



Financial Statements
December 31, 2023 and 2022

North Dakota Guaranteed Student Loan Program

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

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Independent Auditor's Report

Governor of North Dakota and
the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of North Dakota Guaranteed Student Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Program, as of December 31, 2023 and 2022, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

Reporting Entity

As discussed in Note 1, the financial statements of 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 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 December 31, 2023 and 2022 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Program internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and 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 GAAS, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2024 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Program's 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 the Program's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Sallie LLP".

Bismarck, North Dakota
March 21, 2024

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2023, 2022, AND 2021

The North Dakota Guaranteed Student Loan Program (the Program) has been designated to act as a guarantor of private student loans originated by the Bank of North Dakota (the Bank). The Program is responsible for processing loans submitted for guarantee, issuing loan guarantees, paying lender claims for loans, and collection of loans on which default claims have been paid.

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 years ended December 31, 2023, 2022, and 2021. 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 is unmodified.

FINANCIAL HIGHLIGHTS

Alternative Loan Fund guarantees during the years ending December 31, 2023, 2022, and 2021 were \$69 million, \$83 million, and \$100 million, respectively.

Alternative Loan Fund guarantees outstanding at December 31, 2023, 2022, and 2021 was \$1.047 billion, \$1.084 billion, and \$1.123 billion, respectively.

As of April 1, 2024, Bank of North Dakota will only offer student loans to North Dakota residents attending an eligible in-state and out-of-state school, and out-of-state residents attending a North Dakota school. As a result, Alternative Loan Fund guarantees will continue to decline.

State law requires that the Program 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. The 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.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023, 2022, AND 2021

CONDENSED STATEMENTS OF NET POSITION

| | (In Thousands) | | |
|---|------------------|------------------|------------------|
| | 2023 | 2022 | 2021 |
| ASSETS | | | |
| Cash and cash equivalents | \$ 49,651 | \$ 50,189 | \$ 51,727 |
| Receivables | - | 43 | 217 |
| TOTAL ASSETS | \$ 49,651 | \$ 50,232 | \$ 51,944 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Allowance for future credit losses | \$ 27,639 | \$ 29,297 | \$ 31,553 |
| Estimated future refunds of default aversion fees | - | 2 | 2 |
| Collections payable | 434 | 478 | - |
| Other | 5 | 5 | 5 |
| Total liabilities | 28,078 | 29,782 | 31,560 |
| NET POSITION - UNRESTRICTED | 21,573 | 20,450 | 20,384 |
| TOTAL LIABILITIES AND NET POSITION | \$ 49,651 | \$ 50,232 | \$ 51,944 |

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 decreased by \$0.5 million and \$1.5 million in 2023 and 2022, respectively, primarily due to credit loss claim payments to the bank, offset by administrative fees and loan recoveries.

Receivables

The receivable balances consist of administrative fees due to the Program from the Bank of North Dakota as of the end of each year. In 2023 the administrative fee due to the Program from the Bank of North Dakota was reduced to zero from July 1, 2023 through December 31, 2023. The change in fee was a result of the decreasing student loan portfolio and decline in claim payments. The decrease from 2021 to 2022 was due to a lower in-state fee rate paid to the program by Bank of North Dakota.

Allowance for Credit Losses

The Program estimates the allowance for future credit losses based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of outstanding loans guaranteed, current and anticipated economic conditions, and other pertinent factors. As of December 31, 2023, the Program considers the allowance for future credit losses of \$27.6 million adequate to cover losses on Alternative loans. Allowance for future credit losses was \$29.3 million and \$31.6 million as of December 31, 2022 and 2021, respectively.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023, 2022, AND 2021

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | | (In Thousands) | |
|--|------------------|------------------|------------------|
| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
| OPERATING REVENUES | | | |
| Administrative fee | <u>\$ 1,585</u> | <u>\$ 2,479</u> | <u>\$ 3,953</u> |
| OPERATING EXPENSES | | | |
| Service and administrative expense | 822 | 812 | 703 |
| Credit loss expense | (79) | 1,653 | 3,430 |
| | <u>743</u> | <u>2,465</u> | <u>4,133</u> |
| OPERATING INCOME (LOSS) | 842 | 14 | (180) |
| NONOPERATING REVENUES | | | |
| Interest income | <u>281</u> | <u>52</u> | <u>42</u> |
| INCOME (LOSS) BEFORE TRANSFERS | <u>1,123</u> | <u>66</u> | <u>(138)</u> |
| CHANGE IN NET POSITION | 1,123 | 66 | (138) |
| TOTAL NET POSITION - BEGINNING OF YEAR | <u>20,450</u> | <u>20,384</u> | <u>20,522</u> |
| TOTAL NET POSITION - END OF YEAR | <u>\$ 21,573</u> | <u>\$ 20,450</u> | <u>\$ 20,384</u> |

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. Administrative fees decreased \$0.9 million and \$1.5 million during the years ended December 31, 2023 and 2022, respectively, primarily due to a decrease in the in-state rate paid by BND and decrease in new loan volume.

Service and Administrative Expense - Bank of North Dakota

The Program has entered into a number of agreements as discussed in Note 5 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

Credit loss expense was (\$0.79) million during the year ended December 31, 2023, \$1.7 million during the year ended December 31, 2022, and \$3.4 million during the year ended December 31, 2021. The decrease from 2022 to 2023 and 2021 to 2022 was primarily due to the decrease in the student loan portfolio.

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023, 2022, AND 2021**

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
DECEMBER 31, 2023 AND 2022

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents | | |
| Unrestricted | \$ 49,650,952 | \$ 50,186,679 |
| Restricted | - | 1,843 |
| Receivables | | |
| Administrative fee | - | 43,097 |
| TOTAL ASSETS | <u><u>\$ 49,650,952</u></u> | <u><u>\$ 50,231,619</u></u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Due to BND | \$ 5,000 | \$ 5,000 |
| Collections payable | 433,846 | 477,574 |
| Allowance for future credit losses | (78,729) | 1,652,564 |
| Estimated future refunds of default aversion fees | - | 1,843 |
| Total current liabilities | <u>360,117</u> | <u>2,136,981</u> |
| NONCURRENT LIABILITIES | | |
| Allowance for future credit losses | <u>27,717,909</u> | <u>27,644,871</u> |
| Total liabilities | <u>28,078,026</u> | <u>29,781,852</u> |
| NET POSITION - UNRESTRICTED | <u>21,572,926</u> | <u>20,449,767</u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 49,650,952</u></u> | <u><u>\$ 50,231,619</u></u> |

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2023 AND 2022

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Administrative fee | \$ 1,584,786 | \$ 2,478,655 |
| OPERATING EXPENSES | | |
| Service and administrative expense | 821,374 | 812,091 |
| Credit loss expense | <u>(78,729)</u> | <u>1,652,564</u> |
| | <u>742,645</u> | <u>2,464,655</u> |
| OPERATING INCOME | 842,141 | 14,000 |
| NONOPERATING REVENUES | | |
| Interest income | <u>281,018</u> | <u>52,137</u> |
| CHANGE IN NET POSITION | 1,123,159 | 66,137 |
| TOTAL NET POSITION, BEGINNING OF YEAR | <u>20,449,767</u> | <u>20,383,630</u> |
| TOTAL NET POSITION, END OF YEAR | <u><u>\$ 21,572,926</u></u> | <u><u>\$ 20,449,767</u></u> |

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|-----------------------|
| OPERATING ACTIVITIES | | |
| Loan recoveries received from borrowers | \$ 1,688,076 | \$ 1,417,010 |
| Credit loss claims paid to BND | (3,311,330) | (4,824,007) |
| Credit loss claims paid to North Dakota Student Loan Trust | - | (23,892) |
| Administrative fee received from borrowers | 1,627,883 | 2,652,616 |
| Service and administrative expense paid to BND | (821,374) | (812,091) |
| Refunds of default aversion fees | (1,843) | (384) |
| NET CASH (USED FOR) OPERATING ACTIVITIES | <u>(818,588)</u> | <u>(1,590,748)</u> |
| INVESTING ACTIVITIES | | |
| Interest received | 281,018 | 52,137 |
| NET CASH FROM INVESTING ACTIVITIES | <u>281,018</u> | <u>52,137</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (537,570) | (1,538,611) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>50,188,522</u> | <u>51,727,133</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 49,650,952</u> | <u>\$ 50,188,522</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH (USED FOR) OPERATING ACTIVITIES | | |
| Operating income | \$ 842,141 | \$ 14,000 |
| Adjustments to reconcile operating income to net cash from/(used for) operating activities | | |
| Changes in assets and liabilities: | | |
| Administrative fee receivable - BND | 43,097 | 173,961 |
| Allowance for future credit losses | (1,658,255) | (2,255,899) |
| Refunds of default aversion fees | (1,843) | (384) |
| Collections payable | (43,728) | 477,574 |
| NET CASH (USED FOR) OPERATING ACTIVITIES | <u>\$ (818,588)</u> | <u>\$ (1,590,748)</u> |

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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 private student loans originated by the Bank. The Program is responsible for processing loans submitted for guarantee, issuing loan guarantees, paying lender claims for loans, and collecting loans on which default claims have been paid. Program funds may also 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.

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.

Fund Accounting

The Program is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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 net investment in capital assets, restricted, and unrestricted components. The statement of revenues, expenses and changes in net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows presents the cash flows for operating activities, investing activities and non-capital financing activities.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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 and claims payable to lenders. Claims payable to lenders reflects a net principal balance outstanding on DEAL loans that are 270 days or greater delinquent as of current fiscal year end.

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.

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.

Estimated Future Refunds of Default Aversion Fees

As discussed in Note 3, the Program entered into an agreement with Great Lakes Higher Education to refund default aversion fees on loans that entered claim status that had been earned by the Program prior to the transfer of guaranteed federal student loans.

Credit Loss Expenses

The Program estimates the allowance for future credit losses based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of outstanding loans guaranteed, current and anticipated economic conditions, and other pertinent factors.

Restricted Assets

The Program has restricted cash for the estimated future refunds of default aversion fees obligated to Great Lakes Higher Education.

Operating and Non-Operating Revenues

Operating revenues consist of administrative fees, 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.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

Change in Accounting Estimate

The Program changed allowance methodology from incurred loss methodology to an expected loss methodology referred to as current expected credit losses. This shift from incurred losses to expected losses aims to provide a more forward-looking and comprehensive assessment of credit risk. Results for reporting periods beginning after January 1, 2023 are posted under the current expected credit losses methodology, while prior period amounts continue to be reported under the incurred loss methodology. Financial statement line items affected by the change in accounting estimate include allowance for credit losses and credit loss expense. The net impact to change in net position was \$975,802 during 2023 for the change in estimate.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Program has moneys invested in securities or deposits allowed by state regulations. 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 December 31, 2023 and 2022, the Program had cash deposits held at the Bank of \$49,650,952 and \$50,188,522, respectively.

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).

NOTE 3 – DEFAULT AVERSION FEES AND ESTIMATED FUTURE REFUNDS

Upon the transfer of all Federal guarantees to Great Lakes Higher Education, the Program agreed to pay Great Lakes \$354,143 for future refunds at the time of the transfer, with the potential of an additional transfer of up to \$167,900 reserved through September 30, 2024.

| | <u>2023</u> | <u>2022</u> |
|----------------------------|--------------------|------------------------|
| Balance, beginning of year | \$ 1,843 | \$ 2,227 |
| Payment to Great Lakes | <u>(1,843)</u> | <u>(384)</u> |
| Balance, end of year | <u><u>\$ -</u></u> | <u><u>\$ 1,843</u></u> |

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for future credit losses for the years ending December 31, 2023 and 2022 are as follows:

| | <u>2023</u> | <u>2022</u> |
|----------------------------|----------------------|----------------------|
| Balance, beginning of year | \$ 29,297,435 | \$ 31,553,334 |
| Credit loss expense | (78,729) | 1,652,564 |
| Recoveries | 1,688,076 | 1,417,010 |
| Claims paid | (3,267,602) | (5,325,473) |
| | <u>\$ 27,639,180</u> | <u>\$ 29,297,435</u> |

NOTE 5 - INTERFUND AND RELATED PARTY TRANSACTIONS

| | <u>2023</u> | <u>2022</u> |
|--|---------------|---------------|
| BANK OF NORTH DAKOTA | | |
| Cash and cash equivalents - unrestricted | \$ 49,650,952 | \$ 50,186,679 |
| Cash and cash equivalents - restricted | - | 1,843 |
| Administrative fee receivable | - | 43,097 |
| Due to BND | 5,000 | 5,000 |

During the year ended December 31, 2023 and 2022, the Program paid \$461,579 and \$442,434, respectively, to the Bank for reimbursement of expenses paid by the Bank on behalf of the Program, which includes \$461,579 and \$442,434 for direct costs specifically identifiable with the Program. The payable to the Bank for such expenses, amounting to \$5,000 and \$5,000 at December 31, 2023 and 2022, respectively, is included in "Due To BND" on the statement of net position. The Program received administrative fees from the Bank of \$994,237 and \$1,847,100 during the years ended December 31, 2023 and 2022, respectively. This decrease was due to a reduction of the in-state rate paid by BND during the fiscal year of 2023.

As of December 31, 2023 and 2022, the Program has guaranteed approximately \$1.05 billion and \$1.08 billion of loans owned by the Bank and the Trust, respectively. The Program paid claims of approximately \$3.3 million and \$4.8 million to the Bank and the Trust for the years ended December 31, 2023 and 2022, respectively. Some of those loans were subsequently rehabilitated and sold to the Bank.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 6 - 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.



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

To the Governor of North Dakota and
the Legislative Assembly
North Dakota Guaranteed Student Loan Program
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 (Government Auditing Standards), the financial statements of the of the business-type activities of the North Dakota Guaranteed Student Loan Program (the Program), an enterprise fund of the State of North Dakota, as of and for the years ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated March 21, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) as a basis for designing 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 the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 or significant deficiencies may exist that were not identified

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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.

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

Bismarck, North Dakota
March 21, 2024



**North Dakota Guaranteed Student Loan Program
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review
Committee
Year Ended December 31, 2023**

Governor of North Dakota
and the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires a separate audit summary from certified public accountants performing audits of state agencies. The separate audit summary regarding the December 31, 2023 audit of North Dakota Guaranteed Student Loan Program is as follows:

Purpose of the Audit

North Dakota Guaranteed Student Loan Program is a component of the financial statements of the state of North Dakota. The purpose of the audit of North Dakota Guaranteed Student Loan Program is to express an opinion on each financial statement opinion unit.

The objectives of our audit of the financial statements are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with Government Auditing Standards, will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually and in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Type of Audit Opinion

We issued an unmodified opinion on the financial statements of North Dakota Guaranteed Student Loan Program.

Findings and Recommendations

We have no findings or recommendations to communicate as a result of the audit.

Status of Prior Recommendations

There were no findings or recommendations communicated in the prior audit.

Explanations of Significant Audit Adjustments and Misstatements

There were no significant audit adjustments or uncorrected misstatements that were identified as a result of our audit procedures.

Disagreements with Management or Difficulties Encountered during the Audit

No disagreements with management arose during the course of the audit.

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Other Audit Report Highlights

None

Cost of the Audit Compared to the Prior Audit

The cost of the 2023 North Dakota Guaranteed Student Loan Program audit was \$27,200.

The cost of the 2022 North Dakota Guaranteed Student Loan Program audit was \$24,780.

This report is intended solely for the information and use of the Governor of North Dakota, Legislative Assembly, North Dakota Industrial Commission, Bank of North Dakota Advisory Board and management of the Program, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
March 21, 2024



March 21, 2024

Governor of North Dakota and
the Legislative Assembly
Beginning Farmer Revolving Loan Program
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of North Dakota Guaranteed Student Loan Program (the Program) as of and for the year ended December 31, 2023, and have issued our report thereon dated March 21, 2024. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated January 16, 2024, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Program solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated March 21, 2024.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Program is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments. The most sensitive accounting estimate affecting the financial statements are:

- Management's estimate of the Allowance for Credit Losses is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. We evaluated the key factors and assumptions used to develop the allowance for credit losses in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of Claims Payable is based on management's evaluation of delinquent loan pools reduced by estimated loan recalls. 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.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the Program's financial statements relates to Note 4 – Allowance for Future Credit Losses.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

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

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph.

As discussed in Note 1, the financial statements of the Program are intended to present the financial position, 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 Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2023 and 2022, and the changes in its financial position 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.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated March 21, 2024.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Program, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Program's auditors.

This report is intended solely for the information and use of the Governor of North Dakota, Legislative Assembly, North Dakota Industrial Commission, Bank of North Dakota Advisory Board and management of the Program and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota