



Financial Statements  
June 30, 2015 and 2014

# North Dakota Student Loan Trust

# NORTH DAKOTA STUDENT LOAN TRUST

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## Independent Auditor's Report

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Student Loan Trust, an enterprise fund of the State of North Dakota as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the North Dakota Student Loan Trust's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the 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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matters****Reporting Entity**

As discussed in Note 1, the financial statements of the North Dakota Student Loan Trust are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the North Dakota Student Loan Trust. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2015 and 2014 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Student Loan Trust's financial statements. The combining statements of net position and combining statements of revenues, expenses, and changes in fund net position 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 is also not a required part of the financial statements.

The combining statements of net position, combining statements of revenues, expenses, and changes in fund net position, 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. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position, combining statements of revenues, expenses, and changes in fund net position, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2015 on our consideration of the North Dakota Student Loan Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Dakota Student Loan Trust's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota  
September 23, 2015

**NORTH DAKOTA STUDENT LOAN TRUST**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015 AND 2014**  
**(In Thousands)**

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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, 2015 and 2014. 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 .01% on July 1, 2015. For the fiscal year beginning July 1, 2014 and 2013, FFELP Stafford student loan interest rates were based on a T-bill rate of .03% and .05% respectively. DEAL loans are available at either a fixed rate or a variable rate with the rates being adjusted quarterly. As of July 1, 2015, the fixed rate was 5.08% and the variable rate was 1.79% 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 6.08% fixed or 2.79% variable. As of July 1, 2014, the fixed rate is 5.29% and the variable rate is 1.73% 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 6.29% fixed or 2.73% variable. As of July 1, 2013, the fixed rate is 5.70% and the variable rate is 1.78% 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 6.70% fixed or 2.78% variable.

The Trust 2015 statement of net position indicates that the Trust continues to have adequate resources to provide for bond repayment and continuing operations. There are \$17,430 of current assets, which includes \$4,844 of student loans receivable, available to meet the next fiscal year's obligations of approximately \$112. This amount includes the future obligations to the General Fund as explained under Economic Factors and Future Outlook. The operating income of \$214 reflected in the statement of revenues, expenses, and changes in fund net position 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 includes the requirements of 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 Statement of Net Position summarizes the assets and liabilities, with the difference between the two reported as net position. 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 Position 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)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>			
CURRENT ASSETS - UNRESTRICTED	\$ 17,430	\$ 18,050	\$ 14,103
CURRENT ASSETS - RESTRICTED	500	500	500
NONCURRENT ASSETS - UNRESTRICTED	16,853	21,686	25,772
NONCURRENT ASSETS - RESTRICTED	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u>\$ 35,783</u>	<u>\$ 41,236</u>	<u>\$ 41,375</u>
<b>LIABILITIES</b>			
CURRENT LIABILITIES	\$ 112	\$ 801	\$ 156
NONCURRENT LIABILITIES	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
TOTAL LIABILITIES	<u>1,112</u>	<u>1,801</u>	<u>1,156</u>
<b>NET POSITION</b>			
RESTRICTED FOR DEBT SERVICE	434	423	413
UNRESTRICTED	<u>34,237</u>	<u>39,012</u>	<u>39,806</u>
TOTAL NET POSITION	<u>34,671</u>	<u>39,435</u>	<u>40,219</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 35,783</u>	<u>\$ 41,236</u>	<u>\$ 41,375</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (In Thousands)

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### *Significant Statement of Net Position Changes*

Total student loans receivable, net of allowance for loan losses, declined by \$4,875 from \$27,572 in 2014 to \$22,697 in 2015. Total student loans receivable, net of allowance for loan losses, declined by \$4,888 from \$32,460 in 2013 to \$27,572 in 2014. During fiscal year 2015, the Industrial Commission authorized the transfer of \$5,000 from the 1996 General Bond Resolution Revenue Fund to the North Dakota Guarantee Agency's Guarantee Program.

There were no new bonds issued in 2015, 2014 or 2013. No principal payments were made during the fiscal years ended June 30, 2015 and 2014. For the year ending June 30, 2013, principal payments of \$2,200 were made to call all of the 2004 Subordinate Series bonds outstanding.

### *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 statement of net position. Student loans are either insured by the federal government (FISL) or guaranteed by the North Dakota Guaranteed Student Loan Program (GSL). 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 2013 North Dakota Legislature passed Senate Bill 2003 that provides for an appropriation of \$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, 2013 and ending June 30, 2015. As of June 30, 2015, there was no appropriation payable and \$588 was paid during the fiscal year. See also Note 6 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(In Thousands)**

*Net Position*

The Restricted Net Position of the North Dakota Student Loan Trust is restricted by bond resolutions for the repayment of bond interest and principal. 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 POSITION**  
**YEARS ENDED JUNE 30, 2015, 2014, AND 2013**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPERATING REVENUES			
Interest on student loans	\$ 661	\$ 785	\$ 916
Special allowance and interest subsidy	49	65	86
Total operating revenues	<u>710</u>	<u>850</u>	<u>1,002</u>
OPERATING EXPENSES			
Interest	9	9	22
Service fees	420	500	587
Other	67	59	63
Total operating expenses	<u>496</u>	<u>568</u>	<u>672</u>
OPERATING INCOME	214	282	330
NONOPERATING REVENUE	<u>22</u>	<u>18</u>	<u>19</u>
INCOME BEFORE TRANSFERS	236	300	349
TRANSFERS	<u>(5,000)</u>	<u>(1,084)</u>	<u>(5,000)</u>
CHANGE IN NET POSITION	(4,764)	(784)	(4,651)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>39,435</u>	<u>40,219</u>	<u>44,870</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 34,671</u>	<u>\$ 39,435</u>	<u>\$ 40,219</u>

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **(In Thousands)**

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The Trust 2015 statement of net position indicates that it continues to have adequate resources to provide for bond repayment and continuing operations. The total net position did decline \$4,764 in 2015. However, there is \$17,930 of current assets, which includes \$4,844 of student loans receivable, available at June 30, 2015 to meet the next fiscal year's obligations of approximately \$112. This amount includes the future obligations to the General Fund as explained under Economic Factors and Future Outlook. The operating income of \$214 reflected in the statement of revenues, expenses, and changes in fund net position also illustrates that the Trust has adequate resources to provide for bond repayment and continuing operations.

#### *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.

#### *Transfers*

During fiscal year 2015, the Industrial Commission authorized the transfer of \$5,000 from the 1996 General Bond Resolution Revenue Fund to the North Dakota Guarantee Agency's Guarantee Program. Transfers of \$1,005 to the State Board of Higher Education for the professional student exchange program and for the Connect ND Campus Solutions are reflected in the fiscal year 2014 financial statements. Of the \$1,005 of the transfers, the Trust paid \$417 to the State Board of Higher Education during fiscal year 2014 and the remaining \$588 was reflected as an appropriation payable. Transfers of \$79 to the North Dakota Industrial Commission are also reflected in the fiscal year 2014 financial statements. The transfers of \$79 to the North Dakota Industrial Commission were not paid during 2014 and were included in the liability for "accrued fees payable – related party."

## **ECONOMIC FACTORS AND FUTURE OUTLOOK**

The 2015 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, \$539 for the Connect ND Campus Solutions, \$500 for grants to Tribal Community Colleges and \$2,000 for Dickinson State University leadership transition needs during the biennium beginning July 1, 2015 and ending June 30, 2017.

The 2015 North Dakota Legislature passed House Bill 1004 that provides for an appropriation of \$360 from the North Dakota Student Loan Trust to the Department of Health for the Dental Loan Repayment Program during the biennium beginning July 1, 2015 and ending June 30, 2017.

The 2015 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, 2015 and ending June 30, 2017.

The 2015 North Dakota Legislature passed House Bill 1018 that provides for an appropriation of \$1,000 from the North Dakota Student Loan Trust to the Department of Commerce for Tribal grants during the biennium beginning July 1, 2015 and ending June 30, 2017.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(In Thousands)**

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The 2015 North Dakota Legislature passed House Bill 1049 that provides for an appropriation of \$200 from the North Dakota Student Loan Trust to the Bank of North Dakota Addiction Counseling Revolving Loan Program during the biennium beginning July 1, 2015 and ending June 30, 2017.

The 2015 North Dakota Legislature passed House Bill 1151 that provides for an appropriation of \$2,500 from the North Dakota Student Loan Trust to the State Board of Higher Education for matching grants for the advancement of academics at institutions of higher education during the biennium beginning July 1, 2015 and ending June 30, 2017.

At the current time, the Industrial Commission does not have any future plans that would materially impact the future operations of the Trust.

### **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**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2015 AND 2014**  
(In Thousands)

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS - UNRESTRICTED</b>		
Cash and cash equivalents	\$ 14	\$ 575
Investments	12,360	12,351
Interest receivable	194	221
Due from other state agencies	7	4
Special allowance and interest subsidy receivable	11	13
Student loans receivable, net of allowance for loan losses	<u>4,844</u>	<u>4,886</u>
Total unrestricted current assets	<u>17,430</u>	<u>18,050</u>
<b>CURRENT ASSETS - RESTRICTED</b>		
Investments	<u>500</u>	<u>500</u>
<b>NONCURRENT ASSETS - UNRESTRICTED</b>		
Student loans receivable, net of allowance for loan losses	<u>16,853</u>	<u>21,686</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>		
Student loans receivable, net of allowance for loan losses	<u>1,000</u>	<u>1,000</u>
Total assets	<u><u>\$ 35,783</u></u>	<u><u>\$ 41,236</u></u>

	<u>2015</u>	<u>2014</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accrued interest payable	\$ 1	\$ 1
Accrued fees payable	8	8
Accrued fees payable - related party	103	204
Appropriation payable	<u>-</u>	<u>588</u>
Total current liabilities	<u>112</u>	<u>801</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable	<u>1,000</u>	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	<u>1,000</u>
Total liabilities	<u>1,112</u>	<u>1,801</u>
<b>NET POSITION</b>		
Restricted for debt service	434	423
Unrestricted	<u>34,237</u>	<u>39,012</u>
Total net position	<u>34,671</u>	<u>39,435</u>
Total liabilities and net position	<u><u>\$ 35,783</u></u>	<u><u>\$ 41,236</u></u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED JUNE 30, 2015 AND 2014**  
(In Thousands)

	2015	2014
<b>OPERATING REVENUES</b>		
Interest on student loans	\$ 661	\$ 785
Special allowance and interest subsidy	49	65
Total operating revenues	710	850
<b>OPERATING EXPENSES</b>		
Interest	9	9
Service fees	420	500
Administration fees	25	30
Provision for loan losses	7	(4)
Bond related expenses	35	33
Total operating expenses	496	568
<b>OPERATING INCOME</b>	214	282
<b>NONOPERATING REVENUE</b>		
Investment income	22	18
<b>INCOME BEFORE TRANSFERS</b>	236	300
<b>TRANSFERS FROM (TO)</b>		
North Dakota Guarantee Agency	(5,000)	-
State Board of Higher Education	-	(1,005)
North Dakota Industrial Commission	-	(79)
Total transfers to	(5,000)	(1,084)
<b>CHANGE IN NET POSITION</b>	(4,764)	(784)
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	39,435	40,219
<b>TOTAL NET POSITION, END OF YEAR</b>	\$ 34,671	\$ 39,435

**NORTH DAKOTA STUDENT LOAN TRUST**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2015 AND 2014**  
**(In Thousands)**

	2015	2014
<b>OPERATING ACTIVITIES</b>		
Receipts of student loan repayments	\$ 5,556	\$ 5,716
Receipts of special allowance and interest subsidy	50	68
Payments to state agency service providers	(466)	(551)
Payments to other service providers	(35)	(33)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>5,105</b>	<b>5,200</b>
<b>NON-CAPITAL FINANCING ACTIVITIES</b>		
Bond interest payments	(9)	(9)
Transfer to North Dakota Guarantee Agency	(5,000)	-
Transfer to North Dakota Industrial Commission	(79)	-
Transfer to State Board of Higher Education	(588)	(417)
<b>NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(5,676)</b>	<b>(426)</b>
<b>INVESTING ACTIVITIES</b>		
Investment interest received	19	16
Purchase of investment securities	(14,667)	(14,560)
Proceeds from sale and maturity of investment securities	14,658	10,237
<b>NET CASH FROM (USED FOR) INVESTING ACTIVITIES</b>	<b>10</b>	<b>(4,307)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(561)</b>	<b>467</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>575</b>	<b>108</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 14</b>	<b>\$ 575</b>

(continued on next page)

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

	<u>2015</u>	<u>2014</u>
<b>RECONCILIATION OF OPERATING INCOME</b>		
<b>TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 214	\$ 282
Adjustments to reconcile operating income		
Provision for loan losses	7	(4)
Reclassification of interest income and expense to other activities	9	9
Changes in assets and liabilities		
Student loans receivable	4,868	4,892
Interest receivable	27	39
Special allowance and interest subsidy receivable	2	3
Accrued fees payable - related party	(22)	(21)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>\$ 5,105</u>	<u>\$ 5,200</u>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH</b>		
<b>TRANSACTIONS</b>		
Transfer to State Board of Higher Education included in appropriation payable	<u>\$ -</u>	<u>\$ 588</u>
Transfer to North Dakota Industrial Commission included in accrued fees payable - related party	<u>\$ -</u>	<u>\$ 79</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**  
**(In Thousands)**

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**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. 61, *The Financial Reporting Entity: Omnibus*, 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 that criteria, 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.

*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. 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, and gain on redemption of bonds are recorded in this fund in accordance with the bond resolutions.

## NOTES TO FINANCIAL STATEMENTS

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### *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 statement of net position. Net position is segregated into restricted and unrestricted components. The statement of revenues, expenses and changes in fund net position present increases (e.g. revenues) and decreases (e.g. expenses) in net total position. 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 statement of net position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *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.

### *Interest 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.

## NOTES TO FINANCIAL STATEMENTS

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### *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 collectability of the principal balance is unlikely. Recoveries of amounts previously charged off are credited to the allowance.

### *Restricted Assets and Restricted Net Position*

The assets and net position of the North Dakota Student Loan Trust are restricted by bond resolutions for the repayment of bond interest and principal.

Moneys held in surplus accounts (which are classified as unrestricted on the statement of net position) 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, 2015 and 2014, the surplus accounts consist of the following:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 14	\$ 575
Investments	12,360	12,351
Interest receivable	194	221
Due from other state agencies	7	4
Special allowance and interest subsidy receivable	11	13
Student loans receivable, net of allowance for loan losses	21,697	26,572
Appropriation payable	<u>-</u>	<u>(588)</u>
	<u>\$ 34,283</u>	<u>\$ 39,148</u>

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. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Trust considers restricted funds to have been spent first.

### *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.

## NOTES TO FINANCIAL STATEMENTS

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### 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, 2015 and 2014, the Trust had the following deposits:

	<u>2015</u>	<u>2014</u>
Cash		
Bank of North Dakota	\$ 14	\$ 575
Time deposits		
Bank of North Dakota	<u>12,860</u>	<u>12,851</u>
	<u>\$ 12,874</u>	<u>\$ 13,426</u>

As of June 30, 2015, and 2014, the Trust had the following classification of deposits on the statement of net position:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 14	\$ 575
Investments	<u>12,860</u>	<u>12,851</u>
	<u>\$ 12,874</u>	<u>\$ 13,426</u>

#### *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).

## NOTES TO FINANCIAL STATEMENTS

### 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). 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, 2015 and 2014, student loans are categorized as follows:

	2015	2014
DEAL	\$ 2,216	\$ 2,707
GSL	20,529	24,906
	<u>22,745</u>	<u>27,613</u>
Allowance for loan losses	(48)	(41)
	<u>22,697</u>	<u>27,572</u>
Total student loans receivable	22,697	27,572
Less current portion	4,844	4,886
	<u>17,853</u>	<u>22,686</u>
Noncurrent portion	\$ 17,853	\$ 22,686

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, 2015, student loans receivable are categorized as follows:

	Subsidized	Unsubsidized	DEAL	Total
Student	\$ 14	\$ 44	\$ -	\$ 58
Deferred	805	1,021	565	2,391
Repayment	8,763	9,882	1,651	20,296
	<u>9,582</u>	<u>10,947</u>	<u>2,216</u>	<u>22,745</u>
Allowance for loan losses	(30)	(18)	-	(48)
	<u>9,552</u>	<u>10,929</u>	<u>2,216</u>	<u>22,697</u>
Total	\$ 9,552	\$ 10,929	\$ 2,216	\$ 22,697

## NOTES TO FINANCIAL STATEMENTS

At June 30, 2014, student loans receivable are categorized as follows:

	<u>Subsidized</u>	<u>Unsubsidized</u>	<u>DEAL</u>	<u>Total</u>
Student	\$ 22	\$ 71	\$ -	\$ 93
Deferred	1,230	1,580	500	3,310
Repayment	10,484	11,519	2,207	24,210
	<u>11,736</u>	<u>13,170</u>	<u>2,707</u>	<u>27,613</u>
Allowance for loan losses	<u>(26)</u>	<u>(15)</u>	<u>-</u>	<u>(41)</u>
Total	<u>\$ 11,710</u>	<u>\$ 13,155</u>	<u>\$ 2,707</u>	<u>\$ 27,572</u>

The composition of the allowance for loan losses for the years ended June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Balance - beginning of year	\$ 41	\$ 45
Provision for loan losses	7	(4)
Loans charged off	<u>-</u>	<u>-</u>
Balance - end of year	<u>\$ 48</u>	<u>\$ 41</u>

### 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 school, grace or deferred status.

## NOTES TO FINANCIAL STATEMENTS

### 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 1,000	\$ 1,000
Principal payments on bonds	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>

#### *Maturities of Bonds Payable*

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 9	\$ 9
2017	-	9	9
2018	-	9	9
2019	-	9	9
2020	-	9	9
2021-2025	-	45	45
2026-2029	<u>1,000</u>	<u>35</u>	<u>1,035</u>
	<u>\$ 1,000</u>	<u>\$ 125</u>	<u>\$ 1,125</u>

The following is a more detailed description of the individual bond issue that remains outstanding at June 30, 2015 and 2014.

	<u>Maturity Dates</u>	<u>Interest Rate (%)</u>	<u>2015</u>	<u>2014</u>
General Bond Resolution Fund 2004 Series A	June 1, 2029	0.89 (1)	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Less current portion			<u>-</u>	<u>-</u>
Noncurrent portion			<u>\$ 1,000</u>	<u>\$ 1,000</u>

(1) Variable on June 30, 2015.

## NOTES TO FINANCIAL STATEMENTS

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### **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 the one-month LIBOR plus 0.7% or Federal Home Loan Bank plus 0.7%. 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.

### **NOTE 6 - 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 \$7 and \$4 as of June 30, 2015 and 2014 and is reflected as due from other state agencies on the statement of net position. 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 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.

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

	<u>2015</u>	<u>2014</u>
Service fees	\$ 420	\$ 500
Administration fees	<u>25</u>	<u>30</u>
	<u>\$ 445</u>	<u>\$ 530</u>
Management fees to the North Dakota Industrial Commission	<u>\$ -</u>	<u>\$ 79</u>

Payables to the related parties for such fees amounting to \$103 and \$204 at June 30, 2015 and 2014 are included in "accrued fees payable - related party" on the statement of net position. The \$103 is due to the Bank of North Dakota for service and administration fees at June 30, 2015. At June 30, 2014, \$79 was due to the North Dakota Industrial Commission for management fees and \$125 was due to the Bank of North Dakota for service and administration fees.

## NOTES TO FINANCIAL STATEMENTS

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The 2015 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, \$539 for the Connect ND Campus Solutions, \$500 for grants to Tribal Community Colleges and \$2,000 for Dickinson State University leadership transition needs during the biennium beginning July 1, 2015 and ending June 30, 2017.

The 2015 North Dakota Legislature passed House Bill 1004 that provides for an appropriation of \$360 from the North Dakota Student Loan Trust to the Department of Health for the Dental Loan Repayment Program during the biennium beginning July 1, 2015 and ending June 30, 2017.

The 2015 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, 2015 and ending June 30, 2017.

The 2015 North Dakota Legislature passed House Bill 1018 that provides for an appropriation of \$1,000 from the North Dakota Student Loan Trust to the Department of Commerce for Tribal grants during the biennium beginning July 1, 2015 and ending June 30, 2017.

The 2015 North Dakota Legislature passed House Bill 1049 that provides for an appropriation of \$200 from the North Dakota Student Loan Trust to the Bank of North Dakota Addiction Counseling Revolving Loan Program during the biennium beginning July 1, 2015 and ending June 30, 2017.

The 2015 North Dakota Legislature passed House Bill 1151 that provides for an appropriation of \$2,500 from the North Dakota Student Loan Trust to the State Board of Higher Education for matching grants for the advancement of academics at institutions of higher education during the biennium beginning July 1, 2015 and ending June 30, 2017.

The 2013 North Dakota Legislature passed Senate Bill 2003 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, 2013 and ending June 30, 2015. The total appropriations of \$1,005 are reflected as transfers to the State Board of Higher Education in the 2014 financial statements. Of the \$1,005 of the transfers, the Trust paid \$417 to the State Board of Higher Education during fiscal year 2014 and the remaining \$588 was paid during fiscal year 2015.

The 2013 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, 2013 and ending June 30, 2015. Transfers of \$79 are reflected in the Trust's fiscal year 2014 financial statements for funds to be paid to the North Dakota Industrial Commission and are included in the liability for "accrued fees payable – related party" at June 30, 2014 and was paid during fiscal year 2015.

During fiscal year 2015, the Industrial Commission authorized the transfer of \$5,000 from the 1996 General Bond Resolution Revenue Fund to the North Dakota Guarantee Agency's Guarantee Program. The purpose of the transfer was to increase the Guaranteed Program's Student Loan Reserve Fund balance. This transfer was paid during fiscal year 2015.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7 - 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  
June 30, 2015 and 2014

# North Dakota Student Loan Trust

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**NORTH DAKOTA STUDENT LOAN TRUST**  
**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2015**  
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>ASSETS</b>			
<b>CURRENT ASSETS - UNRESTRICTED</b>			
Cash and cash equivalents	\$ 9	\$ 5	\$ 14
Investments	3,817	8,543	12,360
Interest receivable	89	105	194
Due from other state agencies	2	5	7
Special allowance and interest subsidy receivable	3	8	11
Student loans receivable, net of allowance for loan losses	<u>2,116</u>	<u>2,728</u>	<u>4,844</u>
Total unrestricted current assets	<u>6,036</u>	<u>11,394</u>	<u>17,430</u>
<b>CURRENT ASSETS - RESTRICTED</b>			
Investments	<u>500</u>	<u>-</u>	<u>500</u>
<b>NONCURRENT ASSETS - UNRESTRICTED</b>			
Student loans receivable, net of allowance for loan losses	<u>9,055</u>	<u>7,798</u>	<u>16,853</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>			
Student loans receivable, net of allowance for loan losses	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total assets	<u>\$ 16,591</u>	<u>\$ 19,192</u>	<u>\$ 35,783</u>

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accrued interest payable	\$ 1	\$ -	\$ 1
Accrued fees payable	8	-	8
Accrued fees payable - related party	57	46	103
Total current liabilities	66	46	112
<b>NONCURRENT LIABILITIES</b>			
Bonds payable	1,000	-	1,000
Total noncurrent liabilities	1,000	-	1,000
Total liabilities	1,066	46	1,112
<b>NET POSITION</b>			
Restricted for debt service	434	-	434
Unrestricted	15,091	19,146	34,237
Total net position	15,525	19,146	34,671
Total liabilities and net position	\$ 16,591	\$ 19,192	\$ 35,783

**NORTH DAKOTA STUDENT LOAN TRUST**  
**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2014**  
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>ASSETS</b>			
<b>CURRENT ASSETS - UNRESTRICTED</b>			
Cash and cash equivalents	\$ 569	\$ 6	\$ 575
Investments	1,686	10,665	12,351
Interest receivable	106	115	221
Due from other state agencies	1	3	4
Special allowance and interest subsidy receivable	3	10	13
Student loans receivable, net of allowance for loan losses	<u>2,156</u>	<u>2,730</u>	<u>4,886</u>
Total unrestricted current assets	<u>4,521</u>	<u>13,529</u>	<u>18,050</u>
<b>CURRENT ASSETS - RESTRICTED</b>			
Investments	<u>500</u>	<u>-</u>	<u>500</u>
<b>NONCURRENT ASSETS - UNRESTRICTED</b>			
Student loans receivable, net of allowance for loan losses	<u>11,128</u>	<u>10,558</u>	<u>21,686</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>			
Student loans receivable, net of allowance for loan losses	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total restricted noncurrent assets	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total assets	<u><u>\$ 17,149</u></u>	<u><u>\$ 24,087</u></u>	<u><u>\$ 41,236</u></u>

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accrued interest payable	\$ 1	\$ -	\$ 1
Accrued fees payable	8	-	8
Accrued fees payable - related party	68	136	204
Appropriation payable	588	-	588
Total current liabilities	<u>665</u>	<u>136</u>	<u>801</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds payable	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total liabilities	<u>1,665</u>	<u>136</u>	<u>1,801</u>
<b>NET POSITION</b>			
Restricted for debt service	423	-	423
Unrestricted	<u>15,061</u>	<u>23,951</u>	<u>39,012</u>
Total net position	<u>15,484</u>	<u>23,951</u>	<u>39,435</u>
Total liabilities and net position	<u>\$ 17,149</u>	<u>\$ 24,087</u>	<u>\$ 41,236</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEAR ENDED JUNE 30, 2015**  
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>OPERATING REVENUES</b>			
Interest on student loans	\$ 287	\$ 374	\$ 661
Special allowance and interest subsidy	13	36	49
Total operating revenues	<u>300</u>	<u>410</u>	<u>710</u>
<b>OPERATING EXPENSES</b>			
Interest	9	-	9
Service fees	232	188	420
Administration fees	13	12	25
Provision for loan losses	9	(2)	7
Bond related expenses	1	34	35
Total operating expenses	<u>264</u>	<u>232</u>	<u>496</u>
<b>OPERATING INCOME</b>	36	178	214
<b>NONOPERATING REVENUE</b>			
Investment income	5	17	22
<b>INCOME BEFORE TRANSFERS</b>	<u>41</u>	<u>195</u>	<u>236</u>
<b>TRANSFERS TO</b>			
North Dakota Guarantee Agency	-	(5,000)	(5,000)
<b>CHANGE IN NET POSITION</b>	41	(4,805)	(4,764)
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>15,484</u>	<u>23,951</u>	<u>39,435</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 15,525</u>	<u>\$ 19,146</u>	<u>\$ 34,671</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEAR ENDED JUNE 30, 2014**  
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>OPERATING REVENUES</b>			
Interest on student loans	\$ 332	\$ 453	\$ 785
Special allowance and interest subsidy	15	50	65
Total operating revenues	<u>347</u>	<u>503</u>	<u>850</u>
<b>OPERATING EXPENSES</b>			
Interest	9	-	9
Service fees	270	230	500
Administration fees	15	15	30
Provision for loan losses	(1)	(3)	(4)
Bond related expenses	-	33	33
Total operating expenses	<u>293</u>	<u>275</u>	<u>568</u>
<b>OPERATING INCOME</b>	54	228	282
<b>NONOPERATING REVENUE</b>			
Investment income	<u>2</u>	<u>16</u>	<u>18</u>
<b>INCOME BEFORE TRANSFERS</b>	<u>56</u>	<u>244</u>	<u>300</u>
<b>TRANSFERS TO</b>			
State Board of Higher Education	(1,005)	-	(1,005)
North Dakota Industrial Commission	<u>-</u>	<u>(79)</u>	<u>(79)</u>
Total transfers to	<u>(1,005)</u>	<u>(79)</u>	<u>(1,084)</u>
<b>CHANGE IN NET POSITION</b>	(949)	165	(784)
<b>TOTAL NET POSITION, BEGINNING OF YEAR,</b>	<u>16,433</u>	<u>23,786</u>	<u>40,219</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 15,484</u>	<u>\$ 23,951</u>	<u>\$ 39,435</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**  
**(In Thousands)**

**EXHIBIT A-1**

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program:		
Federal Family Education Loan Program	84.032	
Interest Subsidy		\$ 25
Special Allowance		24
Guaranteed Student Loans:		
Balance of guaranteed student loans at June 30, 2014 on which there are continuing compliance requirements		24,906
TOTAL FEDERAL AWARDS		\$ 24,955

**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.

**NOTE 2** – The outstanding balance of guaranteed student loans on which there are continuing compliance requirements under the student loan program totaled \$20,529 at June 30, 2015.

**NORTH DAKOTA STUDENT LOAN TRUST  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2015**

**EXHIBIT A-2**

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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.

**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, 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, the financial statements of North Dakota Student Loan Trust, an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise North Dakota Student Loan Trust's basic financial statements, and have issued our report thereon dated September 23, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Dakota Student Loan Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Student Loan Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Student Loan Trust's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Dakota Student Loan Trust's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota  
September 23, 2015

**Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133**

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

**Report on Compliance for the Major Federal Program**

We have audited North Dakota Student Loan Trust's, an enterprise fund of the State of North Dakota, 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 North Dakota Student Loan Trust's major federal program for the year ended June 30, 2015. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance of North Dakota Student Loan Trust's major federal program based on our audit of the types of compliance requirements referred to above. 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 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 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 on compliance for the major federal program. However, our audit does not provide a legal determination of North Dakota Student Loan Trust's compliance.

**Opinion on the Major Federal Program**

In our opinion, 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 the major Federal program for the year ended June 30, 2015.

**Report on Internal Control over Compliance**

Management of North Dakota Student Loan Trust is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Dakota Student Loan Trust’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bismarck, North Dakota  
September 23, 2015

**NORTH DAKOTA STUDENT LOAN TRUST  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

**EXHIBIT A-5**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	<u>  x  </u> no
Significant deficiency(ies) identified?	_____ yes	<u>  x  </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u>  x  </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	<u>  x  </u> no
Significant deficiency(ies) identified?	_____ yes	<u>  x  </u> none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

\_\_\_\_\_ yes        x   no

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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84.032	Federal Family Education Loan Program
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Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as a low-risk auditee?

  x   yes      \_\_\_\_\_ no

**SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS**

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

**SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

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.

**Independent Auditor's Comments Requested by the  
North Dakota Legislative Audit and Fiscal Review Committee**

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 regarding the June 30, 2015 audit of North Dakota Student Loan Trust are as follows:

**Audit Report Communications:**

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

Unmodified

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. Were there any indications of lack of efficiency in financial operations and management of the agency?

No

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

There were no prior year findings or recommendations.

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 any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

None

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of these estimates.

None

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 matter 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 or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.

Based on the audit procedures performed, North Dakota 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, Bank of North Dakota Advisory Board, management, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Bismarck, North Dakota  
September 23, 2015

The Industrial Commission  
North Dakota Student Loan Trust  
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Student Loan Trust, an enterprise fund of the State of North Dakota, for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *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 in our letter to you dated June 29, 2015. 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 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 2015. We noted no transactions entered into by North Dakota Student Loan Trust 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. There were no significant estimates that affected the North Dakota Student Loan Trust's financial statements.

The financial statement disclosures are neutral, consistent, and clear.

#### **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 clearly trivial, and communicate them to the appropriate level of management. No misstatements were detected as a result of audit procedures.

**Disagreements with Management**

For purposes of this letter, a disagreement with management is 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 23, 2015.

**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 North Dakota Student Loan Trust’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 Matters**

We applied certain limited procedures to the management’s discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements of net position, combining statements of revenues, expenses, and changes in fund net position and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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, Legislative Audit and Fiscal Review Committee, Bank of North Dakota Advisory Board 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.

*Eide Bailly LLP*

Bismarck, North Dakota  
September 23, 2015