $3,500 and $1,256 were consolidated into a single $5,285 promissory note with BHEA with a fixed interest rate of 5.75% with a maturity date of February 14, 2031. The outstanding accrued interest of the two notes in the amount of $1,088 was capitalized into the new promissory note. As of June 30, 2020 and 2019, the entire note was outstanding.

On October 31, 2019, the Company issued a revolving note to BHEA to be used for the purchase of student loans receivable. The credit limit on the note is $20,000. As of June 30, 2020, the outstanding amount drawn on the note was $5,086.

The Company earned interest income of $404 and $304 and had accrued interest receivable of $823 and $419 for the years ended June 30, 2020 and 2019, respectively, from the affiliate associated with these notes receivable.

Bosque

On October 27, 2015, the Company entered into a $9,478 promissory note with Brazos Education Funding Corporation, Inc. (BEFC) an affiliated entity with an open ended maturity. Interest on this note is 0%. During April 2019, BEFC merged into Bosque. As a result of this merger, Bosque assumed this note to the Company.

The note is to be paid back with excess equity distributions from the BEF 2015-1 Trust, held by Bosque. Under the Indenture governing the BEF 2015-1 Trust, excess equity were released monthly through December 27, 2017. Any additional releases will not occur until all outstanding debt of the trust has been called. As of June 30, 2020 and 2019, $4,699 was outstanding.

In a prior fiscal year, the Company entered into a $20,000 revolving note with Trinity Higher Education Authority, Inc. (THEA) an affiliated entity with a maturity date of June 30, 2028. Interest on this note is 0%. During April 2019, THEA merged into Bosque. As a result of this merger, Bosque assumed this note to the Company.

The note proceeds were to be used to purchase FFELP student loan notes receivable by Bosque. Bosque, the affiliated entity, will use excess student loan note collections to pay back or down the outstanding balance receivable recognized by the Company. As of June 30, 2020 and 2019, $5,251 and $11,046, respectively, had been drawn and was outstanding.

BELC

Previously, the Company entered into a $15,000 revolving note with Brazos Education Lending Corporation, Inc. (BELC) an affiliated entity with a maturity date of June 30, 2028. Interest on this note is 0%. The note proceeds were used to originate private student loan notes receivable. The note is to be paid back with excess student loan note collections from BELC. As of June 30, 2020 and 2019, $8,231 and $15,806, respectively, had been drawn and was outstanding.

5. Notes Receivable

Sandstone Entertainment

In a prior fiscal period, BAC entered into a $1,500 single maturity note with Sandstone Entertainment, LLC with a maturity date of September 17, 2017. The proceeds of the note were used to finance a movie production. Interest on this note is fixed at 20%. In prior periods, the Company received payment of $1,500 for the outstanding principal balance and additional interest payments of $300 for accrued interest.

As of June 30, 2020 and 2019, BAC had accrued interest of $115 and $188 and earned interest income of $-0- and $162, respectively. The Company received a payment of $73 for the year ended June 30, 2020. The Company is working with Sandstone Entertainment, LLC regarding the outstanding accrued interest and believes it will be paid in full. Therefore, the Company has not recorded an allowance on this accrual. See *Note 14*.

6. Employee Benefit Plans

401(k) Plan

The Company provides a defined contribution benefit plan, a 401(k) plan of the Internal Revenue Code (the Plan), which covers substantially all full-time employees. Under the Plan, employees may make voluntary contributions. The provisions of the Plan require the Company to make contributions equal to 5% of participants' annual earnings up to the social security maximum, plus an additional contribution of 4% for amounts over this maximum. Additionally, the Company will make a one-to-one match for up to 6% of the participants' earnings for a maximum contribution of 11% for each participant plus 4% of participants' earnings over the social security maximum. Company contributions during the years ended June 30, 2020 and 2019 were $521 and $528, respectively.

Severance Pay Plan

During 2008, the Company established the Severance Pay Plan for the benefit of the Company's employees. This plan was funded by a contribution of $5,293. The assets of this plan are held in trust by a third-party trustee, invested in common stock, corporate bond securities, and common stock equity securities on the consolidated balance sheets, and can be used to satisfy employee-related costs for any potential employee severance, as governed by the plan document. Changes in fair value of the plan assets accrue to the benefit of the Company's employees. While the Company is not legally obligated to fund the benefits of the Plan through this trust, the Company is required to pay any shortfall in benefits from the Company's assets. During the years ended June 30, 2020 and 2019, the Company incurred expenses of $26 and $257, respectively. If the Company decides for any reason to terminate the plan, the plan's assets must be used for the benefit of the employees. The Company has recorded the corresponding assets and liabilities of this plan in prefunded benefit expense. The fair value of the plan assets, as of June 30, 2020 and 2019, was $4,098 and $4,054, respectively.

Cash Balance Plan

In March 2013, the Company established a defined benefit Cash Balance Plan. The plan was originally funded by a contribution of $425. An additional contribution of $325 was funded by the Company during each of the years ended June 30, 2020 and 2019. The plan operates on a calendar year basis and is designed to guarantee a targeted return on investment for each participant. As stated in the plan document, the targeted interest rate for the 2020 plan year is 3.10%. Should the plan earnings fall short of the targeted rate, the Company is responsible for funding the earnings shortfall. As of June 30, 2020, no shortfall was projected. The funds are held in an accumulation account for each employee, and therefore the funds are not represented in the Company's consolidated financial statements.

(In Thousands)

7. Debt

In April 2020, the Company entered into an $811 note with a commercial bank for the Payroll Protection Program (PPP) loan through the Small Business Administration. The note has a maturity date of April 9, 2022 and bears interest at 1.0%. The note has a forgiveness component that states the entire amount of the note plus accrued interest will be forgiven upon the fulfillment of certain conditions stated within the note agreement. It is anticipated that the Company will fulfill those conditions thereby relieving any requirements to repay this loan. See *Note 14*.

The maturity of this note as of June 30, 2020 is as follows:

2021	$	365
2022		446
	$	811

8. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 – Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full-term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

Common Stock - Reported at fair value utilizing Level 3 inputs as the investment is in a private company and there is no quoted market for the shares. The Company uses the intrinsic value to estimate the fair value of the common stock investment.

Prefunded benefit expense - Reported at fair value utilizing Level 1 inputs as these are measured at fair market value. The Company measures the fair market value through access to quoted prices of identical assets or liabilities in active markets.

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

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities at fair value as of June 30, 2020:

(In Thousands)

	Fair Value Measurements at June 30, 2020			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Common Stock	$ 2,968	$ -	$ -	$ 2,968
Prefunded benefit expense				
Common stock equity securities	1,443	1,443	-	-

The following tables reconcile the beginning and ending balances of fair value measurements using significant unobservable units (Level 3) for the year ended June 30, 2020:

	Common Stock
Balance, beginning of year	$ 178
Sales	(165)
Realized losses	(13)
Balance, end of year	$ -

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities at fair value as of June 30, 2019:

	Fair Value Measurements at June 30, 2019			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Common Stock	$ 178	$ -	$ -	$ 178
Prefunded benefit expense:				
Corporate bond securities	2,089	2,089	-	-
Common stock equity securities	1,552	1,552	-	-

(In Thousands)

The following tables reconcile the beginning and ending balances of fair value measurements using significant unobservable units (Level 3) for the year ended June 30, 2019:

		Common Stock
Balance, beginning of year	$	165
Realized gains		13
Balance, end of year	$	178

The Company's policy is to recognize transfers into and out of Level 3 as of the date of the event or change in circumstances that caused the transfer. For the years ended June 30, 2020 and 2019, there were no significant transfers into or out of Level 3.

9. Income Taxes

Brazos Asset Corporation, a for-profit corporate subsidiary of BHESC, incurs federal and state income taxes as discussed in *Note 2*, Summary of Significant Accounting Policies. There was no federal tax expense or benefit recorded for the years ended June 30, 2020 or 2019.

At June 30, 2020, Brazos Asset Corporation had net operating loss carryforwards for federal income tax purposes of approximately $4,005 which are available to offset future federal taxable income, if any, through 2035.

Income taxes differ from the amount computed by applying the U.S. federal income tax rate of 21% to pretax income as a result of nondeductible expenses and nontaxable income. There are no deferred tax assets or liabilities recorded at June 30, 2020 and 2019, as management believes it is more-likely-than-not that the net deferred tax assets will not be realized. Therefore a valuation allowance has been provided for the entire net deferred tax amount. Substantially all future benefits relate to the net operating loss carryforwards discussed above.

10. Related-Party Transactions

During the years ended June 30, 2020 and 2019, the Company recorded net estate contributions of $4,379 and $3,009, respectively, in contributions from affiliates for excess surplus.

The Company has a triangular agreement for life insurance premiums paid for an officer of the Company. Through this agreement, the Company will be reimbursed for all life insurance premiums paid on the policy. During the 2019 fiscal year, the Company received payment of the full remaining balance of the life insurance receivable, thus terminating the triangular agreement.

(In Thousands)

Other various related party (affiliate) transactions have been discussed in the preceding notes.

11. Fund Balance

Fund Balance with Restrictions

As noted in *Note 2* of significant accounting policies of the Company, the fund balance may be restricted for specific purposes. The Company's fund balance had no donor restrictions as of and during the fiscal years ended June 30, 2020 and 2019.

Fund Balance without Restrictions

As noted in *Note 2* of significant accounting policies of the Company, fund balance without restrictions is limited to any non-debt related funds as of fiscal years ended June 30, 2020 and 2019 designated as unrestricted fund balance on the consolidated balance sheets:

	June 30,	
	2020	**2019**
Subject to expenditure for general expenditure:		
Fund balance	$ 71,907	$ 66,858

Fund Balance Released from Restrictions

As noted in *Note 2* of significant accounting policies of the Company, resources of the Company are deemed unrestricted for general expenditures of the Company. As shown in the consolidated statements of changes in fund balance, there were no funds that were released from restrictions for the years ended June 30, 2020 and 2019.

12. Revenues of the Company

Other Revenues

For other revenues of the Company that are not specifically discussed in *Note 2* of significant accounting policies of the Company, the Company will record other revenues, or more specifically, commission income earned from its relationship of loan servicing by a third-party loan servicing entity, Nelnet. Based upon monthly loan servicing performed by Nelnet, the Company will earn a base commission fee on all loan repayments that are received on a monthly basis. Revenue is recognized when the funds for those loans are received by Nelnet and the Company is owed the commission fees associated with those loans.

(In Thousands)

Disaggregation of Revenue

The disaggregation of total revenue per percentage of operating revenues is as follows for the years ended June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
Operating revenues:		
Adminstrative fees	77.61%	74.10%
Gain on early call of long-term investments	0.00%	5.11%
Interest on investments	9.82%	10.53%
Gain on sale of assets	3.67%	0.00%
Gain on dissolution	0.00%	3.48%
Other - commission income	8.90%	6.78%

13. Liquidity and Availability

Financial assets available for general expenditure, that is, without restrictions limiting their use, within one year of June 30, 2020 and 2019, comprise the following:

	June 30, 2020	June 30, 2019
Financial assets at year end		
Cash and cash equivalents	$ 13,646	$ 11,095
Interest receivable	938	1,268
Accounts receivable, net of allowance	103	55
Total financial assets at year end	14,687	12,418
Financial assets available to meet cash needs for general expenditures within one year	$ 14,687	$ 12,418

The Company manages its liquidity and reserves following two guiding principles: operating within a prudent range of financial soundness and stability, and maintaining adequate liquid assets to fund near-term operating needs. The Company has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 90 days operating expenses. To achieve these targets, the Company forecasts its future cash flows and monitors its liquidity continually, and monitors its reserves continually. During the year ended June 30, 2020, the level of liquidity and reserves was managed within the policy requirements.

14. Subsequent Events

In August 2020 rating agencies confirmed the bond ratings of one of BELA's indentures. As a result of this confirmation, administration fees paid by BELA will increase approximately $3,000 for the year ended June 30, 2021.

In August 2020, the Company surrendered its bond investment in an affiliated entity in return for a note receivable in the amount of $19,500. The note has an interest rate of prime plus 1.00% and matures on June 30, 2027.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could negatively affect the financial position, results of operations and cash flows of the Company. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through October 27, 2020, which is the date the consolidated financial statements were available to be issued. No additional events requiring disclosure were noted.