NORTH DAKOTA STUDENT LOAN TRUST

FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011 and 2010 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, 2011 and 2010, 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 September 7, 2011, 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 should be considered in assessing the results of our audit.

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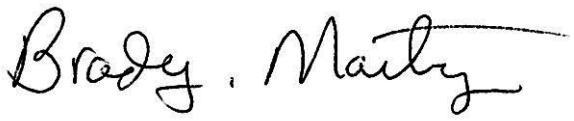
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The combining financial statements on pages 24 through 27 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards 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 also not a required part of the basic financial statements. The combining financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ND Student Loan Trust's basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



BRADY, MARTZ & ASSOCIATES, P.C.

September 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

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, 2011 and 2010. Please read it in conjunction with the Trust's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

During the current fiscal year, there were no sales or purchases of student loans.

The FFELP Stafford Loans interest rate is based on the T-bill rate which was .06 % on July 1, 2011. For the fiscal year beginning July 1, 2010 and 2009, FFELP Stafford student loan interest rates were based on a T-bill rate of .17% and .18% respectively. DEAL loans are available at either a fixed rate or a variable rate with the rates being adjusted quarterly. As of July 1, 2011, the fixed rate is 6.02% and the variable rate is 1.75% for ND residents and students attending school in ND; the fixed and variable rates for out-of-state students attending out-of-state schools are 7.02% fixed or 2.75% variable. As of July 1, 2010, the fixed rate was 6.00% and the variable rate was 2.04% for ND residents and students attending school in ND; the fixed and variable rates for out-of-state students attending out-of-state schools were 7.46% fixed or 3.46% variable. On July 1, 2009, the fixed rate was 5.99% and the variable rate was 2.10%; the fixed and variable rates for out-of-state students attending out-of-state schools were 7.90% fixed or 3.10% variable.

In the current fiscal year, there were no new bonds issued and there were principal payments of $9,000 made on outstanding bonds. Of the $9,000 principal repaid, $8,000 was used to call the 2000 B Series Bonds on December 1, 2010. The 2000 Series B Bonds were fixed rate bonds issued at 5.85%. For the year ended June 30, 2010, there were no new bonds issued and there were principal payments of $1,000 made on outstanding bonds.

The Trust 2011 balance sheet indicates that the Trust continues to have adequate resources to provide for bond repayment and continuing operations. There is $13,162 of current assets, which includes $6,178 of student loans receivable, available to meet the next fiscal year's obligations of approximately $212. This amount includes the future obligations to the General Fund as explained under Economic Factors and Budgetary Information. The operating income of $152 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

	2011	2010	2009
ASSETS			
CURRENT ASSETS - UNRESTRICTED	$ 12,660	$ 15,928	$ 11,953
CURRENT ASSETS - RESTRICTED	502	1,013	1,013
NONCURRENT ASSETS - UNRESTRICTED	32,808	29,863	34,680
NONCURRENT ASSETS - RESTRICTED	5,235	14,272	15,279
TOTAL ASSETS	$ 51,205	$ 61,076	$ 62,925
LIABILITIES			
CURRENT LIABILITIES	$ 212	$ 1,457	$ 269
NONCURRENT LIABILITIES	5,200	14,200	15,293
TOTAL LIABILITIES	5,412	15,657	15,562
NET ASSETS			
RESTRICTED FOR DEBT SERVICE	424	766	730
UNRESTRICTED	45,369	44,653	46,633
TOTAL NET ASSETS	45,793	45,419	47,363
TOTAL LIABILITIES AND NET ASSETS	$ 51,205	$ 61,076	$ 62,925

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 2011 Legislature passed House Bill 1003 that provides for an appropriation of up to $465 from the North Dakota Student Loan Trust to the State Board of Higher Education and $540 for ConnectND Campus Solutions. The 2011 North Dakota Legislature also passed House Bill 1014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2011 and ending June 30, 2013. 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, 2011, 2010, AND 2009

OPERATING REVENUES			
Interest on student loans	$ 1,201	$ 1,350	$ 2,040
Special allowance and interest subsidy	166	221	605
	1,367	1,571	2,645
OPERATING EXPENSES			
Interest	292	559	775
Service fees	782	922	992
Benefit from arbitrage rebate and yield reduction	-	(93)	(107)
Other	141	96	607
	1,215	1,484	2,267
OPERATING INCOME	152	87	378
NONOPERATING REVENUE	39	59	69
INCOME BEFORE TRANSFERS	191	146	447
TRANSFERS	183	(2,090)	36
CHANGE IN NET ASSETS	374	(1,944)	483
TOTAL NET ASSETS, BEGINNING OF YEAR	45,419	47,363	46,880
TOTAL NET ASSETS, END OF YEAR	$ 45,793	$ 45,419	$ 47,363

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

On December 1, 2010, the Trust called $8,000 of 2000 B Series bonds.

The 2009 North Dakota Legislature passed Senate Bill 2003 that provides for an appropriation of $991 from the North Dakota Student Loan Trust to the State Board of Higher Education and $1,021 for Connect ND Campus Solutions during the biennium beginning July 1, 2009 and ending June 30, 2011.

The 2009 North Dakota Legislature passed Senate Bill 2014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2009 and ending June 30, 2011.

The 2011 North Dakota Legislature passed House Bill 1003 that provides for an appropriation of up to $465 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program and $540 for the Connect ND Campus Solutions during the biennium beginning July 1, 2011 and ending June 30, 2013.

The 2011 North Dakota Legislature passed House Bill 1014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2011 and ending June 30, 2013.

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.

NORTH DAKOTA STUDENT LOAN TRUST
BALANCE SHEETS
JUNE 30, 2011 AND 2010
(In Thousands)

	2011	2010
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	$ 1,097	$ 781
Investments	4,896	8,074
Interest receivable	447	671
Due from other state agencies	11	7
Special allowance and interest subsidy receivable	31	61
Student loans receivable, net of allowance for loan losses	6,178	6,334
Total unrestricted current assets	12,660	15,928
CURRENT ASSETS - RESTRICTED		
Investments	500	1,000
Due from other state agencies	-	2
Unamortized bond issue costs	2	4
Prepaid fees	-	7
Total restricted current assets	502	1,013
NONCURRENT ASSETS - UNRESTRICTED		
Student loans receivable, net of allowance for loan losses	32,808	29,863
NONCURRENT ASSETS - RESTRICTED		
Student loans receivable, net of allowance for loan losses	5,200	14,200
Unamortized bond issue costs	35	72
Total restricted noncurrent assets	5,235	14,272
Total assets	$ 51,205	$ 61,076

See Notes to Financial Statements

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ 4	$ 44
Accrued fees payable	12	13
Accrued fees payable - related party	196	262
Appropriation payable	-	1,138
Total current liabilities	212	1,457
NONCURRENT LIABILITIES		
Bonds payable	5,200	14,200
Total noncurrent liabilities	5,200	14,200
Total liabilities	5,412	15,657
NET ASSETS		
Restricted for debt service	424	766
Unrestricted	45,369	44,653
Total net assets	45,793	45,419
Total liabilities and net assets	$ 51,205	$ 61,076

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010
(In Thousands)

	2011	2010
OPERATING REVENUES		
Interest on student loans	$ 1,201	$ 1,350
Special allowance and interest subsidy	166	221
	1,367	1,571
OPERATING EXPENSES		
Interest	292	559
Service fees	782	922
Administration fees	47	53
Amortization of bond issue costs	39	7
Broker dealer and auction agent fees	7	7
Benefit from arbitrage rebate and yield reduction	-	(93)
Provision for loan losses	9	(11)
Bond related expenses	39	40
	1,215	1,484
OPERATING INCOME	152	87
NONOPERATING REVENUE		
Investment income	39	59
INCOME BEFORE TRANSFERS	191	146
TRANSFERS FROM (TO)		
State Board of Higher Education	183	(2,012)
North Dakota Industrial Commission	-	(78)
	183	(2,090)
CHANGE IN NET ASSETS	374	(1,944)
TOTAL NET ASSETS, BEGINNING OF YEAR	45,419	47,363
TOTAL NET ASSETS, END OF YEAR	$ 45,793	$ 45,419

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010
(In Thousands)

	2011	2010
OPERATING ACTIVITIES		
Receipts of student loan repayments	$ 7,582	$ 8,029
Receipts of special allowance and interest subsidy	196	228
Payments to state agency service providers	(855)	(964)
Payments to other service providers	(39)	(46)
NET CASH FROM OPERATING ACTIVITIES	6,884	7,247
NON-CAPITAL FINANCING ACTIVITIES		
Bond principal payments	(9,000)	(1,000)
Bond interest payments	(288)	(535)
Transfer to North Dakota Industrial Commission	(39)	(39)
Transfer to State Board of Higher Education	(955)	(874)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(10,282)	(2,448)
INVESTING ACTIVITIES		
Investment interest received	36	54
Purchase of investment securities	(6,662)	(15,937)
Proceeds from sale and maturity of investment securities	10,340	11,384
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	3,714	(4,499)
NET CHANGE IN CASH AND CASH EQUIVALENTS	316	300
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	781	481
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,097	$ 781

(continued on next page)

STATEMENTS OF CASH FLOWS – Page 2
(In Thousands)

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 152	$ 87
Adjustments to reconcile operating income		
Provision for loan losses	9	(11)
Amortization of lender fees	44	25
Amortization of bond issue costs	39	7
Amortization of student loan premium	46	16
Reclassification of interest income and expense to other activities	295	535
Changes in assets and liabilities		
Student loans receivable, net of allowance for loan losses	6,111	6,229
Interest receivable	224	432
Special allowance and interest subsidy receivable	30	9
Accrued interest payable	(40)	(1)
Accrued fees payable - related party	(26)	12
Arbitrage rebate payable	-	(93)
NET CASH FROM OPERATING ACTIVITIES	$ 6,884	$ 7,247

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 and the Second General Bond Resolution Fund, which includes the 2000 student loan revenue 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 that 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.

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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, 2011 and 2010, the surplus accounts consist of the following:

	2011	2010
Cash and cash equivalents	$ 1,097	$ 781
Investments	4,896	8,074
Interest receivable	447	671
Due from other state agencies	11	7
Special allowance and interest subsidy receivable	31	61
Student loans receivable, net of allowance for loan losses	38,986	36,197
Appropriation payable	-	(1,138)
	$ 45,468	$ 44,653

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, 2011 and 2010, the Trust had the following deposits (amounts in thousands):

	2011	2010
Cash		
Bank of North Dakota	$ 1,097	$ 553
Time deposits		
Bank of North Dakota	5,396	9,302
	$ 6,493	$ 9,855

As of June 30, 2011, and 2010, the Trust had the following classification of deposits on the balance sheet:

	2011	2010
Cash and cash equivalents	$ 1,097	$ 781
Investments	5,396	9,074
	$ 6,493	$ 9,855

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, 2011 and 2010, student loans are categorized as follows:

	2011	2010
DEAL	$ 4,614	$ 5,314
GSL	39,406	44,834
	44,020	50,148
Unamortized premiums	214	304
Allowance for loan losses	(48)	(55)
Total student loans receivable	44,186	50,397
Less current portion	6,178	6,334
Noncurrent portion	$ 38,008	$ 44,063

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, 2011, student loans receivable are categorized as follows:

	Subsidized	Unsubsidized	DEAL	Total
Student	$ 317	$ 436	$ 8	$ 761
Deferred	3,627	4,233	1,094	8,954
Repayment	15,222	15,571	3,512	34,305
	19,166	20,240	4,614	44,020
Unamortized premiums	174	-	40	214
Allowance for loan losses	(30)	(18)	-	(48)
Total	$ 19,310	$ 20,222	$ 4,654	$ 44,186

(continued on next page)

At June 30, 2010, student loans receivable are categorized as follows:

	Subsidized	Unsubsidized	DEAL	Total
Student	$ 771	$ 1,075	$ 28	$ 1,874
Deferred	4,446	3,591	781	8,818
Repayment	23,522	11,429	4,505	39,456
	28,739	16,095	5,314	50,148
Unamortized premiums	264	-	40	304
Allowance for loan losses	(35)	(20)	-	(55)
Total	$ 28,968	$ 16,075	$ 5,354	$ 50,397

The composition of the allowance for loan losses for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Balance - beginning of year	$ 55	$ 75
Provision for loan losses	9	(11)
Loans charged off	(16)	(9)
Balance - end of year	$ 48	$ 55

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.

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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, 2011 and 2010:

	2011	2010
Balance, beginning of year	$ 14,200	$ 15,200
Issuance of bonds	-	-
Principal payments on bonds	(9,000)	(1,000)
Balance, end of year	$ 5,200	$ 14,200
Amounts due within one year	$ -	$ -

(continued on next page)

Maturities of Bonds Payable

Bonds payable consists of the following at June 30, 2011 and 2010:

	Maturity Dates	Interest Rate (%)		2011	2010
General Bond Resolution Fund					
2004 Series A	June 1, 2029	0.89	(1)	$ 1,000	$ 1,000
2004 Subordinate Series	June 1, 2029	0.89	(1)	4,200	5,200
Second General Bond Resolution Fund					
2000 Series B	December 1, 2025	5.85		-	8,000
Total bonds payable				5,200	14,200
Less current portion				-	-
Noncurrent portion				$ 5,200	$ 14,200

(1) Variable on June 30, 2011.

(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
2012	$ -	$ 46	$ 46
2013	-	46	46
2014	-	46	46
2015	-	46	46
2016	-	46	46
2017-2021	-	232	232
2022-2026	-	232	232
2027-2029	5,200	139	5,339
	$ 5,200	$ 833	$ 6,033

The following is a more detailed description of the individual bond issues that remain outstanding at June 30, 2011 and 2010.

2000 SERIES 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 B Bonds are fixed rate bonds. Under certain conditions, the Industrial Commission may call for early redemption of the 2000 Series B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption. All of the 2000 Series B Bonds were called on December 1, 2010.

As of June 30, 2011, no 2000 Series B Bonds are outstanding.

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 lesser of either the one-month LIBOR plus .7% or Federal Home Loan Bank 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 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. Section 2.2 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution has deemed these to be Federally Taxable Bonds. 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 and are Federally Taxable Bonds. The rate of interest is determined based on the lesser of either the one-month LIBOR plus .7% or Federal Home Loan Bank 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 2.1 of the Fourth 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.

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NOTE 6 - ARBITRAGE REBATE AND YIELD REDUCTION PAYABLES

The 2000 bond resolution contains arbitrage provisions and the 2000 bond resolution contains 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, 2009	$ 93	$ -
Provision (Benefit)	(93)	-
Paid	-	-
Balance, June 30, 2010	-	-
Provision (Benefit)	-	-
Paid	-	-
Balance, June 30, 2011	$ -	$ -

NOTE 7 - INTERFUND AND RELATED PARTY TRANSACTIONS

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 $11 and $9 as of June 30, 2011 and 2010 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 and 2004 Series A 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:

	2011	2010
Service fees	$ 782	$ 922
Administration fees	47	53
	$ 829	$ 975

Payables to the related parties for such fees amounting to $196 and $262 at June 30, 2011 and 2010 are included in "accrued fees payable - related party" on the balance sheet.

The transfer from the State Board of Higher Education of $183 are monies appropriated from the Senate Bill 2003 for the professional student exchange program that the Board did not utilize during the biennium beginning July 1, 2009 and ending June 30, 2011.

The 2011 North Dakota Legislature passed House Bill 1003 that provides for an appropriation of up to $465 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program and $540 for the Connect ND Campus Solutions during the biennium beginning July 1, 2011 and ending June 30, 2013.

The 2011 North Dakota Legislature passed House Bill 1014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2011 and ending June 30, 2013.

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.

(continued on next page)

NOTE 9 – SUBSEQUENT EVENTS

On July 1, 2011, the Trust called $1,000 of 2004 Subordinate Series bonds. No other significant events occurred subsequent to the Trust's year end. Subsequent events have been evaluated through September 7, 2011, which is the date these financial statements were available to be issued.

NORTH DAKOTA STUDENT LOAN TRUST

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING BALANCE SHEET
JUNE 30, 2011
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
ASSETS			
CURRENT ASSETS - UNRESTRICTED			
Cash and cash equivalents	$ 1,086	$ 11	$ 1,097
Investments	-	4,896	4,896
Interest receivable	183	264	447
Due from other state agencies	-	11	11
Special allowance and interest subsidy receivable	9	22	31
Student loans receivable, net of allowance for loan losses	2,257	3,921	6,178
Total unrestricted current assets	3,535	9,125	12,660
CURRENT ASSETS - RESTRICTED			
Investments	500	-	500
Unamortized bond issue costs	2	-	2
Total restricted current assets	502	-	502
NONCURRENT ASSETS - UNRESTRICTED			
Student loans receivable, net of allowance for loan losses	13,504	19,304	32,808
NONCURRENT ASSETS - RESTRICTED			
Student loans receivable, net of allowance for loan losses	5,200	-	5,200
Unamortized bond issue costs	35	-	35
Total restricted noncurrent assets	5,235	-	5,235
Total assets	$ 22,776	$ 28,429	$ 51,205

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accrued interest payable	$ 4	$ -	$ 4
Accrued fees payable	12	-	12
Accrued fees payable - related party	97	99	196
Total current liabilities	113	99	212
NONCURRENT LIABILITIES			
Bonds payable	5,200	-	5,200
Total noncurrent liabilities	5,200	-	5,200
Total liabilities	5,313	99	5,412
NET ASSETS			
Restricted for debt service	424	-	424
Unrestricted	17,039	28,330	45,369
Total net assets	17,463	28,330	45,793
Total liabilities and net assets	$ 22,776	$ 28,429	$ 51,205

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING BALANCE SHEET
JUNE 30, 2010
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
ASSETS			
CURRENT ASSETS - UNRESTRICTED			
Cash and cash equivalents	$ 740	$ 41	$ 781
Investments	84	7,990	8,074
Interest receivable	265	406	671
Due from other state agencies	-	7	7
Special allowance and interest subsidy receivable	19	42	61
Student loans receivable, net of allowance for loan losses	2,078	4,256	6,334
Total unrestricted current assets	3,186	12,742	15,928
CURRENT ASSETS - RESTRICTED			
Investments	500	500	1,000
Due from other state agencies	1	1	2
Unamortized bond issue costs	2	2	4
Prepaid fees	-	7	7
Total restricted current assets	503	510	1,013
NONCURRENT ASSETS - UNRESTRICTED			
Student loans receivable, net of allowance for loan losses	14,815	15,048	29,863
NONCURRENT ASSETS - RESTRICTED			
Student loans receivable, net of allowance for loan losses	6,200	8,000	14,200
Unamortized bond issue costs	39	33	72
Total restricted noncurrent assets	6,239	8,033	14,272
Total assets	$ 24,743	$ 36,333	$ 61,076

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accrued interest payable	$ 5	$ 39	$ 44
Accrued fees payable	12	1	13
Accrued fees payable - related party	147	115	262
Appropriation payable	1,138	-	1,138
Total current liabilities	1,302	155	1,457
NONCURRENT LIABILITIES			
Bonds payable	6,200	8,000	14,200
Total noncurrent liabilities	6,200	8,000	14,200
Total liabilities	7,502	8,155	15,657
NET ASSETS			
Restricted for debt service	378	388	766
Unrestricted	16,863	27,790	44,653
Total net assets	17,241	28,178	45,419
Total liabilities and net assets	$ 24,743	$ 36,333	$ 61,076

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2011
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
OPERATING REVENUES			
Interest on student loans	$ 477	$ 724	$ 1,201
Special allowance and interest subsidy	44	122	166
	521	846	1,367
OPERATING EXPENSES			
Interest	69	223	292
Service fees	385	397	782
Administration fees	22	25	47
Amortization of bond issue costs	4	35	39
Broker dealer and auction agent fees	-	7	7
Provision for loan losses	6	3	9
Bond related expenses	-	39	39
	486	729	1,215
OPERATING INCOME	35	117	152
NONOPERATING REVENUE			
Investment income	4	35	39
INCOME BEFORE TRANSFERS	39	152	191
TRANSFERS FROM			
State Board of Higher Education	183	-	183
CHANGE IN NET ASSETS	222	152	374
TOTAL NET ASSETS, BEGINNING OF YEAR	17,241	28,178	45,419
TOTAL NET ASSETS, END OF YEAR	$ 17,463	$ 28,330	$ 45,793

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2010
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
OPERATING REVENUES			
Interest on student loans	$ 505	$ 845	$ 1,350
Special allowance and interest subsidy	65	156	221
	570	1,001	1,571
OPERATING EXPENSES			
Interest	74	485	559
Service fees	421	501	922
Administration fees	24	29	53
Amortization of bond issue costs	5	2	7
Broker dealer and auction agent fees	-	7	7
Benefit for arbitrage rebate	-	(93)	(93)
Provision for loan losses	(5)	(6)	(11)
Bond related expenses	-	40	40
	519	965	1,484
OPERATING INCOME	51	36	87
NONOPERATING REVENUE			
Investment income	7	52	59
INCOME BEFORE TRANSFERS	58	88	146
TRANSFERS TO			
State Board of Higher Education	(2,012)	-	(2,012)
North Dakota Industrial Commission	(78)	-	(78)
	(2,090)	-	(2,090)
CHANGE IN NET ASSETS	(2,032)	88	(1,944)
TOTAL NET ASSETS, BEGINNING OF YEAR	19,273	28,090	47,363
TOTAL NET ASSETS, END OF YEAR	$ 17,241	$ 28,178	$ 45,419

NORTH DAKOTA STUDENT LOAN TRUST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **EXHIBIT A-1**
YEAR ENDED JUNE 30, 2011
(In Thousands)

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program:		
Federal Family Education Loan Program	84.032	
Interest Subsidy		$ 118
Special Allowance		50
Guaranteed Student Loans:		39,406
Balance of guaranteed student loans at June 30, 2011 on which there are continuing compliance requirements		
TOTAL FEDERAL AWARDS		$ 39,574

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.

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

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, 2011, which collectively comprise the North Dakota Student Loan Trust's basic financial statements and have issued our report thereon dated September 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 opinions 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 effectiveness of the North Dakota Student Loan Trust's internal control over financial reporting.

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

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

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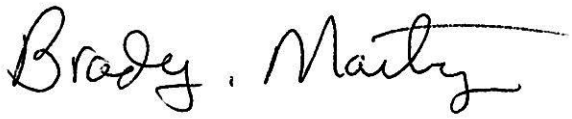
Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, the U.S. Department of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 7, 2011

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT A-4

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT 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 North Dakota Student Loan Trust's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the North Dakota Student Loan Trust's major federal programs for the year ended June 30, 2011. 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 each of its major federal programs 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 of 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2011.

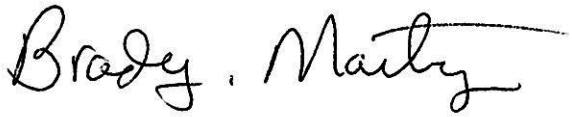
Internal Control over Compliance

Management of the North Dakota Student Loan Trust, is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 management, North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, the U.S. Department of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 7, 2011

NORTH DAKOTA STUDENT LOAN TRUST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS **EXHIBIT A-5**
YEAR ENDED JUNE 30, 2011

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 qualifies 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

NORTH DAKOTA STUDENT LOAN TRUST
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2011

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 29, there were no prior findings.

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

No.

Audit Committee Communications*:*

1. **Identify and significant changes in accounting policies, any management conflicts or interest, any contingent liabilities, or any significant unusual transactions.**

   None

2. **Identify any significant accounting estimates and the process used by management to determine those estimates.**

   Management's estimate of the allowance for loan losses was 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 allowance for amortization of bond issue costs is amortized over the period of time the bonds are outstanding using the bonds outstanding method.

3. **Identify any significant audit adjustments.**

   None

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matters that could be significant to the financial statements.**

   None

5. **Identify any significant difficulties encountered in performing the audit.**

   None

6. **Identify any major issues discussed with management prior to retention.**

   None

7. **Identify any management consultations with other accountants about auditing and accounting matters.**

   None

8. **Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission.**

   Based on the audit procedures performed, the ND Student Loan Trust's critical information technology system is the Helms System. There were no exceptions identified that were directly related to this application.

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.

September 7, 2011

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

September 7, 2011

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

We have audited the financial statements of the North Dakota Student Loan Trust for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in January 2011. Professional standards also require that we communicate to you the following information related to our audit.

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 the 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 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 was 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 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 loan losses 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.

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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.

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 September 7, 2011.

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.

(Other Information in Documents Containing Audited Financial Statements)

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sincerely,

BRADY, MARTZ & ASSOCIATES, P.C.