



Financial Statements
September 30, 2015 and 2014

North Dakota Guaranteed Student Loan Program

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

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Independent Auditor's Report

To 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 Guaranteed Student Loan Program, an enterprise fund of the State of North Dakota, as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the North Dakota Guaranteed Student Loan Program'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 audits 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 Guaranteed Student Loan Program, as of September 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**Federal Student Loan Reserve Fund**

As discussed in Note 8, all guaranty responsibilities relating to Federal Family Education Loan Program (FFELP) will be transferred to the Department of Education. The transfer has a target date of March 31, 2016. Our opinion is not modified with respect to this matter.

Reporting Entity

As discussed in Note 1, the financial statements of the North Dakota Guaranteed Student Loan Program 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 Guaranteed Student Loan Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of September 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 Guaranteed Student Loan Program's financial statements. The combining statements of net position, combining statements of revenues, expenses, and changes in net position, and combining statements of cash flows 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 net position, combining statements of cash flows, 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 net position, combining statements of cash flows and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic 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 December 14, 2015 on our consideration of North Dakota Guaranteed Student Loan Program'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 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* in considering North Dakota Guaranteed Student Loan Program's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in dark ink and is positioned above the typed name and date.

Aberdeen, South Dakota
December 14, 2015

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2015, 2014 AND 2013

The North Dakota Guaranteed Student Loan Program (the Program) has been designated to act as a guarantor of student loans made pursuant to the Higher Education Act of 1965, as amended (the Act), and certain other student loans if the North Dakota Industrial Commission determines that the student loans made under the terms of certain federal programs are no longer meeting the needs of North Dakota students, or are no longer available. Operationally, the Program is comprised of three components – an Agency Operating Fund (the AOF), an Alternative Loan Fund, both of which are property of the Program, and a separate group of monies administered by the Program (the Federal Student Loan Reserve Fund (FSLRF)), the net position of which is property of the Federal Government and is reported as a liability to the Federal Government. On June 30, 2015, the North Dakota Industrial Commission approved the transfer of the Federal Family Education Loan Program responsibilities to the Department of Education. A target date of March 31, 2016 has been set for the transfer to be complete.

Note 1 to the financial statements provides a discussion of the organization and significant accounting policies of the Program. The financial statements of the Program provide accounting information similar to that of many other business entities. The Statement of Net Position summarizes the assets, liabilities and net position of the Program and provides the basis for analysis of the soundness and liquidity of the organization. The Statement of Revenues, Expenses and Changes in Net Position summarizes the success of the organization in carrying out its business over the course of the most recent fiscal periods. The Statement of Cash Flows summarizes the flow of cash through the organization as it conducts its business.

The discussion and analysis of the financial performance of the Program which follows is meant to provide additional insight into the Program's activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the Program's financial statements and footnotes which are presented elsewhere in this report. Please note that the Program continues to have adequate resources to act as a guarantor of student loans and the auditor's opinion which accompanies the financial statements and the supplementary information is unmodified.

2015 FINANCIAL HIGHLIGHTS

Agency Operating Fund

The original principal amount of the Program's Federal Family Education Loan guarantees outstanding at the end of fiscal year 2015 totaled \$605 million compared to \$722 million at the end of fiscal year 2014, and \$825 million at the end of fiscal year 2013. This resulted in a decrease of \$73,000 in account maintenance fees to the AOF for the fiscal year.

The Program provided first time default aversion activities on \$12 million in delinquent loans held by lenders in the fiscal year ending September 30, 2015. A one-time fee of 1% is received from the FSLRF for this service.

Collection revenue during the fiscal year ending September 30, 2015 was \$676,000 compared to \$1,190,000 received in the fiscal year ending September 30, 2014, and \$1,269,000 for fiscal year ending September 30, 2013. The Program receives these revenues as reimbursement for collection efforts performed for the Department of Education (the Department). The decrease of collection revenue during the fiscal year ending September 30, 2015 was mainly due to a reconfiguration of the rehabilitation program in which the Agency Operating Fund was required to begin returning the full amount of the default reinsurance payment received on rehabilitated loans. Previously, the Agency Operating Fund was required to return only eighty-one and one-half percent.

The Agency Operating Fund unrestricted statement of net position indicates that there are adequate resources to meet the next fiscal year's obligations.

Federal Student Loan Reserve Fund

The reserve ratio of the FSLRF, calculated by dividing the sum of the FSLRF liability account and the allowance for loan loss by the original principal amount of guarantees outstanding, is 1.18% as of September 30, 2015. The minimum reserve ratio allowed by federal law is 0.25%.

State law requires that the Program must maintain a 0.25% reserve fund on deposit with the Bank of North Dakota (the Bank) for the original principal amount of all outstanding student loans insured or guaranteed by the Program which are subject to federal reinsurance. Sufficient reserve funds were in place at September 30, 2015.

The Program must maintain a reinsurance rate of less than 5% in order to receive the maximum reimbursement from the Federal Government on loan claims. The Program's reinsurance rate of 1.53% is well under this limitation.

The Federal Student Loan Reserve Fund 2015 statement of net position indicates that the FSLRF has adequate resources to provide for claim payments to lenders.

Alternative Loan Fund

State law requires that the Program must maintain a reserve fund on deposit with the Bank for all outstanding Alternative Loans. The fund level may be no less than the Bank of North Dakota historical default rate. Sufficient reserve funds were in place at September 30, 2015.

Alternative Loan Fund guarantees during the fiscal year ending September 30, 2015 were \$294 million compared to \$213 million guaranteed during the fiscal year ending September 30, 2014, and \$165 million guaranteed during the fiscal year ending September 30, 2013.

Alternative Loan Fund guarantees outstanding at the end of fiscal year 2015 totaled \$901 million compared to \$697 million at the end of fiscal year 2014 and \$533 million at the end of fiscal year 2013.

The Alternative Loan Fund 2015 statement of net position indicates that the Alternative Loan Fund has adequate resources to provide for new loan guarantees, claim payments to lenders and continuing obligations.

**CONDENSED STATEMENTS OF NET POSITION
SEPTEMBER 30, 2015, 2014 AND 2013**

	(In Thousands)		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Current assets			
Cash and cash equivalents			
Unrestricted	\$ 27,066	\$ 6,399	\$ 5,564
Restricted	3,695	2,804	3,606
Investments			
Unrestricted	6,500	17,500	15,000
Restricted	2,000	4,000	3,500
Receivables			
Unrestricted	1,060	1,237	994
Restricted	4,360	4,189	4,340
Total assets	<u>44,681</u>	<u>36,129</u>	<u>33,004</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 44,681</u>	<u>\$ 36,129</u>	<u>\$ 33,004</u>
LIABILITIES			
Current liabilities			
Allowance for future credit losses	\$ 6,882	\$ 2,753	\$ 1,829
Federal Student Loan Reserve Fund	4,418	-	-
Other	3,396	3,462	3,677
Total current liabilities	<u>14,696</u>	<u>6,215</u>	<u>5,506</u>
Noncurrent liabilities			
Allowance for future credit losses	15,833	12,061	9,754
Federal Student Loan Reserve Fund	-	4,757	5,069
Other	-	339	368
Total noncurrent liabilities	<u>15,833</u>	<u>17,157</u>	<u>15,191</u>
Total liabilities	<u>30,529</u>	<u>23,372</u>	<u>20,697</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Restricted for default prevention activities	582	587	591
Unrestricted	13,570	12,170	11,716
Total net position	<u>14,152</u>	<u>12,757</u>	<u>12,307</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 44,681</u>	<u>\$ 36,129</u>	<u>\$ 33,004</u>

(continued on next page)

Cash and Cash Equivalents

The Program considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for purposes of reporting cash flows. Cash and cash equivalents increased \$21,558,000 primarily due to investment maturities of \$13,000,000 and a \$5,000,000 transfer from the North Dakota Student Loan Trust.

Investments

Investments decreased \$13,000,000 due to maturing certificates of deposit.

Receivables

The receivable balances are comprised of interest, administrative fee, reinsurance payments and various fees due to the Program as of the end of each year. Of these amounts, 82%, 79%, and 84%, were due from the Department as of the end of fiscal years 2015, 2014, and 2013, respectively.

Allowance for Future Credit Losses

The Program estimates the allowance for future credit losses based on periodic evaluation of outstanding loans guaranteed and historical claim rates on the Program's guarantee activities. Due to an increase in alternative loan volume, cumulative defaults and change in estimate in 2013, the allowance for future credit losses was \$22,715,000, \$14,815,000 and \$11,583,000 as of the end of fiscal years 2015, 2014, and 2013, respectively.

Federal Student Loan Reserve Fund

The balance in this account represents the Federal Government's share of the total assets of the Program as discussed in Notes 1 and 3 to the financial statements. This liability has been reclassified from noncurrent to current due to the transfer of this liability to the Department of Education targeted for March 31, 2016.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2015, 2014 AND 2013

	(In Thousands)		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPERATING REVENUES			
Administrative fee	\$ 8,399	\$ 5,673	\$ 2,369
Loan recoveries net of DOE share	306	279	285
Rehabilitation loans net of DOE share	(56)	369	430
Collection cost revenues	407	543	554
Fee revenues	519	635	762
Grant income	869	1,186	1,298
	<u>10,444</u>	<u>8,685</u>	<u>5,698</u>
OPERATING EXPENSES			
Service and administrative expense	2,078	2,136	2,100
Grant expenditures	869	1,252	1,298
Credit loss expense	11,065	4,859	5,098
Other expenses	112	67	-
	<u>14,124</u>	<u>8,314</u>	<u>8,496</u>
OPERATING INCOME (LOSS)	(3,680)	371	(2,798)
NONOPERATING REVENUES			
Interest income	75	79	64
INCOME (LOSS) BEFORE TRANSFERS	(3,605)	450	(2,734)
OPERATING TRANSFERS			
Transfer from ND Student Loan Trust	5,000	-	5,000
CHANGE IN NET POSITION	1,395	450	2,266
TOTAL NET POSITION - BEGINNING OF YEAR	12,757	12,307	10,041
TOTAL NET POSITION - END OF YEAR	\$ 14,152	\$ 12,757	\$ 12,307

Operating Revenues and Expenses

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to Program operations. Due to an increase in alternative loan volume and fee structure changes, administrative fee revenue increased by \$2,726,000 (48%) in fiscal year 2015 and \$3,304,000 (139%) in fiscal year 2014. Due to a reconfiguration of the rehabilitation program, the Program was required to begin returning one-hundred percent of defaulted reinsurance payments received on rehabilitated loans.

Service and Administrative Expense - Bank of North Dakota

The Program has entered into a number of agreements as discussed in Note 4 to the financial statements pertaining to related party transactions. Several of these agreements resulted in payments between the various parties either to pay claims on student loans guaranteed by the Program or to fund operations of the Program.

Credit Loss Expense

As discussed in Note 1 to the financial statements, the Program changed their estimation methodology for calculating the allowance for future credit loss during the year ended September 30, 2013. When combined with an increase in loan volume and cumulative defaults, credit loss expense was \$11,065,000, \$4,859,000, and \$5,098,000 for the fiscal years ended 2015, 2014, and 2013, respectively.

Transfers

On December 23, 2014, the Alternative Loan Fund received a transfer of \$5,000,000 from the North Dakota Student Loan Trust. On December 3, 2012, the Alternative Loan Fund received a transfer of \$5,000,000 from the North Dakota Student Loan Trust.

Economic Factors

Discussion at Notes 1 and 6 to the financial statements indicate that the Program has an economic dependence on the Department for reinsurance of student loans guaranteed by the Program, and for the payment of certain activity based fees for the Program's administration of the loan programs for the Department.

Factors Bearing on the Program's Future

On June 30, 2015, the North Dakota Industrial Commission approved the transfer of the Federal Family Education Loan Program responsibilities to the Department of Education. A target date of March 31, 2016 has been set for the transfer to be complete. Net position of the Agency Operating Fund, which was \$3,720,524 as of September 30, 2015, will be transferred to the Alternative Loan Fund. In addition, all assets and liabilities of the Federal Student Loan Reserve Fund, each of which totaled \$9,504,236 as of September 30, 2015, will be transferred to Great Lakes Higher Education Guaranty Corporation. These transfers will not have any effect on total net position of the Program on the date of transfer. Subsequent to the transfer, the Agency Operating Fund will no longer earn revenues or incur expenses related to the FFEL Program. During the year ended September 30, 2015, FFEL Program related revenues and expenses were \$1,153,127 and \$1,189,154, respectively.

Budgetary Information

As discussed in Note 1 to the financial statements, the North Dakota Century Code designates the Bank as the agency to administer the Program. The Bank's operations are funded under a biennial appropriation approved by the state legislature which encompasses the Bank's operations, including those of the Program. Section 15-62.1-01 of the North Dakota Century Code also provides continuing appropriation authority to expend monies received and interest earned as may be necessary to implement and administer the Program. Since the legislature does not identify separate appropriation funding for the Program, it is not possible to prepare an analysis of actual performance to appropriation for the Program.

Contacting the North Dakota Guaranteed Student Loan Program's financial management

The information in this report is intended to provide the reader with an overview of the results of the Program's operations along with the Program's accountability for those operations. If you have questions or require additional information, contact us at PO Box 5524, Bismarck, ND 58506-5524, or call us at 701-328-5654.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 27,066,129	\$ 6,399,011
Restricted	<u>3,694,953</u>	<u>2,804,211</u>
Investments		
Unrestricted	6,500,000	17,500,000
Restricted	<u>2,000,000</u>	<u>4,000,000</u>
Receivables		
Unrestricted		
Interest	6,883	21,956
Department of Education	1,865	9,092
Account maintenance fee	90,732	108,248
Administrative fee	941,877	1,050,105
Other receivables	18,066	47,260
Restricted		
Interest	2,157	5,122
Federal reinsurance	<u>4,358,135</u>	<u>4,183,551</u>
Total receivables	<u>5,419,715</u>	<u>5,425,334</u>
Total assets	<u>44,680,797</u>	<u>36,128,556</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 44,680,797</u></u>	<u><u>\$ 36,128,556</u></u>

See Notes to Financial Statements

	<u>2015</u>	<u>2014</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to other funds	\$ 173,607	\$ 204,963
Payable to lenders	2,478,601	2,752,852
Collections payable		
Department of Education	316,679	395,637
Allowance for future credit losses	6,882,000	2,754,000
Estimated future refunds of DAF	426,083	107,000
Federal Student Loan Reserve Fund	4,418,423	-
	<u>14,695,393</u>	<u>6,214,452</u>
Total current liabilities		
NONCURRENT LIABILITIES		
Allowance for future credit losses	15,833,000	12,061,000
Estimated future refunds		
of default aversion fees	-	339,441
Federal Student Loan Reserve Fund	-	4,756,782
	<u>15,833,000</u>	<u>17,157,223</u>
Total noncurrent liabilities		
Total liabilities	<u>30,528,393</u>	<u>23,371,675</u>
DEFERRED INFLOWS OF RESOURCES		
	<u>-</u>	<u>-</u>
NET POSITION		
Restricted		
Expendable for default prevention activities	582,147	586,692
Unrestricted	13,570,257	12,170,189
	<u>14,152,404</u>	<u>12,756,881</u>
Total net position		
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 44,680,797</u>	<u>\$ 36,128,556</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Administrative fee	\$ 8,398,694	\$ 5,672,939
Loan recoveries, net of remittance to Department of Education of \$1,590,254 in 2015 and \$1,497,411 in 2014	305,771	278,908
Rehabilitated loans, net of remittance to Department of Education of \$1,314,353 in 2015 and \$1,472,563 in 2014	(56,227)	368,656
Collection cost revenues, net of remittance to Department of Education of \$181,376 in 2015 and \$193,751 in 2014	407,360	542,808
Account maintenance fees	381,007	453,950
Default aversion fees	115,216	168,078
Grant income	868,731	1,186,487
Referral income	23,570	13,110
	<u>10,444,122</u>	<u>8,684,936</u>
OPERATING EXPENSES		
Service and administrative expense	2,077,847	2,130,368
Grant expenditures	868,731	1,252,448
Default prevention activities	4,642	5,126
Credit loss expense	11,064,745	4,859,211
DAF refund provision	107,441	67,232
	<u>14,123,406</u>	<u>8,314,385</u>
OPERATING INCOME (LOSS)	(3,679,284)	370,551
NONOPERATING REVENUES		
Interest income	74,807	78,760
	<u>74,807</u>	<u>78,760</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(3,604,477)	449,311
OPERATING TRANSFERS		
Transfer from North Dakota Student Loan Trust	5,000,000	-
	<u>5,000,000</u>	<u>-</u>
CHANGE IN NET POSITION	1,395,523	449,311
TOTAL NET POSITION, BEGINNING OF YEAR	12,756,881	12,307,570
TOTAL NET POSITION, END OF YEAR	\$ 14,152,404	\$ 12,756,881

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Loan recoveries received from borrowers	\$ 2,293,158	\$ 1,999,349
Loan recoveries remitted to DOE	(1,622,490)	(1,499,211)
Credit loss claims paid to lenders - BND	(14,664,202)	(10,557,554)
Credit loss claims paid to other lenders	(2,813,924)	(3,562,939)
Credit loss claims received from DOE	13,117,721	12,139,088
Rehab loan proceeds received from lenders - BND	1,461,905	2,258,394
Rehab loan proceeds remitted to DOE	(1,358,261)	(1,719,108)
Collections received from borrowers	200,767	189,822
Grant receipts	897,925	1,625,238
Account maintenance fees received from DOE	398,523	469,474
Administrative fee received from borrowers	8,506,922	4,986,686
Referral fees received	23,570	13,110
Service and administrative expense paid - BND	(2,992,034)	(3,395,065)
NET CASH FROM OPERATING ACTIVITIES	<u>3,449,580</u>	<u>2,947,284</u>
NON-CAPITAL FINANCING ACTIVITIES		
Cash received from North Dakota Student Loan Trust	<u>5,000,000</u>	<u>-</u>
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>5,000,000</u>	<u>-</u>
INVESTING ACTIVITIES		
Proceeds from investment maturities - BND	13,000,000	11,500,000
Purchase of investments - BND	-	(14,500,000)
Interest received	108,280	85,880
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	<u>13,108,280</u>	<u>(2,914,120)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	21,557,860	33,164
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9,203,222</u>	<u>9,170,058</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 30,761,082</u>	<u>\$ 9,203,222</u>

STATEMENTS OF CASH FLOWS – page 2

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (3,679,284)	\$ 370,551
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Credit loss expense	8,131,886	3,179,856
DAF refund provision, net of refunds	(20,358)	(41,496)
Changes in assets and liabilities:		
Administrative fee receivable - BND	108,228	(686,253)
Department of Education receivable	(167,357)	149,597
Account maintenance fee receivable	17,516	15,524
Due to other funds	41,257	456,525
Due to BND	(42,916)	(39,299)
Payable to lenders	(506,640)	130,489
Collections payable	(78,958)	(260,180)
Federal Student Loan Reserve Fund, net of interest	(353,794)	(328,030)
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 3,449,580</u>	<u>\$ 2,947,284</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 15-62.1 of the North Dakota Century Code (NDCC) designates the Bank of North Dakota (the Bank) as the agency for the administration of the North Dakota Guaranteed Student Loan Program (the Program). The Program shall expend monies received and interest on the reserve funds established pursuant to this section of the NDCC as may be necessary to implement and administer the Program. The Program has been designated to act as a guarantor of student loans made pursuant to the Higher Education Act of 1965, as amended (the Act), and certain other student loans if the North Dakota Industrial Commission determines that student loans made under the terms of certain federal programs are no longer meeting the needs of North Dakota students, or are no longer available. As such, the Program is responsible for processing loans submitted for guarantee, issuing loan guarantees, providing collection assistance to lenders for delinquent loans, paying lender claims for loans and collecting loans on which default claims have been paid.

The Program is comprised of three components – an Agency Operating Fund (the AOF), an Alternative Loan Fund and a separate group of monies administered by the Program (the Federal Student Loan Reserve Fund (FSLRF)). The AOF and any future earnings of the fund are the property of the Program, and may be used for application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring and other student financial aid related activities as selected by the Program. The Alternative Loan Fund and any earnings on the fund are property of the Program and may be used to fund the operations of the Program in its role as a guarantor of student loans outside the scope of the Act. The FSLRF and any earnings thereon are the sole property of the Federal Government, and may only be used to pay claims and certain specified fees.

In accordance with the provisions of the Act, the Program has entered into certain contracts with the U.S. Department of Education (the Department). These contracts define the responsibilities of the Program to the Department and qualify the Program for various forms of payment available under the Act. The basic agreement provides for the qualification of borrowers and participating lenders whose loans are guaranteed by the Program for federal interest benefits. Other agreements provide for reinsurance of loans with the Federal Government.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Program should include all component units over which the Program 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 Program.

Based on that criteria, no organizations were determined to be part of the Program. The Program is included as part of the primary government in the State of North Dakota's reporting.

Accounting Standards

The Program 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.

NOTES TO FINANCIAL STATEMENTS

Fund Accounting

The AOF and the Alternative Loan Fund are both property of the Program and are reported herein as enterprise funds. The FSLRF is property of the Federal Government, and is administered by the Program. The net position of the FSLRF is reported herein as a liability to the Federal Government.

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 these funds are included on the statement of net position. Net position is segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statements of cash flows present the cash flows for operating activities, investing activities and non-capital financing activities.

The AOF and Alternative Loan Fund are enterprise funds and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The FSLRF uses the accrual basis of accounting for recognition of increases and decreases in amounts due to the Federal Government.

In the process of aggregating data for the financial statements, some amounts reported as interfund activity and balances in the funds have been eliminated or reclassified.

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 at 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 these estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for future credit losses.

Cash and Cash Equivalents

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

Deposits and Investments

The Program records deposits and investments in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Nonnegotiable certificates of deposit meet the classification of Interest-earning Investment Contracts having redemption terms which do not consider market rates and are therefore carried at cost. Investment securities are carried at their market value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

NOTES TO FINANCIAL STATEMENTS

Capital Assets

The Program has developed computer software for internal use that was capitalized. The cost of the computer software is being amortized on a straight-line basis over its estimated useful life of three years and is fully amortized. Computer software with a cost of \$5,000 or more is capitalized.

Proceeds received from the sale of computer software, net of direct incremental costs of marketing, are applied against the carrying amount of the software. No profit is recognized until aggregate new proceeds from sales and amortization have reduced the carrying amount of the software to zero. Subsequent proceeds are recognized in revenue earned.

Administrative Fee Revenue

Administrative fee revenue is to be used by the Program to insure loans and to cover costs incurred in the administration of the Alternative Loan Fund. The revenue is recognized at the time of loan disbursement.

Loan Recoveries, Rehabilitated Loans and Collection Cost Revenues

Regulations require that the Program assess collection costs on all defaulted loans which it is attempting to collect for the Department. The Program is entitled to retain for its operations a portion of its collections of principal, interest and collection costs received on most defaulted loans. Due to a reconfiguration of the rehabilitation program, the Program no longer retains a portion of its collections of principal on rehabilitated loans. Income is recorded when the loan collections are received.

Account Maintenance Fees

The Act provides an account maintenance fee to be paid by the Department to compensate the Program for certain costs incurred by the Program. The Department pays the account maintenance fee to the AOF at a level of 0.06% of the original principal amount of outstanding guarantees as of September 30.

Default Aversion Fee and Estimated Future Refunds of Default Aversion Fees

The Act provides a default aversion fee to be paid from the FSLRF to the AOF to compensate the Program for certain costs incurred by the Program. Payment of this fee is limited to once per loan and is equal to 1% of the principal and accrued interest receivable balances when default aversion assistance is requested by lenders, with an obligation to refund the fee in the event of default based upon principal and accrued interest receivable at the time of claim payment. The fee is recognized upon completion of the default aversion activities by the Program, net of estimated refunds.

The Program calculates the estimated allowance for refunds of the default aversion fee based on a periodic evaluation of default aversion fees received and a historical refund rate.

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 446,441	\$ 487,937
Refund provision	107,441	67,232
Refunds paid	<u>(127,799)</u>	<u>(108,728)</u>
Balance, end of year	<u>\$ 426,083</u>	<u>\$ 446,441</u>

NOTES TO FINANCIAL STATEMENTS

Credit Loss Expenses

The Program estimates the allowance for future credit losses based on periodic evaluation of outstanding loans guaranteed and historical claim rates on the Program's guarantee activities. In fiscal year 2013, the Program changed its estimation methodology of calculating the allowance for future credit losses. Starting in fiscal year 2013, the allowance for future credit loss calculation is based upon two calculations. The first calculation is based upon the outstanding portfolio categorized by year disbursed which is then multiplied by an allowance factor and an age factor to arrive at an estimated allowance. The allowance factor is determined by calculating the average claim rate over the last five years and multiplying it by the expected life of an average loan. The expected life is determined by periodically reviewing all guaranteed loans that have been either paid in full by borrower, consolidation, or claim. The age factor is determined by periodically reviewing all claim loans and calculating the percentage of claims paid by age of a loan. The second calculation determines a minimum allowance for future credit loss, which is based upon the five year realized average loan loss multiplied by the expected life of an average loan. The allowance for future credit losses carried on the statement of net position is the greater of the two calculations.

Changes in the allowance for future credit losses for the Alternative Loan Fund for the years ending September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 12,100,000	\$ 8,868,000
Credit loss expense	11,064,745	4,859,211
Recoveries	278,198	167,259
Claims paid	<u>(3,442,943)</u>	<u>(1,794,470)</u>
Balance, end of year	<u>\$ 20,000,000</u>	<u>\$ 12,100,000</u>

The FSLRF is reimbursed by the Federal Government for a portion of claims paid on FFELP loans as discussed in Note 6.

Changes in the allowance for future losses for the FSLRF for the years ending September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 2,715,000	\$ 2,715,000
Credit loss expense	468,627	418,998
Claims paid, net of reinsurance	<u>(468,627)</u>	<u>(418,998)</u>
Balance, end of year	<u>\$ 2,715,000</u>	<u>\$ 2,715,000</u>

Restricted Assets and Restricted Net Position

Certain Program assets and net position carry a restricted classification, either because they are property of the Federal Government or their use has been restricted by the Federal Government for default prevention activities only.

NOTES TO FINANCIAL STATEMENTS

If an expense is incurred that qualifies for use of both restricted and unrestricted resources, the Program will first apply restricted resources.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds have their moneys invested in securities or deposits allowed by federal and state regulations. Section 682.410(a)(5) of Federal Regulations states that assets of the Program may be invested in low-risk securities, such as obligations issued or guaranteed by the United States or a State. North Dakota Century Code Section 15-62.1-05 states that securities in which moneys of the Program may be invested must meet the same requirements as those authorized for investment under the state investment board.

Deposits

As of September 30, 2015 and 2014, the Program had the following deposits:

	<u>2015</u>	<u>2014</u>
Cash and Savings Accounts	\$ 30,761,082	\$ 9,203,222
Time Deposits	<u>8,500,000</u>	<u>21,500,000</u>
	<u>\$ 39,261,082</u>	<u>\$ 30,703,222</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 Program 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 Program does not have a formal policy that limits custodial credit risk for deposits. None of the Program's deposits are covered by depository insurance. The Program's deposits are uncollateralized and all of the deposits are held at 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 - NONCURRENT LIABILITIES

Long-term liability activity for the years ended September 30, 2015 and 2014 was as follows:

	Balance 2014	Additions	Reductions	Balance 2015	Amounts Due Within One Year
Allowance for future credit losses	\$ 14,815,000	\$ 11,811,570	\$ (3,911,570)	\$ 22,715,000	\$ 6,882,000
Estimated future refunds of default aversion fees	446,441	107,441	(127,799)	426,083	426,083
Federal Student Loan Reserve Fund	4,756,782	16,563,481	(16,901,840)	4,418,423	4,418,423
	<u>\$ 20,018,223</u>	<u>\$ 28,482,492</u>	<u>\$(20,941,209)</u>	<u>\$ 27,559,506</u>	<u>\$ 11,726,506</u>

	Balance 2013	Additions	Reductions	Balance 2014	Amounts Due Within One Year
Allowance for future credit losses	\$ 11,583,000	\$ 5,445,468	\$ (2,213,468)	\$ 14,815,000	\$ 2,754,000
Estimated future refunds of default aversion fees	487,937	67,232	(108,728)	446,441	107,000
Federal Student Loan Reserve Fund	5,069,076	15,768,042	(16,080,336)	4,756,782	-
	<u>\$ 17,140,013</u>	<u>\$ 21,280,742</u>	<u>\$(18,402,532)</u>	<u>\$ 20,018,223</u>	<u>\$ 2,861,000</u>

A reconciliation of the FSLRF for the years ending September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Federal Student Loan Reserve Fund, beginning of year	\$ 4,756,782	\$ 5,069,076
Investment income	15,435	15,736
Loan revenues, net of remittance to Department of Education and AOF of \$2,904,607 in 2015 and \$2,969,974 in 2014	102,250	150,317
Credit loss expense, net of reinsurance from Department of Education of \$13,292,305 in 2015 and \$11,985,110 in 2014	(468,627)	(418,997)
Default aversion fee	12,583	(59,350)
Federal Student Loan Reserve Fund, end of year	<u>\$ 4,418,423</u>	<u>\$ 4,756,782</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INTERFUND AND RELATED PARTY TRANSACTIONS

	<u>2015</u>	<u>2014</u>
BANK OF NORTH DAKOTA		
Cash and cash equivalents - unrestricted	\$ 27,066,129	\$ 6,399,011
Cash and cash equivalents - restricted	3,694,953	2,804,211
Investments - unrestricted	6,500,000	17,500,000
Investments - restricted	2,000,000	4,000,000
Interest receivable - unrestricted	6,883	21,956
Interest receivable - restricted	2,157	5,122
Administrative fee receivable - unrestricted	941,877	1,050,105
Due to other funds	170,374	211,188
Payable to lenders	2,304,493	2,522,513

During the years ended September 30, 2015 and 2014, the Program paid \$2,927,535 and \$3,374,319, respectively, to the Bank for reimbursement of expenses paid by the Bank on behalf of the Program, which includes \$756,983 in 2015 and \$687,888 in 2014 for indirect common costs that were allocated to the Program and \$2,170,552 in 2015 and \$2,686,431 in 2014 for direct costs specifically identifiable with the Program. The payable to the Bank for such expenses, amounting to \$170,374 and \$211,188 at September 30, 2015 and 2014, respectively, is included in "Due To Other Funds" on the statement of net position. The Program received administrative fees of \$6,811,157 in 2015 and \$3,262,987 in 2014 from the Bank.

At September 30, 2015 and 2014, the Program has guaranteed approximately \$1.307 billion and \$1.197 billion of loans owned by the Bank and the North Dakota Student Loan Trust (Trust). The Program paid claims of approximately \$16,004,000 and \$11,377,000 to the Bank and the Trust for the years ended September 30, 2015 and 2014, respectively. Some of those loans were subsequently rehabilitated and sold to the Bank.

NOTE 5 - GUARANTEE RESERVE AGREEMENTS

According to the Act, the Program is required to maintain a reserve ratio of the FSLRF at a minimum level of 0.25% of the original principal amount of guarantees outstanding. The reserve ratio is calculated by dividing the sum of the FSLRF liability account and the allowance for loan loss by the original principal amount of guarantees outstanding. The Program had a reserve ratio of 1.18% and 1.04% at September 2015 and 2014, respectively.

For the Alternative Loan Fund, the Program must maintain a minimum guarantee fund that is no less than the Bank of North Dakota historical default rate. The Program has chosen to use a similar calculation as the reserve ratio in the FSLRF for this minimum amount. The ratio is calculated by dividing the sum of the allowance for future loan loss and the fund balance by the outstanding principal balance. The Program had a ratio of 3.17% in 2015 and 2.85% in 2014, which is well above the Bank's current historical default rate on alternative student loans of 0.68%.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - FEDERAL REINSURANCE OF STUDENT LOANS

In the event of borrower default on a guaranteed loan, the Act provides for reinsurance by the Federal Government based on the level of federal reinsurance associated with the Program's annual reinsurance rate (reinsurance claims paid by the Federal Government during the fiscal year divided by the amount of loans in repayment at the beginning of the year).

The Program is reimbursed by the Federal Government upon payment of claims on FFEL Program loans. The Program is, therefore, economically dependent on the Department of Education for these reimbursements and for its continued existence. The Program incurred claims totaling \$13,760,932 and \$12,404,108 for the years ended September 30, 2015 and 2014, respectively, of which \$4,358,135 and \$4,183,551 remains as a receivable from the Federal Government at September 30, 2015 and 2014, respectively. Reimbursement of default claims on FFEL Program loans is determined according to the following schedule. Reimbursement of claims on FFEL Program loans for reasons other than default is at 100%. There is no reimbursement of claims paid by the Alternative Loan Fund.

Claim Percentage of Loans in Repayment	Levels of Federal Reinsurance
0% to 5% (On loans disbursed prior to 10/01/93)	100%
0% to 5% (On loans disbursed on or after 10/01/93 and before 10/01/98)	98%
0% to 5% (On loans disbursed on or after 10/01/98)	95%
More than 5% but less than or equal to 9% (On loans disbursed prior to 10/01/93)	100% of claims up to 5% and 90% of claims over 5% but less than or equal to 9%
More than 5% but less than or equal to 9% (On loans disbursed on or after 10/01/93 and before 10/01/98)	98% of claims up to 5% and 88% of claims over 5% but less than or equal to 9%
More than 5% but less than or equal to 9% (On loans disbursed on or after 10/01/98)	95% of claims up to 5% and 85% of claims over 5% but less than or equal to 9%
Over 9% (On loans disbursed prior to 10/01/93)	100% of claims up to 5% and 90% of claims over 5% but less than or equal to 9% and 80% of claims over 9%
Over 9% (On loans disbursed on or after 10/01/93 and before 10/01/98)	98% of claims up to 5% and 88% of claims over 5% but less than or equal to 9% and 78% of claims over 9%
Over 9% (On loans disbursed on or after 10/01/98)	95% of claims up to 5% and 85% of claims over 5% but less than or equal to 9% and 75% of claims over 9%

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

Each year the Department of Education calculates the Program's reinsurance rate for the ensuing year based on historical levels of claims paid. At no time has the Program's reinsurance rate exceeded the 5% level discussed above.

NOTE 7 - RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts and errors and omissions. The Program is administered by the Bank 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 Bank with blanket employee fidelity bond coverage in the amount of \$2,000,000. 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.

NOTE 8 – FEDERAL FAMILY EDUCATION LOAN PROGRAM

On June 30, 2015, the North Dakota Industrial Commission approved the transfer of guaranty agency responsibilities to the Department of Education. A target date of March 31, 2016 has been set for the transfer to be complete.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	2015				Total
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents					
Unrestricted	\$ 3,083,422	\$ 23,982,707	\$ -	\$ -	\$ 27,066,129
Restricted	582,147	-	3,112,806	-	3,694,953
Investments					
Unrestricted	500,000	6,000,000	-	-	6,500,000
Restricted	-	-	2,000,000	-	2,000,000
Due from other funds					
Unrestricted	1,924	503	-	(2,427)	-
Restricted	-	-	31,138	(31,138)	-
Receivables					
Unrestricted					
Interest	411	6,472	-	-	6,883
Default aversion fee	1,460	-	-	(1,460)	-
Department of Education	1,865	-	-	-	1,865
Account maintenance fee	90,732	-	-	-	90,732
Administrative fee	-	941,877	-	-	941,877
Other receivables	18,066	-	-	-	18,066
Restricted					
Interest	-	-	2,157	-	2,157
Federal reinsurance	-	-	4,358,135	-	4,358,135
Total receivables	112,534	948,349	4,360,292	(1,460)	5,419,715
Capital Assets					
Computer software	3,819,514	-	-	-	3,819,514
Accumulated amortization	(3,819,514)	-	-	-	(3,819,514)
Total capital assets	-	-	-	-	-
Total assets	4,280,027	30,931,559	9,504,236	(35,025)	44,680,797
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 4,280,027	\$ 30,931,559	\$ 9,504,236	\$ (35,025)	\$ 44,680,797

	2015				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
LIABILITIES					
CURRENT LIABILITIES					
Due to other funds	\$ 115,994	\$ 73,598	\$ 17,580	\$ (33,565)	\$ 173,607
Default aversion fee payable	-	-	1,460	(1,460)	-
Payable to lenders	-	426,081	2,052,520	-	2,478,601
Collections payable					
Department of Education	17,426	-	299,253	-	316,679
Allowance for future credit losses	-	4,167,000	2,715,000	-	6,882,000
Estimated future refunds of default aversion fees	426,083	-	-	-	426,083
Federal Student Loan Reserve Fund	-	-	4,418,423	-	4,418,423
Total current liabilities	<u>559,503</u>	<u>4,666,679</u>	<u>9,504,236</u>	<u>(35,025)</u>	<u>14,695,393</u>
NONCURRENT LIABILITIES					
Allowance for future credit losses	-	15,833,000	-	-	15,833,000
Total noncurrent liabilities	<u>-</u>	<u>15,833,000</u>	<u>-</u>	<u>-</u>	<u>15,833,000</u>
Total liabilities	<u>559,503</u>	<u>20,499,679</u>	<u>9,504,236</u>	<u>(35,025)</u>	<u>30,528,393</u>
DEFERRED INFLOWS OF RESOURCES					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION					
Restricted - Expendable for default prevention activities	582,147	-	-	-	582,147
Unrestricted	<u>3,138,377</u>	<u>10,431,880</u>	<u>-</u>	<u>-</u>	<u>13,570,257</u>
Total net position	<u>3,720,524</u>	<u>10,431,880</u>	<u>-</u>	<u>-</u>	<u>14,152,404</u>
Total liabilities and net position	<u>\$ 4,280,027</u>	<u>\$ 30,931,559</u>	<u>\$ 9,504,236</u>	<u>\$ (35,025)</u>	<u>\$ 44,680,797</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	2014				Total
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents					
Unrestricted	\$ 2,600,599	\$ 3,798,412	\$ -	\$ -	\$ 6,399,011
Restricted	586,380	-	2,217,831	-	2,804,211
Investments					
Unrestricted	1,000,000	16,500,000	-	-	17,500,000
Restricted	-	-	4,000,000	-	4,000,000
Due from other funds					
Unrestricted	3,441	-	-	(3,441)	-
Restricted	-	-	10,613	(10,613)	-
Receivables					
Unrestricted					
Interest	800	21,156	-	-	21,956
Default aversion fee	5,079	-	-	(5,079)	-
Department of Education	9,092	-	-	-	9,092
Account maintenance fee	108,248	-	-	-	108,248
Administrative fee	-	1,050,105	-	-	1,050,105
Other receivables	47,260	-	-	-	47,260
Restricted					
Interest	312	-	4,810	-	5,122
Federal reinsurance	-	-	4,183,551	-	4,183,551
Total receivables	170,791	1,071,261	4,188,361	(5,079)	5,425,334
Total current assets	4,361,211	21,369,673	10,416,805	(19,133)	36,128,556
NONCURRENT ASSETS - Unrestricted					
Capital assets					
Computer software	3,819,514	-	-	-	3,819,514
Accumulated amortization	(3,819,514)	-	-	-	(3,819,514)
Total capital assets	-	-	-	-	-
Total assets	4,361,211	21,369,673	10,416,805	(19,133)	36,128,556
DEFERRED OUTFLOWS OF RESOURCES					
	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 4,361,211	\$ 21,369,673	\$ 10,416,805	\$ (19,133)	\$ 36,128,556

	2014				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
LIABILITIES					
CURRENT LIABILITIES					
Due to other funds	\$ 142,134	\$ 71,496	\$ 5,387	\$ (14,054)	\$ 204,963
Default aversion fee payable	-	-	5,079	(5,079)	-
Payable to lenders	-	193,692	2,559,160	-	2,752,852
Collections payable					
Department of Education	20,240	-	375,397	-	395,637
Allowance for future credit losses	-	2,219,000	535,000	-	2,754,000
Estimated future refunds of default aversion fees	107,000	-	-	-	107,000
Total current liabilities	<u>269,374</u>	<u>2,484,188</u>	<u>3,480,023</u>	<u>(19,133)</u>	<u>6,214,452</u>
NONCURRENT LIABILITIES					
Allowance for future losses	-	9,881,000	2,180,000	-	12,061,000
Estimated future refunds of default aversion fees	339,441	-	-	-	339,441
Federal Student Loan Reserve Fund	-	-	4,756,782	-	4,756,782
Total noncurrent liabilities	<u>339,441</u>	<u>9,881,000</u>	<u>6,936,782</u>	<u>-</u>	<u>17,157,223</u>
Total liabilities	<u>608,815</u>	<u>12,365,188</u>	<u>10,416,805</u>	<u>(19,133)</u>	<u>23,371,675</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION					
Restricted - Expendable for default prevention activities	586,692	-	-	-	586,692
Unrestricted	3,165,704	9,004,485	-	-	12,170,189
Total net position	<u>3,752,396</u>	<u>9,004,485</u>	<u>-</u>	<u>-</u>	<u>12,756,881</u>
Total liabilities and net position	<u>\$ 4,361,211</u>	<u>\$ 21,369,673</u>	<u>\$ 10,416,805</u>	<u>\$ (19,133)</u>	<u>\$ 36,128,556</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2015

	2015		
	Agency Operating Fund	Alternative Loan Fund	Total
OPERATING REVENUES			
Administrative fee	\$ -	\$ 8,398,694	\$ 8,398,694
Loan recoveries, net of remittance to Department of Education of \$1,590,254	305,771	-	305,771
Rehabilitated loans, net of remittance to Department of Education of \$1,314,353	(56,227)	-	(56,227)
Collection cost revenues net of remittance to Department of Education of \$181,376	407,360	-	407,360
Account maintenance fees	381,007	-	381,007
Default aversion fees	115,216	-	115,216
Grant income	868,731	-	868,731
Referral income	-	23,570	23,570
	<u>2,021,858</u>	<u>8,422,264</u>	<u>10,444,122</u>
OPERATING EXPENSES			
Service and administrative expense	1,077,071	1,000,776	2,077,847
Grant expenditures	868,731	-	868,731
Default prevention activities	4,642	-	4,642
Credit loss expense	-	11,064,745	11,064,745
DAF refund provision	107,441	-	107,441
	<u>2,057,885</u>	<u>12,065,521</u>	<u>14,123,406</u>
OPERATING LOSS	<u>(36,027)</u>	<u>(3,643,257)</u>	<u>(3,679,284)</u>
NONOPERATING REVENUES			
Interest income	4,155	70,652	74,807
LOSS BEFORE OPERATING TRANSFERS	<u>(31,872)</u>	<u>(3,572,605)</u>	<u>(3,604,477)</u>
OPERATING TRANSFERS			
Transfer from North Dakota Student Loan Trust	-	5,000,000	5,000,000
CHANGE IN NET POSITION	(31,872)	1,427,395	1,395,523
TOTAL NET POSITION, BEGINNING OF YEAR	<u>3,752,396</u>	<u>9,004,485</u>	<u>12,756,881</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 3,720,524</u>	<u>\$ 10,431,880</u>	<u>\$ 14,152,404</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2014

	2014		
	Agency Operating Fund	Alternative Loan Fund	Total
OPERATING REVENUES			
Administrative fee	\$ -	\$ 5,672,939	\$ 5,672,939
Loan recoveries, net of remittance to Department of Education of \$1,497,411	278,908	-	278,908
Rehabilitated loans, net of remittance to Department of Education of \$1,472,563	368,656	-	368,656
Collection cost revenues net of remittance to Department of Education of \$193,751	542,808	-	542,808
Account maintenance fees	453,950	-	453,950
Default aversion fees	168,078	-	168,078
Grant income	1,186,487	-	1,186,487
Referral Income	-	13,110	13,110
	<u>2,998,887</u>	<u>5,686,049</u>	<u>8,684,936</u>
OPERATING EXPENSES			
Service and administrative expense	1,248,590	881,778	2,130,368
Grant expenditures	1,252,448	-	1,252,448
Default prevention activities	5,126	-	5,126
Credit loss expense	-	4,859,211	4,859,211
DAF refund provision	67,232	-	67,232
	<u>2,573,396</u>	<u>5,740,989</u>	<u>8,314,385</u>
OPERATING INCOME (LOSS)	<u>425,491</u>	<u>(54,940)</u>	<u>370,551</u>
NONOPERATING REVENUES			
Interest income	5,115	73,645	78,760
CHANGE IN NET POSITION	430,606	18,705	449,311
TOTAL NET POSITION, BEGINNING OF YEAR	<u>3,321,790</u>	<u>8,985,780</u>	<u>12,307,570</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 3,752,396</u>	<u>\$ 9,004,485</u>	<u>\$ 12,756,881</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2015

	2015				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
OPERATING ACTIVITIES					
Loan recoveries received from borrowers	\$ 331,291	\$ 277,695	\$ 1,684,172	\$ -	\$ 2,293,158
Loan recoveries remitted to DOE	-	-	(1,622,490)	-	(1,622,490)
Credit loss claims paid to lenders - BND	-	(3,089,737)	(11,574,465)	-	(14,664,202)
Credit loss claims paid to other lenders	-	(120,817)	(2,693,107)	-	(2,813,924)
Credit loss claims received from DOE	-	-	13,117,721	-	13,117,721
Rehab loan proceeds received from lenders - BND	147,552	-	1,314,353	-	1,461,905
Rehab loan proceeds remitted to DOE	-	-	(1,358,261)	-	(1,358,261)
Collections received from borrowers	200,767	-	-	-	200,767
Grant receipts	897,925	-	-	-	897,925
Account maintenance fees received from DOE	398,523	-	-	-	398,523
Default aversion fees received from FFEL Program	(8,964)	-	8,964	-	-
Administrative fee received from borrowers	-	8,506,922	-	-	8,506,922
Referral fees received	-	23,570	-	-	23,570
Service and administrative expense paid - BND	(1,993,360)	(998,674)	-	-	(2,992,034)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	(26,266)	4,598,959	(1,123,113)	-	3,449,580
NON-CAPITAL FINANCING ACTIVITIES					
Cash received from ND Student Loan Trust	-	5,000,000	-	-	5,000,000
INVESTING ACTIVITIES					
Proceeds from investment maturities - BND	500,000	10,500,000	2,000,000	-	13,000,000
Interest received	4,856	85,336	18,088	-	108,280
NET CASH FROM INVESTING ACTIVITIES	504,856	10,585,336	2,018,088	-	13,108,280
NET CHANGE IN CASH AND CASH EQUIVALENTS	478,590	20,184,295	894,975	-	21,557,860
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,186,979	3,798,412	2,217,831	-	9,203,222
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,665,569	\$ 23,982,707	\$ 3,112,806	\$ -	\$ 30,761,082

COMBINING STATEMENT OF CASH FLOWS – Page 2

	2015				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES					
Operating loss	\$ (36,027)	\$ (3,643,257)	\$ -	\$ -	\$ (3,679,284)
Adjustments to reconcile operating income to net cash from (used for) operating activities					
Credit loss expense	-	8,131,886	-	-	8,131,886
DAF refund provision, net of refunds	(20,358)	-	-	-	(20,358)
Changes in assets and liabilities:					
Due from other funds	30,711	-	(20,525)	(10,186)	-
Administrative fee receivable - BND	-	108,228	-	-	108,228
Department of Education receivable	7,227	-	(174,584)	-	(167,357)
Account maintenance fee receivable	17,516	-	-	-	17,516
Default aversion fee receivable	3,619	-	-	(3,619)	-
Due to other funds	16,776	2,102	12,193	10,186	41,257
Due to BND	(42,916)	-	-	-	(42,916)
Payable to lenders	-	-	(506,640)	-	(506,640)
Collections payable	(2,814)	-	(76,144)	-	(78,958)
Federal Student Loan Reserve Fund	-	-	(353,794)	-	(353,794)
Default aversion fee payable	-	-	(3,619)	3,619	-
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	\$ (26,266)	\$ 4,598,959	\$ (1,123,113)	\$ -	\$ 3,449,580

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2014

	2014				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
OPERATING ACTIVITIES					
Loan recoveries received from borrowers	\$ 275,941	\$ 167,519	\$ 1,555,889	\$ -	\$ 1,999,349
Loan recoveries remitted to DOE	-	-	(1,499,211)	-	(1,499,211)
Credit loss claims paid to lenders - BND	-	(1,818,102)	(8,739,452)	-	(10,557,554)
Credit loss claims paid to other lenders	-	(28,772)	(3,534,167)	-	(3,562,939)
Credit loss claims received from DOE	-	-	12,139,088	-	12,139,088
Rehab loan proceeds received from lenders - BND	712,234	-	1,546,160	-	2,258,394
Rehab loan proceeds remitted to DOE	-	-	(1,719,108)	-	(1,719,108)
Collections received from borrowers	189,822	-	-	-	189,822
Grant receipts	1,625,238	-	-	-	1,625,238
Account maintenance fees received from DOE	469,474	-	-	-	469,474
Default aversion fees received from FFEL Program	60,069	-	(60,069)	-	-
Administrative fee received from borrowers	-	4,986,686	-	-	4,986,686
Referral fees received	-	13,110	-	-	13,110
Service and administrative expense paid - BND	(2,545,463)	(849,602)	-	-	(3,395,065)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	787,315	2,470,839	(310,870)	-	2,947,284
INVESTING ACTIVITIES					
Proceeds from investment maturities - BND	2,500,000	7,000,000	2,000,000	-	11,500,000
Purchase of investments - BND	(1,500,000)	(10,000,000)	(3,000,000)	-	(14,500,000)
Interest received	4,940	67,828	13,112	-	85,880
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	1,004,940	(2,932,172)	(986,888)	-	(2,914,120)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,792,255	(461,333)	(1,297,758)	-	33,164
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,394,724	4,259,745	3,515,589	-	9,170,058
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,186,979	\$ 3,798,412	\$ 2,217,831	\$ -	\$ 9,203,222

COMBINING STATEMENT OF CASH FLOWS – Page 2

	2014				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES					
Operating income (loss)	\$ 425,491	\$ (54,940)	\$ -	\$ -	\$ 370,551
Adjustments to reconcile operating income to net cash from (used for) operating activities					
Credit loss expense	-	3,179,856	-	-	3,179,856
DAF refund provision, net of refunds	(41,496)	-	-	-	(41,496)
Changes in assets and liabilities:					
Due from other funds	437,787	-	(5,048)	(432,739)	-
Administrative fee receivable - BND	-	(686,253)	-	-	(686,253)
Department of Education receivable	(4,381)	-	153,978	-	149,597
Account maintenance fee receivable	15,524	-	-	-	15,524
Default aversion fee receivable	719	-	-	(719)	-
Due to other funds	2,378	32,176	(10,768)	432,739	456,525
Due to BND	(39,299)	-	-	-	(39,299)
Payable to lenders	-	-	130,489	-	130,489
Collections payable	(9,408)	-	(250,772)	-	(260,180)
Federal Student Loan Reserve Fund	-	-	(328,030)	-	(328,030)
Default aversion fee payable	-	-	(719)	719	-
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	\$ 787,315	\$ 2,470,839	\$ (310,870)	\$ -	\$ 2,947,284

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2015**

EXHIBIT A-1

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program		
Federal Family Education Loan (FFEL) Program (Note 2)	84.032	
Direct subsidies		
Reinsurance Payments		\$ 13,292,305
Guarantee Agency's Equitable Share of Loan Collections		351,134
Default Aversion Fee		(12,583)
Account Maintenance Fee		381,007
Total FFEL Program Direct Subsidies		14,011,863
Guaranteed FFEL Program Student Loans (Note 3)		
Original principal amount of loans from previous years on which there are continuing compliance requirements		721,656,391
Total FFEL Program		735,668,254
Pass-through programs from:		
Bank of North Dakota		
College Access Challenge Grant (Note 4)	84.378A	868,731
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 736,536,985

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT A-2

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the North Dakota Guaranteed Student Loan Program 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 - See Notes 5 and 6 to the financial statements for information relative to the existence and value of federal loan guarantee programs.

NOTE 3 - At September 30, 2015, the original principal amount of guaranteed student loans outstanding on which there are continuing compliance requirements is \$604,877,722.

NOTE 4 - Of the federal expenditures presented in the schedule, the North Dakota Guaranteed Student Loan Program provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount provided to Subrecipients</u>
84.378A	College Access Challenge Grant	\$ 275,843

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2015**

EXHIBIT A-3

There were no prior federal audit findings reported for the North Dakota Guaranteed Student Loan Program.

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 Guaranteed Student Loan Program, an enterprise fund of the State of North Dakota, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise North Dakota Guaranteed Student Loan Program's basic financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Dakota Guaranteed Student Loan Program'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 Guaranteed Student Loan Program's internal control. Accordingly, we do not express an opinion on the effectiveness North Dakota Guaranteed Student Loan Program'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 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. 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 Guaranteed Student Loan Program'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".

Aberdeen, South Dakota
December 14, 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 Guaranteed Student Loan Program'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 North Dakota Guaranteed Student Loan Program's major federal program for the year ended September 30, 2015. North Dakota Guaranteed Student Loan Program'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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of North Dakota Guaranteed Student Loan Program'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 Guaranteed Student Loan Program'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 Guaranteed Student Loan Program's compliance.

Opinion on the Major Federal Program

In our opinion, North Dakota Guaranteed Student Loan Program 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 September 30, 2015.

Report on Internal Control over Compliance

Management of North Dakota Guaranteed Student Loan Program 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 Guaranteed Student Loan Program'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 Guaranteed Student Loan Program'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.



Aberdeen, South Dakota
December 14, 2015

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 2015**

EXHIBIT A-6

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	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 section 510(a) of Circular A-133	No
Identification of major programs:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Federal Family Education Loan Program	84.032
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as a low-risk auditee	Yes

Section II – Financial Statement Findings

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 – Federal Award Findings and Questioned Costs

There are no findings or 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 require that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses 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 findings and recommendations included in prior year audit reports?

N/A – There were no findings in prior year's audit report

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

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 and the process used by management to determine those estimates.

Management's estimate of future refunds of default aversion fees for which the percentage of income method is used to calculate the estimated allowance for refunds of the default aversion fee based on a periodic evaluation of default aversion fees received and a historical refund rate.

Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors.

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, or whether any exceptions identified in the six audit report questions to be addressed by auditors are directly related to the operations of an information technology system.

Based on the audit procedures performed, the North Dakota Guaranteed Student Loan Program's critical information technology system is the Priority Guarantee System (PGS). There were no exceptions identified that were directly related to this application.

EXHIBIT A-7, cont.

This information 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, and management of North Dakota Guaranteed Student Loan Program and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
December 14, 2015

To the Industrial Commission
North Dakota Guaranteed Student Loan Program
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of North Dakota Guaranteed Student Loan Program for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 September 8, 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 Guaranteed Student Loan Program are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2015. We noted no transactions entered into by the North Dakota Guaranteed Student Loan Program 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 North Dakota Guaranteed Student Loan Program's financial statements were:

Management's estimate of the allowance for future refunds of default aversion fees is based on a periodic evaluation of default aversion fees received and a historical refund rate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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. There were no misstatements were detected as a result of audit procedures that required correction by management.

In addition, the following summarizes uncorrected misstatements of the financial statements, for which management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Understatement of CY Rehabilitation Revenue	\$ 78,206
Overstatement of Beginning Net Position	78,206

The effect of this uncorrected misstatement is an understatement of the 2015 change in net position of \$78,206 and overstatement of beginning net position of \$78,206 as of October 1, 2014, resulting in zero effect on ending net position as of September 30, 2015.

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 December 14, 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 North Dakota Guaranteed Student Loan Program’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 Matters

We applied certain limited procedures to 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 net position, combining statements of cash flows, 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 North Dakota Guaranteed Student Loan Program and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
December 14, 2015