# NORTH DAKOTA STUDENT LOAN TRUST

FINANCIAL STATEMENTS
***JUNE 30, 2008 AND 2007***

**NORTH DAKOTA STUDENT LOAN TRUST**

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BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying balance sheets of the North Dakota Student Loan Trust as of June 30, 2008 and 2007 and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the North Dakota Student Loan Trust and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Student Loan Trust as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 28, 2008, on our consideration of the North Dakota Student Loan Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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RSM McGladrey Network
An Independently Owned Member

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying supplementary information on pages 25 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards on Exhibit A-1 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BRADY, MARTZ & ASSOCIATES, P.C.**

August 28, 2008

The discussion and analysis of the financial performance of the North Dakota Student Loan Trust (Trust) that follows is meant to provide additional insight into the Trust's activities for the years ended June 30, 2008 and 2007. Please read it in conjunction with the Trust's financial statements and footnotes, which are presented within this report.

## FINANCIAL HIGHLIGHTS:

There were no student loans purchased or sold during the fiscal years ended June 30, 2008 and 2007. On July 1, 2008, the Trust sold $16,715 of student loans to the Bank of North Dakota. These loans were sold so that the 2000 Series A Bonds could be called on July 1, 2008.

The T-bill rate is at 1.91% for FFELP Stafford Loans for the fiscal year ending June 30, 2008. For the fiscal year ended June 30, 2007, FFELP Stafford student loan interest rates were based on a T-bill rate of 4.92%. On June 1, 2007, DEAL became available at fixed rate and variable rates with the rates being adjusted quarterly. As of July 1, 2008, the fixed rate was 7.24% and the variable rate was 4.31%; the fixed and variable rates for out-of-state students attending out-of-state schools are 1% higher. On July 1, 2007, the fixed rate was 7.56% and the variable rate was 6.86%.

During fiscal year ended June 30, 2008, arbitrage rebate and yield reduction payable decreased by $510. The Trust made a $28 arbitrage payment on March 4, 2008.

Bonds payable decreased 10.7% to $74,600 on June 30, 2008. There were no new bonds issued and there were principal payments of $8,900 made on outstanding bonds. During the fiscal year ended June 30, 2007, there were no new bonds issued and there were principal payments of $8,000 made on outstanding bonds. Only July 1, 2008, the Trust called $55,000 of 2000A Series bonds. The 2000 Series A Bonds were variable rate bonds initially issued as auction rate certificates. During Fiscal Year 2008 the interest rate on these bonds fluctuated from a high of 5.74% to the current rate of 2.89%. Because of the instability of the national auction rate market in recent months it was determined by the Industrial Commission that these bonds should be called on July 1, 2008.

The Trust 2008 balance sheet indicates that the Trust continues to have adequate resources to provide for bond repayment and continuing operations. There is $73,806 of current assets, which includes $28,217 of student loans receivable, available to meet the next fiscal year's obligations of approximately $59,460. This amount includes the future obligations to the General Fund as explained under Economic Factors and Budgetary Information. The operating income of $475 reflected in the statement of revenues, expenses, and changes in fund net assets also illustrates that the Trust has adequate resources to provide for bond repayment and continuing operations.

## REQUIRED FINANCIAL STATEMENTS:

The discussion and analysis are intended to serve as an introduction to the Trust's financial statements. The Trust is accounted for utilizing fund accounting and employs 1) the General Bond Resolution Fund and 2) the Second General Bond Resolution Fund. Note 1 to the financial statements provides a description of the organization, funds and significant accounting policies. The financial statements of the Trust provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net assets. It also serves as the basis for analysis of the soundness and liquidity of the Trust. The Statement of Revenues, Expenses and Changes in Fund Net Assets summarizes the Trust's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Trust as it conducts its business.

# NORTH DAKOTA STUDENT LOAN TRUST
**BALANCE SHEETS**
**JUNE 30, 2008 AND 2007**
**(In Thousands)**

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS - UNRESTRICTED | | |
| Cash and cash equivalents | $ 679 | $ 875 |
| Interest receivable | 742 | 874 |
| Due from other state agencies | 1 | 1 |
| Special allowance and interest subsidy receivable | 117 | 271 |
| Student loans receivable, net of allowance for loan losses | 4,053 | 11,305 |
| Total unrestricted current assets | 5,592 | 13,326 |
| CURRENT ASSETS - RESTRICTED | | |
| Cash and cash equivalents | 33,817 | 641 |
| Investments | 8,288 | 36,826 |
| Interest receivable | 1,097 | 1,336 |
| Due from other state agencies | 136 | 285 |
| Special allowance and interest subsidy receivable | 216 | 379 |
| Student loans receivable, net of allowance for loan losses | 24,164 | 21,318 |
| Unamortized bond issue costs | 444 | 33 |
| Prepaid fees | 52 | 52 |
| Total restricted current assets | 68,214 | 60,870 |
| NONCURRENT ASSETS - UNRESTRICTED | | |
| Student loans receivable, net of allowance for loan losses | 16,307 | 7,968 |
| NONCURRENT ASSETS - RESTRICTED | | |
| Student loans receivable, net of allowance for loan losses | 35,626 | 50,791 |
| Unamortized bond issue costs | 101 | 670 |
| Total restricted noncurrent assets | 35,727 | 51,461 |
| Total assets | $ 125,840 | $ 133,625 |

See Notes to Financial Statements

## CONDENSED BALANCE SHEETS
## JUNE 30, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS - UNRESTRICTED | $ 5,592 | $ 13,326 |
| CURRENT ASSETS - RESTRICTED | 68,214 | 60,870 |
| NONCURRENT ASSETS - UNRESTRICTED | 16,307 | 7,968 |
| NONCURRENT ASSETS - RESTRICTED | 35,727 | 51,461 |
| TOTAL ASSETS | $ 125,840 | $ 133,625 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | $ 59,460 | $ 1,206 |
| NONCURRENT LIABILITIES | 19,500 | 83,910 |
| TOTAL LIABILITIES | 78,960 | 85,116 |
| **NET ASSETS** | | |
| RESTRICTED FOR DEBT SERVICE | 28,425 | 27,215 |
| UNRESTRICTED | 18,455 | 21,294 |
| TOTAL NET ASSETS | 46,880 | 48,509 |
| TOTAL LIABILITIES AND NET ASSETS | $ 125,840 | $ 133,625 |

*Cash, Cash Equivalents and Investments*

Trust cash, cash equivalents and investments, which are included in restricted assets, are restricted for the debt service of bond issues for the General Bond Resolution and Second General Bond Resolution purposes listed in Note 1 to the financial statements.

Trust cash, cash equivalents and investments, which are included in unrestricted assets, are unrestricted within the Trust for the overall uses of the General Bond Resolution and Second General Bond Resolution purposes listed in Note 1 to the financial statements.

*Student Loans Receivable*

The student loans receivable are included in current and noncurrent assets of the balance sheet. Student loans are either insured by the federal government (FISL) or guaranteed by the North Dakota Guaranteed Student Loan Program (GSL and DEAL). All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts. Additional discussion can be found in Notes 1 and 3 to the financial statements.

*Appropriation payable*

The 2007 North Dakota Legislature passed House Bill 1014 that provides for an appropriation of $3,100 from the North Dakota Student Loan Trust to the State's General Fund during the biennium beginning July 1, 2007 and ending June 30, 2009. The 2007 Legislature also passed House Bill 1003 that provides for an appropriation of up to $523 from the North Dakota Student Loan Trust to the State Board of Higher Education. The 2007 North Dakota Legislature passed House Bill 1014 that provides for an appropriation of up to $91 from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2007 and ending June 30, 2009. On June 30, 2008, $3,444 of these funds are payable. See Note 7 to the financial statements.

*Bonds Payable*

The Trust has issued bonds in order to facilitate the purchase of student loans. The bonds payable are included in the current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Trust and are secured by student loans purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Note 5 to the financial statements provide a detailed listing of all the bonds outstanding.

*Net Assets*

The Restricted Net Assets of the North Dakota Student Loan Trust are restricted by bond resolutions to the following: 1) for the repayment of bond interest and principal, and 2) to make arbitrage rebate and yield reduction payments. Moneys held in surplus accounts can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota, fund a guarantee agency's guarantee program.

## CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
## YEARS ENDED JUNE 30, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| OPERATING REVENUES | | |
| Interest on student loans | $ 3,762 | $ 4,331 |
| Special allowance and interest subsidy | 1,828 | 3,136 |
| | 5,590 | 7,467 |
| OPERATING EXPENSES | | |
| Interest | 3,748 | 4,288 |
| Service fees | 1,478 | 1,969 |
| (Benefit from) provision for arbitrage rebate and yield reduction | (482) | 66 |
| Other | 371 | 421 |
| | 5,115 | 6,744 |
| OPERATING INCOME | 475 | 723 |
| NONOPERATING REVENUE | 1,602 | 1,727 |
| INCOME BEFORE TRANSFERS | 2,077 | 2,450 |
| TRANSFERS | (3,706) | 160 |
| CHANGE IN NET ASSETS | (1,629) | 2,610 |
| TOTAL NET ASSETS, BEGINNING OF YEAR | 48,509 | 45,899 |
| TOTAL NET ASSETS, END OF YEAR | $ 46,880 | $ 48,509 |

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to the Trust.

*Special Allowance and Interest Subsidy*

The U.S. Department of Education provides a special allowance, which is a subsidy to lenders participating in the Guaranteed Student Loan Program. Also, the U.S. Department of Education pays the Trust the interest earned on subsidized student loans from the date of inception until the end of the grace or deferment period. These payments are included in the operating revenue of the Trust and further discussed in Note 4 of the financial statements.

## ECONOMIC FACTORS AND BUDGETARY INFORMATION

The Trust sold $16,715 of student loans to the Bank of North Dakota on July 1, 2008. Also, on July 1, 2008, the Trust called $55,000 of 2000A Series bonds. The 2000 Series A Bonds were variable rate bonds initially issued as auction rate certificates. During the Fiscal Year 2008 the interest rate on these bonds fluctuated from a high of 5.74% to the current rate of 2.89%. Because of the instability of the national auction rate market in recent months it was determined by the Industrial Commission that student loans should be sold so that these bonds could be called on July 1, 2008.

The 2007 North Dakota Legislature passed House Bill 1014 that provides for an appropriation of $3,100 from the North Dakota Student Loan Trust to the State's General Fund during the biennium beginning July 1, 2007 and ending June 30, 2009. The moneys must be transferred in such amounts and at such times as requested by the director of the Office of Management and Budget and upon certification by the Trust's trustee that sufficient moneys remain available to pay all debt service on student loan trust bonds, all required rebate payments to the U.S. Treasury, and all program operating expenses. Management is preparing a plan to fund these appropriations to the General Fund.

The 2007 North Dakota Legislature passed House Bill 1003 that provides for an appropriation of up to $523 from the North Dakota Student Loan Trust to the State Board of Higher Education during the biennium beginning July 1, 2007 and ending June 30, 2009.

The 2007 North Dakota Legislature passed House Bill 1014 that provides for an appropriation of up to $91 from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2007 and ending June 30, 2009.

In June 2008, the Trust's bond insurer, Ambac Assurance Corp., was downgraded by Moody's from Aaa to Aa3 and by Standard & Poor's from AAA to AA.

During the fiscal year there were no changes in the Trust's bond ratings by Standard & Poor's and Moody's Investment Services.

## CONTACTING THE NORTH DAKOTA STUDENT LOAN TRUST'S FINANCIAL MANAGEMENT

The information in this report is intended to provide the reader with an overview of the Trust's operations along with the Trust's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Industrial Commission, North Dakota Student Loan Trust, 600 East Boulevard Avenue, Department 405, Bismarck, ND 58505-0840.

| | 2008 | 2007 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accrued interest payable | $ 276 | $ 441 |
| Accrued fees payable | 27 | 37 |
| Accrued fees payable - related party | 413 | 428 |
| Appropriation payable | 3,444 | - |
| Bonds payable, current portion | 55,300 | 300 |
| Total current liabilities | 59,460 | 1,206 |
| NONCURRENT LIABILITIES | | |
| Arbitrage rebate payable | 200 | - |
| Yield reduction payable | - | 710 |
| Bonds payable, net of current portion | 19,300 | 83,200 |
| Total noncurrent liabilities | 19,500 | 83,910 |
| Total liabilities | 78,960 | 85,116 |
| NET ASSETS | | |
| Restricted for debt service | 28,425 | 27,215 |
| Unrestricted | 18,455 | 21,294 |
| Total net assets | 46,880 | 48,509 |
| Total liabilities and net assets | $ 125,840 | $ 133,625 |

# NORTH DAKOTA STUDENT LOAN TRUST
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
## YEARS ENDED JUNE 30, 2008 AND 2007
**(In Thousands)**

| | 2008 | 2007 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Interest on student loans | $ 3,762 | $ 4,331 |
| Special allowance and interest subsidy | 1,828 | 3,136 |
| | 5,590 | 7,467 |
| **OPERATING EXPENSES** | | |
| Interest | 3,748 | 4,288 |
| Service fees | 1,478 | 1,969 |
| Administration fees | 84 | 101 |
| Amortization of bond issue costs | 158 | 56 |
| Broker dealer and auction agent fees | 86 | 97 |
| (Benefit from) provision for arbitrage rebate and yield reduction | (482) | 66 |
| Provision for loan losses | (13) | 119 |
| Bond related expenses | 56 | 48 |
| | 5,115 | 6,744 |
| **OPERATING INCOME** | 475 | 723 |
| **NONOPERATING REVENUE** | | |
| Investment income | 1,602 | 1,727 |
| **INCOME BEFORE TRANSFERS** | 2,077 | 2,450 |
| **TRANSFERS FROM (TO)** | | |
| North Dakota General Fund | (3,100) | - |
| State Board of Higher Education | (523) | 160 |
| North Dakota Industrial Commission | (83) | - |
| | (3,706) | 160 |
| **CHANGE IN NET ASSETS** | (1,629) | 2,610 |
| **TOTAL NET ASSETS, BEGINNING OF YEAR** | 48,509 | 45,899 |
| **TOTAL NET ASSETS, END OF YEAR** | $ 46,880 | $ 48,509 |

See Notes to Financial Statements

# NORTH DAKOTA STUDENT LOAN TRUST
## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2008 AND 2007
**(In Thousands)**

| | 2008 | 2007 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Receipts of student loan repayments | $ 15,647 | $ 37,762 |
| Receipts of special allowance and interest subsidy | 2,145 | 4,140 |
| Payments to state agency service providers | (1,662) | (2,630) |
| Payments to other service providers | (214) | (211) |
| Payment of arbitrage rebate | (28) | (55) |
| Payment of consolidation rebate fee | (329) | (349) |
| NET CASH FROM OPERATING ACTIVITIES | 15,559 | 38,657 |
| NON-CAPITAL FINANCING ACTIVITIES | | |
| Bond principal payments | (8,900) | (8,000) |
| Bond interest payments | (3,790) | (3,917) |
| Transfer to State Board of Higher Education | (178) | (103) |
| Transfer to general fund | - | (9,000) |
| NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES | (12,868) | (21,020) |
| INVESTING ACTIVITIES | | |
| Investment interest received | 1,751 | 1,532 |
| Purchase of investment securities | (52,963) | (82,173) |
| Proceeds from sale and maturity of investment securities | 81,501 | 61,977 |
| NET CASH FROM (USED FOR) INVESTING ACTIVITIES | 30,289 | (18,664) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 32,980 | (1,027) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,516 | 2,543 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 34,496 | $ 1,516 |

(continued on next page)

**STATEMENTS OF CASH FLOWS – Page 2**
**(In Thousands)**

| | 2008 | 2007 |
|---|---|---|
| RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES | | |
| Operating income | $ 475 | $ 723 |
| Adjustments to reconcile operating income to net cash from operating activities | | |
| Principal received on student loans | 13,002 | 34,438 |
| Provision for loan losses | (13) | 119 |
| Payment of consolidation rebate fee | (329) | (348) |
| Amortization of lender fees | 58 | 327 |
| Interest received on student loans | 2,645 | 3,323 |
| Special allowance and interest subsidy received | 2,145 | 4,140 |
| Amortization of bond issue costs | 158 | 56 |
| Reclassification of interest income and expense to other activities | (2,047) | (3,607) |
| Changes in assets and liabilities | | |
| Arbitrage rebate payable | 200 | (198) |
| Yield reduction payable | (710) | 209 |
| Accrued fees payable - related party | (25) | (525) |
| NET CASH FROM OPERATING ACTIVITIES | $ 15,559 | $ 38,657 |

See Notes to Financial Statements

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

*Nature of Operations*

Section 54-17-24 of the North Dakota Century Code authorized the establishment of the North Dakota Student Loan Trust (Trust). On June 27, 1979, the Commission adopted the North Dakota Student Loan Revenue Bonds General Bond Resolution establishing the North Dakota Student Loan Trust fund. On June 19, 1996, the Commission adopted the Second General Bond Resolution and the First Supplemental Resolution to the North Dakota Student Loan Revenue Bonds - Second General Bond Resolution. The purpose of the Trust is to provide loans to students in post-secondary education. The Trust acquires eligible loans insured or guaranteed, respectively, by the United States government or the North Dakota Guaranteed Student Loan Program. All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts.

*Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Trust should include all component units over which the Trust exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Trust.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Trust is included as part of the primary government in the State of North Dakota's reporting entity.

*Accounting Standards and Adoptions of Accounting Policies*

The Trust follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Trust follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

*Fund Accounting*

The North Dakota Student Loan Trust consists of a trust fund, which is a separate accounting entity accounted for as an enterprise fund and uses the accrual basis of accounting. The fund is set up in accordance with the authorizing act, the bond resolutions and indenture. The fund consists of the First General Bond Resolution Fund, which includes the 2004 A and Subordinate Series 2004 student loan revenue bonds (all parity bonds) and the Second General Bond Resolution Fund, which includes the 1996, 1997 and 2000 student loan revenue bonds (all parity bonds). Proceeds of bonds are recorded in the fund and used to provide student loans to eligible students. The bond resolutions require the establishment of certain accounts and sub-accounts. Bond proceeds that are deposited in these accounts are invested in qualifying investments. Interest income, interest expense, special allowance and interest subsidy, gain on redemption of bonds, and amortization of bond issue costs are recorded in this fund in accordance with the bond resolutions.

(continued on next page)

*Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the Trust are included on the balance sheet. Net assets are segregated into restricted and unrestricted components. The statement of revenues, expenses and changes in fund net assets present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows presents the cash flows for operating activities, non-capital financing activities, and investing activities.

*Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates are particularly susceptible to significant change in the near term relate to arbitrage rebate and yield reduction payables.

*Significant Group Concentrations of Credit Risk*

Most of the Trust's activities are with student loan borrowers in the State of North Dakota.

*Cash and Cash Equivalents*

The Trust considers all cash and time deposit accounts with original maturities of three months or less to be cash and cash equivalents for purposes of reporting cash flows.

*Deposits and Investments*

The Trust records deposits and investments in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments". Time deposits are carried at cost, as they are nonnegotiable certificates of deposits with redemption terms that do not consider market rates. Investment securities are carried at market value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

*Bond Issue Costs, Bond Discounts, and Deferred Amounts on Refunding*

Bond issue costs, bond discounts, and deferred amounts on refunding transactions are amortized over the period of time the bonds are outstanding using the bonds outstanding method. The unamortized discounts and deferred amount on refunding are shown on the balance sheet as a reduction of the bonds payable, and the amortization is included in the statements of revenues, expenses and changes in fund net assets as interest expense.

*Interest and Premiums on Student Loans*

Interest on student loans is accrued when earned. For subsidized loans, interest accrued during periods of student, grace, or any authorized deferment status is billed to and paid by the U.S. Department of Education under its Guaranteed Student Loan Program. Interest during other status periods is paid by the student. For non-subsidized loans, the student pays interest.

(continued on next page)

Premiums on student loans are amortized using the straight-line method over the estimated life of the loans acquired. The unamortized premiums are reflected on the balance sheet as an addition to student loans, and the amortization is included in the statement of revenues, expenses and changes in fund net assets as a reduction of interest income.

*Allowance for Loan Losses*

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance when management believes the collectibility of the principal balance is unlikely. Recoveries of amounts previously charged off are credited to the allowance.

*Restricted Assets and Restricted Net Assets*

The assets and net assets of the North Dakota Student Loan Trust are restricted by bond resolutions to the following:

1. For the repayment of bond interest and principal.
2. To make arbitrage rebate and yield reduction payments.

Moneys held in surplus accounts (which are classified as unrestricted on the balance sheet) can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota (the Commission), fund a guarantee agency's guarantee program. As of June 30, 2008 and 2007, the surplus accounts consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents | $ 679 | $ 875 |
| Interest receivable | 742 | 874 |
| Due from other state agencies | 1 | 1 |
| Special allowance and interest subsidy receivable | 117 | 271 |
| Student loans receivable, net of allowance for loan losses | 20,360 | 19,273 |
| Appropriation payable | (3,444) | - |
| | $ 18,455 | $ 21,294 |

Expenses of the Trust are paid in accordance with the provisions of the General and Second General Bond Resolutions and the Series Resolutions. Expenses related to a specific bond series are paid from funds available within that particular resolution.

*Operating and Non-Operating Revenues*

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

(continued on next page)

## NOTE 2 - DEPOSITS AND INVESTMENTS

All funds have their moneys invested in securities or deposits allowed by the General Bond Resolution establishing the Trust and the Second General Bond Resolution. Such moneys may be invested in: (1) direct obligations of or obligations guaranteed by the United States of America, (2) deposits of the Bank of North Dakota which are guaranteed as provided in North Dakota Century Code Section 6-09-10, (3) demand deposits and time deposits issued by banks, which are members of the Federal Deposit Insurance Corporation, (4) bonds, debentures or notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America, (5) repurchase agreements or reverse repurchase agreements with banks, which are secured by securities which are obligations described in item (1) above, and (6) banker's acceptances of banks described in items (2) and (3) above.

*Deposits*

As of June 30, 2008 and 2007, the Trust had the following deposits (amounts in thousands):

| | 2008 | 2007 |
|---|---|---|
| Cash | | |
| Bank of North Dakota | $ 733 | $ 187 |
| Time deposits | | |
| Bank of North Dakota | 42,051 | 38,155 |
| | $ 42,784 | $ 38,342 |

As of June 30, 2008, and 2007, the Trust had the following classification of deposits on the balance sheet:

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents | $ 34,496 | $ 1,516 |
| Investments | 8,288 | 36,826 |
| | $ 42,784 | $ 38,342 |

*Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Trust will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Trust does not have a formal policy that limits custodial credit risk for deposits. None of the Trust's deposits are covered by depository insurance. The Trust's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

(continued on next page)

## NOTE 3 - STUDENT LOANS RECEIVABLE

The Trust has outstanding loans with annual fixed and variable interest rates. Student loans are either insured by the federal government (FISL) or guaranteed by the North Dakota Guaranteed Student Loan Program (GSL and DEAL). Loans made prior to October 1, 1993 are 100% insured. Loans made thereafter are 100% insured against borrowers' death, disability or bankruptcy, and 98% insured against borrowers' default.

At June 30, 2008 and 2007, student loans are categorized as follows:

| | 2008 | 2007 |
|---|---|---|
| FISL | $ 54 | $ 64 |
| DEAL | 6,966 | 8,088 |
| GSL | 72,766 | 82,810 |
| | 79,786 | 90,962 |
| Unamortized premiums | 476 | 559 |
| Allowance for loan losses | (112) | (139) |
| Total student loans receivable | 80,150 | 91,382 |
| Less current portion | 28,217 | 32,623 |
| Noncurrent portion | $ 51,933 | $ 58,759 |

Student loans are classified as student, deferred, repayment or claim status. The student status represents the period from the date the loan is made until a student is out of school, plus an authorized grace period. Deferred status represents a loan that has an authorized deferment of payment period. Repayment status indicates the loan is in repayment. Claim status represents those loans that have a claim filed with the guarantor. Interest earned on subsidized loans while the loan is classified as student or deferred is paid by the Department of Education.

At June 30, 2008, student loans receivable are categorized as follows:

| | Subsidized | Nonsubsidized | Unsubsidized | DEAL | Total |
|---|---|---|---|---|---|
| Student | $ 3,613 | $ - | $ 4,603 | $ 152 | $ 8,368 |
| Deferred | 7,962 | 16 | 5,143 | 1,476 | 14,597 |
| Repayment | 40,074 | 152 | 11,257 | 5,338 | 56,821 |
| | 51,649 | 168 | 21,003 | 6,966 | 79,786 |
| Unamortized premiums | 423 | | | 53 | 476 |
| Allowance for loan losses | (72) | - | (40) | - | (112) |
| Total | $ 52,000 | $ 168 | $ 20,963 | $ 7,019 | $ 80,150 |

(continued on next page)

At June 30, 2007, student loans receivable are categorized as follows:

| | Subsidized | Nonsubsidized | Unsubsidized | DEAL | Total |
|---|---|---|---|---|---|
| Student | $ 6,477 | $ - | $ 9,116 | $ 447 | $ 16,040 |
| Deferred | 7,910 | 29 | 4,222 | 1,517 | 13,678 |
| Repayment | 43,340 | 184 | 11,596 | 6,124 | 61,244 |
| | 57,727 | 213 | 24,934 | 8,088 | 90,962 |
| Unamortized premiums | 497 | | | 62 | 559 |
| Allowance | | | | | - |
| for loan losses | (90) | - | (49) | - | (139) |
| Total | $ 58,134 | $ 213 | $ 24,885 | $ 8,150 | $ 91,382 |

The composition of the allowance for loan losses for the years ended June 30, 2008 and 2007 is as follows:

| | 2008 | 2007 |
|---|---|---|
| Balance - beginning of year | $ 139 | $ 40 |
| Provision for loan losses | (13) | 119 |
| Loans charged off | (14) | (20) |
| Balance - end of year | $ 112 | $ 139 |

## NOTE 4 - SPECIAL ALLOWANCE AND INTEREST SUBSIDY

The U.S. Department of Education provides a special allowance, which is a subsidy to lenders participating in the Guaranteed Student Loan Program. Special allowances are computed and paid quarterly on the average daily unpaid principal amount of student loans outstanding, based on a special allowance formula which generally follows the average of the quotes of the 3-month commercial paper rates in effect for each of the days in the quarter (for loans made after January 1, 2000) or the average bond equivalent rate 91-day United States Treasury Bills auctioned during the calendar quarter (for loans made prior to January 1, 2000). The Trust records this special allowance as a receivable and as revenue when earned.

The U.S. Department of Education pays the Trust the interest earned on subsidized student loans from the date of inception until the end of the grace or deferment period. This subsidy is equivalent to the annually computed base student loan interest rate multiplied by the average unpaid loan balance for the period in which the loan is in student, grace or deferred status.

(continued on next page)

## NOTE 5 - BONDS PAYABLE

*Changes in Bonds Payable*

The following is a summary of the changes in bonds payable for the years ended June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Balance, beginning of year | $ 83,500 | $ 91,500 |
| Issuance of bonds | - | - |
| Principal payments on bonds | (8,900) | (8,000) |
| Balance, end of year | $ 74,600 | $ 83,500 |
| Amounts due within one year | $ 55,300 | $ 300 |

(continued on next page)

*Maturities of Bonds Payable*

Bonds payable consists of the following at June 30, 2008 and 2007:

| | Maturity Dates | Interest Rate (%) | | 2008 | 2007 |
|---|---|---|---|---|---|
| General Bond Resolution Fund | | | | | |
| 2004 Series A | June 1, 2029 | 3.16 | (1) | 1,000 | 1,000 |
| 2004 Subordinate Series | June 1, 2029 | 3.16 | (1) | 8,200 | 13,000 |
| Second General Bond Resolution Fund | | | | | |
| 1996 Series D | July 1, 2008-2014 | 6.05-6.40 | | 2,400 | 2,700 |
| 1997 Series B | July 1, 2027 | - | | - | 3,800 |
| 2000 Series A | December 1, 2035 | 2.89 | (1) | 55,000 | 55,000 |
| 2000 Series B | December 1, 2025 | 5.85 | | 8,000 | 8,000 |
| Total bonds payable | | | | 74,600 | 83,500 |
| Less current portion | | | | 55,300 | 300 |
| Noncurrent portion | | | | $ 19,300 | $ 83,200 |

(1) Variable on June 30, 2008.

(continued on next page)

The combined aggregate of future maturities and sinking fund requirements for all bonds is as follows:

| Year ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2009 | $ 55,300 | $ 1,038 | $ 56,338 |
| 2010 | 300 | 881 | 1,181 |
| 2011 | 300 | 863 | 1,163 |
| 2012 | 300 | 844 | 1,144 |
| 2013 | 400 | 822 | 1,222 |
| 2014-2018 | 800 | 3,845 | 4,645 |
| 2019-2023 | - | 3,794 | 3,794 |
| 2024-2028 | 8,000 | 3,092 | 11,092 |
| 2029-2033 | 9,200 | 581 | 9,781 |
| | $ 74,600 | $ 15,760 | $ 90,360 |

The following is a more detailed description of the individual bond issues that remain outstanding at June 30, 2008 and 2007.

### *1996 SERIES D BONDS*

The proceeds of the 1996 Series D Bonds were used to finance the acquisition of supplemental loans. Interest is payable semiannually on January 1 and July 1 of each year. These bonds are subject to redemption prior to maturity at the option of the Industrial Commission on July 1, 2006 at 100% of the principal amount plus accrued interest to date of redemption.

### *1997 SERIES B BONDS*

Interest is payable semiannually on January 1 and July 1 of each year for the 1997 Series B Bonds. The proceeds of the Series 1997 Bonds were used to refund the current maturities of the 1988 Series A and B, 1989 Series B and 1992 Series A Bonds on July 1, 1997, and to current refund and redeem the remainder of the 1988 Series A Bonds at a redemption price of 103% on August 1, 1997.

The 1997 Series B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined based on auction rate certificates each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for early redemption of the 1997 Series B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

As of June 30, 2008 no 1997 Series B Bonds are outstanding.

(continued on next page)

### *2000 SERIES A AND B BONDS*

Interest is payable semiannually on June 1 and December 1 of each year. The proceeds of the Series 2000 Bonds were used to provide funds for the acquisition of student loans from the Bank of North Dakota. The 2000 Series A Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined based on auction rate certificates each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. The 2000 Series B Bonds are fixed rate bonds. Under certain conditions, the Industrial Commission may call for early redemption of the 2000 Series A and B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

### *2004 SERIES A BONDS*

Interest is payable semiannually on June 1 and December 1 of each year. The 2004 Series A Bonds are variable rate bonds. The rate of interest is determined based on the one-month LIBOR plus .7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.4 of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. The Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

### *SUBORDINATE SERIES 2004 BONDS*

Interest is payable semiannually on June 1 and December 1 of each year. The Subordinate Series 2004 Bonds are variable rate bonds. The rate of interest is determined based on the one-month LIBOR plus .7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 3.5 of the Third Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. The Subordinate Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

(continued on next page)

## NOTE 6 - ARBITRAGE REBATE AND YIELD REDUCTION PAYABLES

The 2004, 2000, 1997, and 1996 bond resolutions contain arbitrage provisions and the 2004, 2000, 1997, and 1996 bond resolutions contain yield reduction provisions. These provisions state that any excess investment earnings, which are subject to rebate under the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, are to be rebated to the U.S. Treasury in accordance with such regulations. The Commission through the Trust has the estimated arbitrage rebate and yield reduction amounts calculated by independent consultants in accordance with the requirements of the referenced supplemental resolutions.

Activity in these payables is as follows:

| | Arbitrage Rebate | Yield Reduction |
|---|---|---|
| Balance, June 30, 2006 | $ 198 | $ 501 |
| Provision (Benefit) | (143) | 209 |
| Paid | (55) | - |
| Balance, June 30, 2007 | - | 710 |
| Provision (Benefit) | 228 | (710) |
| Paid | (28) | - |
| Balance, June 30, 2008 | $ 200 | $ - |
| Current | $ - | $ - |
| Noncurrent | 200 | - |
| | $ 200 | $ - |

## NOTE 7 - INTERFUND AND RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENTS

*Current Events*

The North Dakota Student Loan Trust is related to the Bank of North Dakota through common management under the Industrial Commission of North Dakota. All cash and time deposits are deposited in the Bank of North Dakota. Interest receivable from the Bank of North Dakota totaled $136 and $285 as of June 30, 2008 and 2007 and is reflected as due from other state agencies on the balance sheet. Investment securities are held in safekeeping and all student loans are purchased from the Bank of North Dakota. The Bank of North Dakota also acts as the paying agent for the 2004 Subordinate Series Bonds, 2004 Series A Bonds, 2000 Series A and B Bonds, 1997 Series B Bonds, and the 1996 Series D Bonds. In addition, the Bank services the student loans held by the Trust, and maintains the accounting and other records for the Trust.

(continued on next page)

Fees expense to the Bank of North Dakota for the following services included in the accompanying financial statements were as follows:

| | 2008 | 2007 |
|---|---|---|
| Service fees | $ 1,478 | $ 1,969 |
| Administration fees | 84 | 101 |
| | $ 1,562 | $ 2,070 |

Payables to the related parties for such fees amounting to $413 and $428 at June 30, 2008 and 2007 are included in "accrued fees payable - related party" on the balance sheet.

The 2007 North Dakota Legislature passed House Bill 1014 that provides for an appropriation of $3,100 from the North Dakota Student Loan Trust to the State's General Fund during the biennium beginning July 1, 2007 and ending June 30, 2009. The moneys must be transferred in such amounts and at such times as requested by the director of the Office of Management and Budget and upon certification by the Trust's trustee that sufficient moneys remain available to pay all debt service on student loan trust bonds, all required rebate payments to the U.S. Treasury, and all program operating expenses. Management is preparing a plan to fund these appropriations to the General Fund.

The 2007 North Dakota Legislature passed House Bill 1003 that provides for an appropriation of up to $523 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program during the biennium beginning July 1, 2007 and ending June 30, 2009.

The 2007 North Dakota Legislature passed House Bill 1014 that provides for an appropriation of up to $91 from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2007 and ending June 30, 2009.

*Subsequent Events*

The Trust sold $16,715 of student loans to the Bank of North Dakota on July 1, 2008.

On July 1, 2008, the Trust called $55,000 of 2000A Series bonds.

(continued on next page)

## NOTE 8 - RISK MANAGEMENT

The North Dakota Student Loan Trust is exposed to various risks of loss related to torts and errors and omissions. The North Dakota Student Loan Trust is administered by the North Dakota Industrial Commission and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of $750,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

# NORTH DAKOTA STUDENT LOAN TRUST

# NORTH DAKOTA STUDENT LOAN TRUST
## COMBINING BALANCE SHEET
## JUNE 30, 2008
**(In Thousands)**

| | General Bond Resolution Fund | Second General Bond Resolution Fund | Combined |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS - UNRESTRICTED | | | |
| Cash and cash equivalents | $ 679 | $ - | $ 679 |
| Interest receivable | 742 | - | 742 |
| Due from other state agencies | 1 | - | 1 |
| Special allowance and interest subsidy receivable | 117 | - | 117 |
| Student loans receivable, net of allowance for loan losses | 4,053 | - | 4,053 |
| Total unrestricted current assets | 5,592 | - | 5,592 |
| CURRENT ASSETS - RESTRICTED | | | |
| Cash and cash equivalents | - | 33,817 | 33,817 |
| Investments | 500 | 7,788 | 8,288 |
| Interest receivable | - | 1,097 | 1,097 |
| Due from other state agencies | 1 | 135 | 136 |
| Special allowance and interest subsidy receivable | - | 216 | 216 |
| Student loans receivable, net of allowance for loan losses | - | 24,164 | 24,164 |
| Unamortized bond issue costs | 3 | 441 | 444 |
| Prepaid fees | - | 52 | 52 |
| Total restricted current assets | 504 | 67,710 | 68,214 |
| NONCURRENT ASSETS - UNRESTRICTED | | | |
| Student loans receivable, net of allowance for loan losses | 16,307 | - | 16,307 |
| NONCURRENT ASSETS - RESTRICTED | | | |
| Student loans receivable, net of allowance for loan losses | 9,200 | 26,426 | 35,626 |
| Unamortized bond issue costs | 50 | 51 | 101 |
| Total restricted noncurrent assets | 9,250 | 26,477 | 35,727 |
| Total assets | $ 31,653 | $ 94,187 | $ 125,840 |

| | General Bond Resolution Fund | Second General Bond Resolution Fund | Combined |
|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | |
| CURRENT LIABILITIES | | | |
| Accrued interest payable | $ 24 | $ 252 | $ 276 |
| Accrued fees payable | 14 | 13 | 27 |
| Accrued fees payable - related party | 137 | 276 | 413 |
| Appropriation payable | 3,444 | - | 3,444 |
| Arbitrage rebate payable | - | - | - |
| Bonds payable, current portion | - | 55,300 | 55,300 |
| Total current liabilities | 3,619 | 55,841 | 59,460 |
| NONCURRENT LIABILITIES | | | |
| Arbitrage rebate payable | - | 200 | 200 |
| Yield reduction payable | - | - | - |
| Bonds payable, net of current portion | 9,200 | 10,100 | 19,300 |
| Total noncurrent liabilities | 9,200 | 10,300 | 19,500 |
| Total liabilities | 12,819 | 66,141 | 78,960 |
| NET ASSETS | | | |
| Restricted for debt service | 379 | 28,046 | 28,425 |
| Unrestricted | 18,455 | - | 18,455 |
| Total net assets | 18,834 | 28,046 | 46,880 |
| Total liabilities and net assets | $ 31,653 | $ 94,187 | $ 125,840 |

# NORTH DAKOTA STUDENT LOAN TRUST
## COMBINING BALANCE SHEET
## JUNE 30, 2007
**(In Thousands)**

| | General Bond Resolution Fund | Second General Bond Resolution Fund | Combined |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS - UNRESTRICTED | | | |
| Cash and cash equivalents | $ 875 | $ - | $ 875 |
| Investments | - | - | - |
| Interest receivable | 874 | - | 874 |
| Due from other state agencies | 1 | - | 1 |
| Special allowance and interest subsidy receivable | 271 | - | 271 |
| Student loans receivable, net of allowance for loan losses | 11,305 | - | 11,305 |
| Total unrestricted current assets | 13,326 | - | 13,326 |
| CURRENT ASSETS - RESTRICTED | | | |
| Cash and cash equivalents | - | 641 | 641 |
| Investments | 500 | 36,326 | 36,826 |
| Interest receivable | - | 1,336 | 1,336 |
| Due from other state agencies | 2 | 283 | 285 |
| Special allowance and interest subsidy receivable | - | 379 | 379 |
| Student loans receivable, net of allowance for loan losses | - | 21,318 | 21,318 |
| Unamortized bond issue costs | 3 | 30 | 33 |
| Prepaid fees | - | 52 | 52 |
| Total restricted current assets | 505 | 60,365 | 60,870 |
| NONCURRENT ASSETS - UNRESTRICTED | | | |
| Student loans receivable, net of allowance for loan losses | 7,968 | - | 7,968 |
| NONCURRENT ASSETS - RESTRICTED | | | |
| Student loans receivable, net of allowance for loan losses | 14,000 | 36,791 | 50,791 |
| Unamortized bond issue costs | 66 | 604 | 670 |
| Total restricted noncurrent assets | 14,066 | 37,395 | 51,461 |
| Total assets | $ 35,865 | $ 97,760 | $ 133,625 |

| | General Bond Resolution Fund | Second General Bond Resolution Fund | Combined |
|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | |
| CURRENT LIABILITIES | | | |
| Accrued interest payable | $ 70 | $ 371 | $ 441 |
| Accrued fees payable | 14 | 23 | 37 |
| Accrued fees payable - related party | 156 | 272 | 428 |
| Bonds payable, current portion | - | 300 | 300 |
| Total current liabilities | 240 | 966 | 1,206 |
| NONCURRENT LIABILITIES | | | |
| Yield reduction payable | - | 710 | 710 |
| Bonds payable, net of current portion | 14,000 | 69,200 | 83,200 |
| Total noncurrent liabilities | 14,000 | 69,910 | 83,910 |
| Total liabilities | 14,240 | 70,876 | 85,116 |
| NET ASSETS | | | |
| Restricted for debt service | 331 | 26,884 | 27,215 |
| Unrestricted | 21,294 | - | 21,294 |
| Total net assets | 21,625 | 26,884 | 48,509 |
| Total liabilities and net assets | $ 35,865 | $ 97,760 | $ 133,625 |

# NORTH DAKOTA STUDENT LOAN TRUST
## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
## YEAR ENDED JUNE 30, 2008
**(In Thousands)**

| | General Bond Resolution Fund | Second General Bond Resolution Fund | Combined |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Interest on student loans | $ 1,258 | $ 2,504 | $ 3,762 |
| Special allowance and interest subsidy | 724 | 1,104 | 1,828 |
| | 1,982 | 3,608 | 5,590 |
| **OPERATING EXPENSES** | | | |
| Interest | 590 | 3,158 | 3,748 |
| Service fees | 542 | 936 | 1,478 |
| Administration fees | 31 | 53 | 84 |
| Amortization of bond issue costs | 16 | 142 | 158 |
| Broker dealer and auction agent fees | - | 86 | 86 |
| Benefit from arbitrage rebate | - | (279) | (279) |
| Benefit from yield reduction | - | (203) | (203) |
| Provision for loan losses | 13 | (26) | (13) |
| Bond related expenses | - | 56 | 56 |
| | 1,192 | 3,923 | 5,115 |
| **OPERATING INCOME (LOSS)** | 790 | (315) | 475 |
| **NONOPERATING REVENUE** | | | |
| Investment income | 42 | 1,560 | 1,602 |
| **INCOME BEFORE TRANSFERS** | 832 | 1,245 | 2,077 |
| **TRANSFERS TO** | | | |
| North Dakota General Fund | (3,100) | - | (3,100) |
| State Board of Higher Education | (523) | - | (523) |
| North Dakota Industrial Commission | - | (83) | (83) |
| | (3,623) | (83) | (3,706) |
| **CHANGE IN NET ASSETS** | (2,791) | 1,162 | (1,629) |
| **TOTAL NET ASSETS, BEGINNING OF YEAR** | 21,625 | 26,884 | 48,509 |
| **TOTAL NET ASSETS, END OF YEAR** | $ 18,834 | $ 28,046 | $ 46,880 |

# NORTH DAKOTA STUDENT LOAN TRUST
## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
## YEAR ENDED JUNE 30, 2007
**(In Thousands)**

| | General Bond Resolution Fund | Second General Bond Resolution Fund | Combined |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Interest on student loans | $ 1,517 | $ 2,814 | $ 4,331 |
| Special allowance and interest subsidy | 1,358 | 1,778 | 3,136 |
| | 2,875 | 4,592 | 7,467 |
| **OPERATING EXPENSES** | | | |
| Interest | 1,248 | 3,040 | 4,288 |
| Service fees | 745 | 1,224 | 1,969 |
| Administration fees | 37 | 64 | 101 |
| Amortization of bond issue costs | 25 | 31 | 56 |
| Broker dealer and auction agent fees | - | 97 | 97 |
| Provision for arbitrage rebate | - | 66 | 66 |
| Provision for loan losses | 58 | 61 | 119 |
| Bond related expenses | - | 48 | 48 |
| | 2,113 | 4,631 | 6,744 |
| **OPERATING INCOME** | 762 | (39) | 723 |
| **NONOPERATING REVENUE** | | | |
| Investment income | 260 | 1,467 | 1,727 |
| **INCOME BEFORE TRANSFERS** | 1,022 | 1,428 | 2,450 |
| **TRANSFER FROM** | | | |
| State Board of Higher Education | 160 | - | 160 |
| | 160 | - | 160 |
| **CHANGE IN NET ASSETS** | 1,182 | 1,428 | 2,610 |
| **TOTAL NET ASSETS, BEGINNING OF YEAR** | 20,443 | 25,456 | 45,899 |
| **TOTAL NET ASSETS, END OF YEAR** | $ 21,625 | $ 26,884 | $ 48,509 |

# NORTH DAKOTA STUDENT LOAN TRUST
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** **EXHIBIT A-1**
**YEAR ENDED JUNE 30, 2008**
**(In Thousands)**

| Federal Grantor/Program Title | Federal CFDA Number | Expenditures |
|---|---|---|
| DEPARTMENT OF EDUCATION | | |
| Direct Program: | | |
| Federal Family Education Loan Program | 84.032 | |
| Interest Subsidy | | $ 760 |
| Special Allowance | | 1,068 |
| Guaranteed Student Loans: | | |
| Balance of guaranteed student loans at June 30, 2008 on which there are continuing compliance requirements | | 72,819 |
| TOTAL FEDERAL AWARDS | | $ 74,647 |

**NOTE 1** - The schedule of expenditures of federal awards includes the federal grant activity of the North Dakota Student Loan Trust and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# NORTH DAKOTA STUDENT LOAN TRUST
## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
## YEAR ENDED JUNE 30, 2008

**EXHIBIT A-2**

None.

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**EXHIBIT A-3**

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

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Student Loan Trust as of and for the year ended June 30, 2008, which collectively comprise the North Dakota Student Loan Trust's basic financial statements and have issued our report thereon dated August 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the North Dakota Student Loan Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Student Loan Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the North Dakota Student Loan Trust's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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

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***Compliance and Other Matters***

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

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**

August 28, 2008

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**EXHIBIT A-4**

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

***Compliance***

We have audited the compliance of the North Dakota Student Loan Trust with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The North Dakota Student Loan Trust's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the North Dakota Student Loan Trust's management. Our responsibility is to express an opinion on the North Dakota Student Loan Trust's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the North Dakota Student Loan Trust's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the North Dakota Student Loan Trust's compliance with those requirements.

In our opinion, the North Dakota Student Loan Trust complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

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We have also audited the Trust's compliance with the following compliance requirements:

- LaRS Report,
- Individual Record Review,
- Loan Origination Fees,
- Interest Benefits,
- Special Allowance Payments,
- Loan Portfolio Analysis,
- Loan Sales, Purchases and Transfers,
- Student Status Changes,
- Payment Processing,
- Due Diligence by Lenders or Servicers in the Collection of Delinquent Loans,
- Due Diligence – Timely Claim Filings by Lenders or Servicers, and
- Cures

relative to the Trust's administration of the Federal Family Education Loan Program on behalf of its lender clients during the year ended June 30, 2008 and have tested the effectiveness of the Trust's internal control over compliance with the aforementioned compliance requirements as of June 30, 2008. Management is responsible for the Trust's compliance with and the effectiveness of the Trust's internal control over compliance with those requirements. Our responsibility is to express an opinion on the Trust's compliance with and the effectiveness of the Trust's internal control over compliance with the specified compliance requirements based on our audit.

Our audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and the 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders or Lender Servicers Participating in the Federal Family Education Loan (FFEL) Program (the Guide)*, issued by the U.S. Department of Education, Office of Inspector General; and, accordingly, included obtaining an understanding of the internal control over compliance with the specified requirements; testing and evaluating the design and operating effectiveness of internal control over compliance; and examining, on a test basis, evidence about the Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

In our opinion, the North Dakota Student Loan Trust complied, with the aforementioned requirements for the year ended June 30, 2008 and that the North Dakota Student Loan Trust maintained effective internal control over compliance with the aforementioned compliance requirements as of June 30, 2008, are fairly stated, in all material respects, based upon the criteria for internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

***Internal Control Over Compliance***

The management of the North Dakota Student Loan Trust is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the North Dakota Student Loan Trust's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Student Loan Trust's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Trust's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Trust's internal control.

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

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**

August 28, 2008

# NORTH DAKOTA STUDENT LOAN TRUST
## SCHEDULE OF FINDINGS AND QUESTIONED COSTS
## YEAR ENDED JUNE 30, 2008

**EXHIBIT A-5**

### PART I - SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion was issued on the financial statements of the North Dakota Student Loan Trust.

2. We noted no matters involving internal control that we considered to be material weaknesses during the audit of the financial statements.

3. The audit disclosed no instances of noncompliance which were material to the financial statements of the North Dakota Student Loan Trust.

4. We noted no matters involving internal control over major programs that we considered to be material weaknesses during the audit.

5. An unqualified opinion was issued on compliance for the major program of the North Dakota Student Loan Trust.

6. The audit disclosed no audit findings required to be reported under Section 510(a) of OMB Circular A-133.

7. The North Dakota Student Loan Trust receives federal financial assistance under one program, the Federal Family Education Loan Program (84.032), which is considered to be a major program.

8. The North Dakota Student Loan Trust receives federal financial assistance under one program, the Federal Family Education Loan Program (84.032), which is considered to be a Type A program. There are no Type B programs. The threshold for distinguishing between Type A and B programs was $300,000.

9. The North Dakota Student Loan Trust qualified as a low-risk auditee under Section 530 of OMB Circular A-133.

### PART II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS

1. There are no findings relating to the financial statements, which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

### PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

1. There are no findings and no questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**EXHIBIT A-6**

**NORTH DAKOTA STUDENT LOAN TRUST**
**AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE**
**YEAR ENDED JUNE 30, 2008**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

1. **What type of opinion was issued on the financial statements?**

   Unqualified.

2. **Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?**

   Yes.

3. **Was internal control adequate and functioning effectively?**

   Yes.

4. **Was there any indications of lack of efficiency in financial operations and management of the agency?**

   No.

5. **Has action been taken on findings and recommendations included in prior audit reports?**

   As noted in the Summary Schedule of Prior Audit Findings (Exhibit A-2) on page 30, there were no prior year findings.

6. **Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.**

   No.

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**BRADY, MARTZ & ASSOCIATES, P.C.**

August 28, 2008

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**EXHIBIT B-1**

August 28, 2008

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of North Dakota Student Loan Trust for the year ended June 30, 2008, and have issued our report thereon dated August 28, 2008. Professional standards require that we provide you with the following information related to our audit.

## OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated June 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

## PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 22, 2008.

## SIGNIFICANT AUDIT FINDINGS

### *QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Student Loan Trust are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for loan losses were based on a provision for loan losses charged to expense. Loans are charged against the allowance when management believes the collectibility of the principal balance is unlikely. Management's estimate of the arbitrage rebate payable was based on amounts calculated by independent consultants in accordance with the requirements of the referenced supplemental resolutions. Management's estimate of the allowance for amortization of bond issue costs is amortized over the period of time the bonds are outstanding using the bonds outstanding method. We evaluated the key factors and assumptions used to develop the allowance for

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loan losses, arbitrage rebate payable, and amortization of bond issue costs in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 2 Deposits and Investments, Note 3 Student Loans Receivable and Note 5 Bonds Payable.

***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter dated August 28, 2008.

***MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the North Dakota Industrial Commission and management of North Dakota Student Loan Trust and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Brady, Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**