

# College **SAVE**

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

**BASIC FINANCIAL STATEMENTS**  
December 31, 2017 and 2016  
and  
**SUPPLEMENTARY INFORMATION**  
December 31, 2017  
(With Independent Auditor's Report Thereon)

**Thomas &  
Thomas LLP**  
Certified Public Accountants

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

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## INDEPENDENT AUDITOR'S REPORT

Bank of North Dakota  
Ascensus Broker Dealer Services, Inc., Program Manager  
College SAVE

### **Report on the Basic Financial Statements**

We have audited the accompanying statements of fiduciary net position and statements of changes in fiduciary net position of **College SAVE** (the Plan), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements.

### ***Management's Responsibility for the Basic Financial Statements***

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 basic financial statements referred to on the preceding page present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2017 and 2016, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As disclosed in Note 1, the Plan is a private purpose trust fund of the state of North Dakota. These basic financial statements present only the activities and balances attributable to the Plan and do not purport to, and do not, present fairly the fiduciary net position or changes in fiduciary net position of any other fiduciary funds of the state of North Dakota as of and for the years ended December 31, 2017 and 2016. 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 management's discussion and analysis on pages 7 through 15 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, as it is considered 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information in management's discussion and analysis because the limited procedures we performed do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements. The schedules of fiduciary net position and changes in fiduciary net position by portfolio on pages 36 and 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules 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 information in these schedules is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Bank of North Dakota  
Ascensus Broker Dealer Services, Inc., Program Manager  
College SAVE  
Page Three

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2018, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

*Thomas & Thomas LLP*

Certified Public Accountants

March 30, 2018  
Little Rock, Arkansas

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**Management's Discussion and Analysis**  
**(Unaudited)**

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# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2017 and 2016

This management's discussion and analysis is intended to provide readers an objective discussion of the basic financial statements of College SAVE (the Plan) as of and for the years ended December 31, 2017, 2016 and 2015. This discussion and analysis, which is supplementary information required by the Governmental Accounting Standards Board (GASB), is intended to provide a highly summarized overview of the Plan's assets, liabilities, fiduciary net position and changes in fiduciary net position and should be read in conjunction with the Plan's financial statements and notes thereto, which are included on pages 18 through 33. In addition, readers may find useful the supplementary schedules on pages 36 and 37, which include information about the Plan's investment portfolios.

\* \* \* \* \*

College SAVE was established in September, 2000, to encourage the investment of funds to be used for qualified higher education expenses at eligible institutions, as authorized under North Dakota Century Code Title 6, Chapter 9, Section 38. Plan assets are held for the benefit of account owners and their designated beneficiaries in the College SAVE Trust (the Trust), for which the Bank of North Dakota (the Bank) serves as Trustee. The Plan is administered as a "qualified tuition program" in compliance with Section 529 of the Internal Revenue Code of 1986, as amended, and both the Plan and the Trust are exempt from federal taxation.

The Bank has established rules to administer, manage, promote and market the Plan, which are set forth in North Dakota Administrative Code Title 12.5, Article 2, Chapter 1. As allowed under these rules, the Bank may contract with third-party service providers to perform administrative duties related to the Plan and to manage the Plan's investments.

Pursuant to the College SAVE Plan Management Agreement, as amended, Ascensus Broker Dealer Services, Inc. (ABD) serves as the Program Manager and Ascensus College Savings Recordkeeping Services, LLC (ACSR) serves as the recordkeeping and servicing agent. Collectively, ABD and ACSR are referred to as "Ascensus College Savings (ACS)."

The Vanguard Group, Inc. (Vanguard) provides investment advisory, fund accounting, and related administrative services.

#### Financial Highlights

The following highlight some of the Plan's key financial results:

- At December 31, 2017, 2016 and 2015, the Plan's fiduciary net position totaled \$469.3 million, \$415.6 million and \$388.6 million, respectively. Fiduciary net position increased \$53.7 million, or 12.9%, from December 31, 2016, to December 31, 2017, compared to an increase of \$27.0 million, or 7.0%, from December 31, 2015, to December 31, 2016.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2017 and 2016

#### Financial Highlights (Continued)

- Contributions exceeded withdrawals by approximately \$6.2 million, \$6.5 million and \$6.9 million during 2017, 2016 and 2015, respectively.
- Contributions during the years ended December 31, 2017, 2016 and 2015, totaled \$45.7 million, \$42.4 million and \$41.4 million, respectively. Contributions increased \$3.3 million, or 7.8%, from December 31, 2016, to December 31, 2017, and increased \$1.0 million, or 2.5%, from December 31, 2015, to December 31, 2016.
- Withdrawals during the years ended December 31, 2017, 2016 and 2015, totaled \$39.5 million, \$35.9 million and \$34.4 million, respectively. Withdrawals increased \$3.6 million, or 10.1%, from December 31, 2016, to December 31, 2017, and increased \$1.5 million, or 4.2%, from December 31, 2015, to December 31, 2016.
- Administrative fees totaled \$3.3 million, \$3.2 million and \$3.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. These fees, which are based on the Plan's fiduciary net position, are paid to the Bank, ACS and Vanguard for performing oversight, administrative and investment duties.
- For the year ended December 31, 2017, the Plan experienced net investment income of \$50.8 million, resulting from net appreciation in the value of its investments totaling \$40.8 million and dividends and interest totaling \$10.0 million. For the year ended December 31, 2016, the Plan experienced net investment income of \$23.7 million, resulting from net appreciation in the value of its investments of \$14.8 million and dividend and interest totaling \$8.9 million. For the year ended December 31, 2015, the Plan experienced net investment income of \$6.0 thousand, resulting from net depreciation in the value of its investments totaling \$8.3 million offset by dividends totaling approximately the same amount.
- The number of active accounts has increased from 29,209 at December 31, 2015, to 31,609 at December 31, 2016, to 34,109 at December 31, 2017. The average active account balance decreased from approximately \$13,300 at December 31, 2015, to approximately \$13,100 at December 31, 2016, and then increased to approximately \$13,800 at December 31, 2017.
- The BND Match (formerly known as the College SAVE 529 Matching Grant Program, until the name was changed effective December 21, 2017) awarded \$296,636, \$293,444 and \$273,736 in matching grants in 2017, 2016 and 2015, respectively, to qualifying account owners.
- The New Baby Match Program (formerly known as the Children FIRST Grant Program, until the name changed effective December 21, 2017) awarded \$208,645, \$179,700 and \$98,000 in matching grants in 2017, 2016 and 2015, respectively, to qualifying account owners.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2017 and 2016

#### Overview of the Basic Financial Statements

The Plan's basic financial statements comprise the statement of fiduciary net position, the statement of changes in fiduciary net position and the related notes to the financial statements. The statement of fiduciary net position presents information on the Plan's assets and liabilities, with the difference between them representing net position held in trust for account owners and their beneficiaries. The statement of changes in fiduciary net position shows how the Plan's fiduciary net position changed during the year. The notes to the financial statements provide additional explanatory information about the amounts presented in the financial statements. It is essential that readers of this report consider the information in the notes to obtain a full understanding of the Plan's financial statements.

The Plan is included in the state of North Dakota's financial statements as a "private purpose trust fund." A private purpose trust fund is a type of fiduciary fund that is used to report assets held by a government in a trust or agency capacity for others and cannot be used to support the government's own programs.

The Plan's basic financial statements are prepared in accordance with accounting and financial reporting standards for governmental entities set forth by the GASB. As required under generally accepted accounting principles applicable to fiduciary fund types, the Plan's basic financial statements are prepared using the accrual basis of accounting. Mutual funds are reported at fair value, and investment contracts are reported at contract value. All investment transactions are recorded on a trade-date basis. Changes in investment value, along with realized gains (losses), are reported as net appreciation (depreciation) on the statement of changes in fiduciary net position. Dividends and capital gain distributions are recorded on the ex-dividend date rather than when they are received. Contributions to the Plan are recognized when they are received, provided enrollment in the Plan has been successfully completed, and withdrawals are recognized when the withdrawal request has been received and approved for payment. Administrative fees are recognized in the period when the related services are provided, regardless of when cash is paid.

#### Financial Analysis

##### Fiduciary Net Position

The following condensed statements of fiduciary net position provide a "snapshot" of the overall financial position of the Plan:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total assets	\$ 470,426,747	\$ 416,352,919	\$ 389,344,476
Total liabilities	<u>1,139,624</u>	<u>779,123</u>	<u>788,604</u>
Net position held in trust for account owners and beneficiaries	<u>\$ 469,287,123</u>	<u>\$ 415,573,796</u>	<u>\$ 388,555,872</u>

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

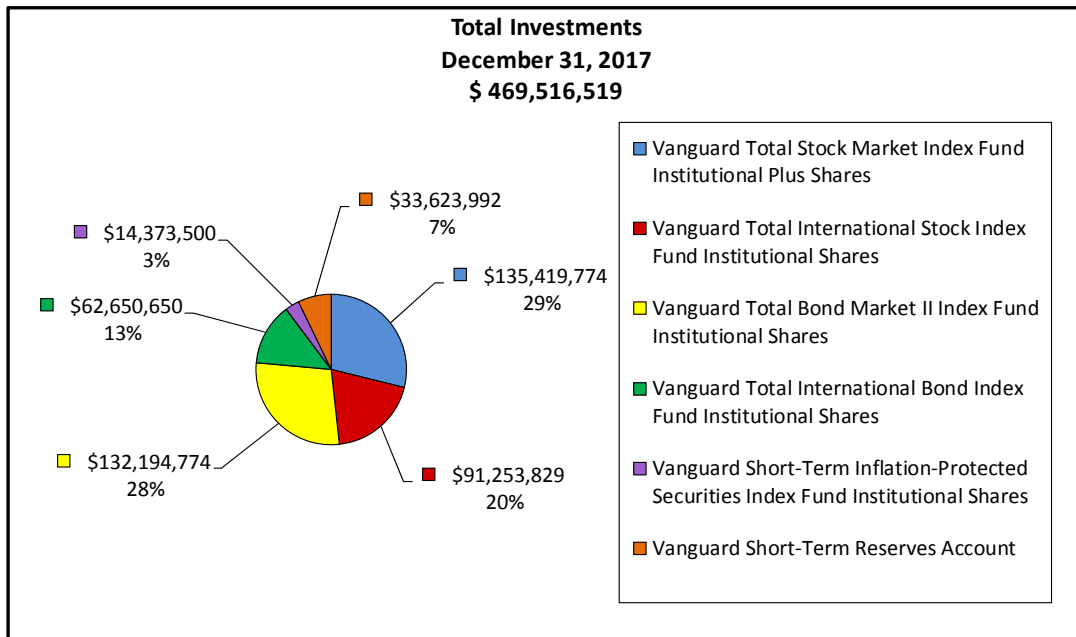
December 31, 2017 and 2016

#### Financial Analysis (Continued)

##### Fiduciary Net Position (Continued)

The reported balance of net position held in trust for account owners and their beneficiaries represents the cumulative total of contributions from account owners since the Plan's inception, increased (decreased) by net investment income (loss), and decreased by withdrawals and administrative fees.

Investments, which totaled \$469.5 million, \$415.5 million, and \$388.8 million at December 31, 2017, 2016 and 2015, respectively, represent over 99% of the Plan's total assets. Account owners are able to direct investment of their contributions into one or more portfolio options and share classes (subject to eligibility), each of which is invested in one or more Vanguard mutual funds or investment contracts (the Underlying Funds) in accordance with a predetermined asset allocation strategy approved by the Bank. At December 31, 2017, 2016 and 2015, the Plan's Underlying Funds are as follows:



**Note:** Percentages are stated as a percent of total investment value.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

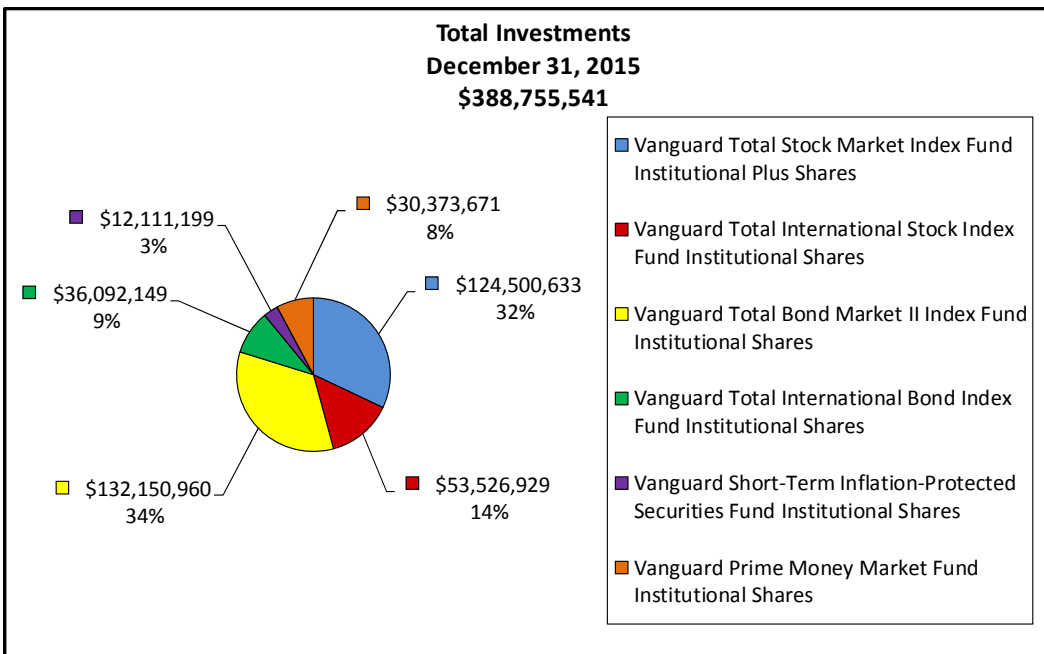
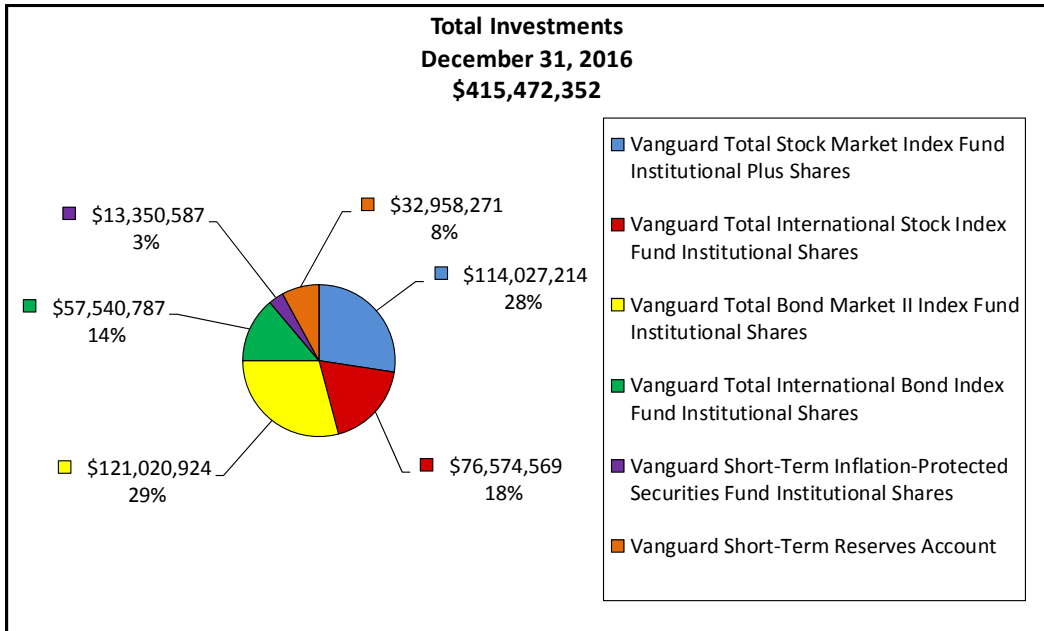
### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2017 and 2016

#### Financial Analysis (Continued)

#### Fiduciary Net Position (Continued)



**Note:** Percentages are stated as a percent of total investment value.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) December 31, 2017 and 2016

#### Financial Analysis (Continued)

##### Fiduciary Net Position (Continued)

Other assets, which totaled \$910.2 thousand at December 31, 2017, \$880.6 thousand at December 31, 2016 and \$588.9 thousand at December 31, 2015, comprise amounts to be invested or distributed on behalf of account owners and their beneficiaries and receivables for proceeds from Underlying Fund sales transactions. The Plan's liabilities, which totaled \$1.1 million at December 31, 2017, \$779.1 thousand at December 31, 2016, and \$788.6 thousand at December 31, 2015, comprise accrued administrative fees, payables for withdrawals approved but not yet paid and payables for Underlying Fund purchase transactions.

##### Changes in Fiduciary Net Position

The following condensed statements of changes in fiduciary net position summarize how the Plan's net position held in trust for account owners and their beneficiaries changed during the years presented:

	<u>Year Ended December 31, 2017</u>	<u>Year Ended December 31, 2016</u>	<u>Year Ended December 31, 2015</u>
Contributions	\$ 45,675,151	\$ 42,379,208	\$ 41,356,876
Net investment income	50,831,088	23,717,629	6,128
Withdrawals	(39,488,298)	(35,880,486)	(34,426,853)
Administrative fees	<u>(3,304,614)</u>	<u>(3,198,427)</u>	<u>(3,063,404)</u>
Net Increase	53,713,327	27,017,924	3,872,747
Net position held in trust for account owners and beneficiaries, beginning of year	<u>415,573,796</u>	<u>388,555,872</u>	<u>384,683,125</u>
Net position held in trust for account owners and beneficiaries, end of year	<u>\$ 469,287,123</u>	<u>\$ 415,573,796</u>	<u>\$ 388,555,872</u>

#### Investment Commentary

The following section provides brief descriptions of each of the Plan's investments. More complete information can be found in the College SAVE Plan Disclosure Statement and Participation Agreement document or in each Underlying Fund's prospectus and annual report.

# College SAVE

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2017 and 2016

#### Investment Commentary *(Continued)*

Until May 28, 2015, four portfolio options included the Vanguard Institutional Total Stock Market Index Fund Institutional Share Class in their asset holdings. On May 28, 2015, holdings in the Vanguard Institutional Total Stock Market Index Fund Institutional Share Class were transferred to the Vanguard Total Stock Market Index Fund Institutional Plus Share Class. The holdings and strategies of the two share classes are the same; however, the institutional plus share class maintains a lower expense ratio. The Vanguard Total Stock Market Index Fund Institutional Plus Share Class is passively managed, using index sampling. The fund invests in large-, mid- and small-capitalization stocks diversified across growth and value investment styles and seeks to track the performance of the CRSP US Total Market Index. The Vanguard Institutional Total Stock Market Index Fund Institutional Share Class experienced returns of 4.29% during the period January 1, 2015 through May 28, 2015, while the Vanguard Total Stock Market Index Fund Institutional Plus Share Class experienced negative returns of (3.71%) during the period May 28, 2015 through December 31, 2015, compared to positive returns of 12.69% and 21.19% for the years ended December 31, 2016 and 2017, respectively. The share price of the Vanguard Institutional Total Stock Market Index Fund Institutional Share Class at May 28, 2015 was \$48.42. The Vanguard Total Stock Market Index Fund Institutional Plus Share Class share price decreased from \$100.45 at May 28, 2015, to \$95.26 at December 31, 2015, but increased to \$105.18 at December 31, 2016. As of December 31, 2017, the price of The Vanguard Total Stock Market Index Fund Institutional Plus Share class was \$125.14.

The Vanguard Total International Stock Index Fund Institutional Share Class employs an indexing investment approach and seeks to track the performance of the FTSE Global All Cap ex US Index, which is designed to measure equity market performance in developed and emerging markets, excluding the United States. The fund experience positive returns of 27.55% and 4.70% for the years ended December 31, 2017 and 2016 respectively, compared to negative returns of (4.25%) in 2015. The share price of this fund increased from \$96.94 at December 31, 2015 to \$98.50 at December 31, 2016, and further increased to \$122.03 at December 31, 2017.

The Vanguard Total Bond Market II Index Fund Institutional Share Class is passively managed, using index sampling and seeks to track the performance of the Bloomberg Barclays U.S. Aggregate Float Adjusted Index. This fund provides broadly diversified exposure to the entire U.S. investment grade bond market and is intermediate in duration. The fund experienced returns of 3.60%, 2.62%, and 0.35% during the years ended December 31, 2017, 2016, and 2015, respectively. The share price of this fund increased from \$10.60 at December 31, 2015 to \$10.61 at December 31, 2016, and further increased to \$10.72 at December 31, 2017.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2017 and 2016

#### Investment Commentary *(Continued)*

The Vanguard Total International Bond Index Fund Institutional Share Class fund is passively managed, using index sampling and seeks to track the performance of the Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged). This fund provides broad exposure to non-U.S. investment grade bonds, primarily bonds issued by developed countries, but also some from emerging markets countries. During the years ended December 31, 2017, 2016, and 2015, the fund experienced positive returns of 2.46%, 4.69%, and 1.15%, respectively. The share price of this fund increased from \$31.67 at December 31, 2015, to \$32.52 at December 31, 2016, and further increased to \$32.56 on December 31, 2017.

Until January 30, 2015, the Income Portfolio included the Vanguard Inflation-Protected Securities Fund Institutional Share Class in its asset holdings. On January 30, 2015, holdings in the Vanguard Inflation-Protected Securities Fund Institutional Share Class were transferred to the Short-Term Inflation-Protected Securities Index Fund Institutional Share Class, which is described in the next paragraph. The Vanguard Inflation-Protected Securities Fund Institutional Share Class invests primarily in investment grade inflation-indexed bonds issued by the US government, its agencies and instrumentalities and domestic corporations. This fund is designed to protect investors from the eroding effects of inflation by investing in securities that seek to provide a "real" return. This fund experienced positive return of 3.13% for the period January 1, 2015 through January 30, 2015. The share price of the fund was \$10.87 on January 30, 2015.

Effective January 30, 2015, the Income Portfolio began to include the Short-Term Inflation-Protected Securities Index Fund Institutional Share Class in its asset holdings. The fund employs an indexing investment approach designed to track the performance of the Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS) 0-5 Year Index. The index is a market-capitalization-weighted index that includes all inflation-protected public obligations issued by the U.S. Treasury with remaining maturities of less than five years. The fund experienced positive returns 0.83% and 2.76% for the years ended December 31, 2017, and 2016 respectively, compared to negative returns of (0.16%) for the period January 30, 2015 through December 31, 2015. The share price of this fund decreased from \$24.43 at January 30, 2015, to \$24.18 at December 31, 2015, but increased to \$24.65 at December 31, 2016. The share price of this fund then decreased to \$24.48 at December 31, 2017.

At December 31, 2015, and until June 3, 2016, two portfolio options included the Vanguard Prime Money Market Fund Admiral Share Class in their asset holdings. Effective June 3, 2016, holdings in the Vanguard Prime Money Market Admiral Shares were transferred to the Vanguard Short-Term Reserves Account, which is described in the next paragraph. The Vanguard Prime Money Market Fund Admiral Share Class invests in high credit-quality, short-term money market instruments and seeks to maintain a \$1 value of its shares. The fund experienced positive returns of 0.19% and 0.11% for the period January 1, 2016 through June 3, 2016, and for the year ended December 31, 2015 respectively.



# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2017 and 2016

#### Investment Commentary *(Continued)*

On June 3, 2016, two portfolio options began to include the Vanguard Short-Term Reserves Account in their asset holdings. The fund seeks to provide current and stable income while maintaining a \$1 net asset value. The fund seeks to achieve its objective by diversifying among high-credit-quality investments and investment contracts that are structured to smooth market gains and losses over time. This fund experienced positive returns of 0.24% for the period June 3, 2016 through December 31, 2016, and positive returns of 1.25% for the year ended December 31, 2017.

#### Recent Developments

##### Launch of the Advisor and Direct Share Classes

Effective May 5, 2017, the Plan began offering the following two share classes: Direct Class and Advisor Class. The Advisor Class is only available to account owners who utilize the services of a financial advisor to invest in the Plan, and the Direct Class is only available to account owners who do not use a financial advisor to invest in the Plan. Each class has a different fee structure.

#### Legislative Highlights

On December 22, 2017, President Trump signed the *Tax Cuts and Jobs Act* into law. The legislation includes the following provisions related specifically to 529 plan accounts, beginning with the 2018 tax year:

- Account owners can use assets accumulated in their 529 plan accounts to pay for private, public and religious elementary, middle or high school tuition, up to \$10,000 per year, per student. Withdrawals to pay private school tuition are treated as qualified withdrawals with respect to the federal tax benefit.
- Account owners can roll over 529 plan account assets to 529 ABLE plan accounts, up to the ABLE annual contribution limit.

#### Requests for Information

This financial report is designed to provide a general overview of the Plan's financial status and changes in financial status. Additional information can be found at [www.collegesave4u.com](http://www.collegesave4u.com). If you have any questions about the information provided, please call the Plan's customer service representatives at 1-866-728-3529.

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## **Basic Financial Statements**

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### STATEMENTS OF FIDUCIARY NET POSITION December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Investments	\$ 469,516,519	\$ 415,472,352
Cash and cash equivalents	719,208	834,076
Receivables for investments sold	191,020	46,491
<b>Total Assets</b>	<u>470,426,747</u>	<u>416,352,919</u>
<b>LIABILITIES</b>		
Payables for investments purchased	317,840	109,292
Withdrawals payable	539,429	390,167
Accrued administrative fees	282,355	279,664
<b>Total Liabilities</b>	<u>1,139,624</u>	<u>779,123</u>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES</b>	<u>\$ 469,287,123</u>	<u>\$ 415,573,796</u>

See accompanying notes to basic financial statements.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ADDITIONS</b>		
Contributions	\$ 45,675,151	\$ 42,379,208
Investment income:		
Dividends and interest	10,042,619	8,874,146
Net appreciation in value of investments	40,788,469	14,843,483
Net investment income	50,831,088	23,717,629
<b>Total Additions</b>	<u>96,506,239</u>	<u>66,096,837</u>
<b>DEDUCTIONS</b>		
Withdrawals	39,488,298	35,880,486
Administrative fees	3,304,614	3,198,427
<b>Total Deductions</b>	<u>42,792,912</u>	<u>39,078,913</u>
<b>NET INCREASE</b>	53,713,327	27,017,924
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, BEGINNING OF YEAR</b>	<u>415,573,796</u>	<u>388,555,872</u>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, END OF YEAR</b>	<u>\$ 469,287,123</u>	<u>\$ 415,573,796</u>

See accompanying notes to basic financial statements.

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# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS**

The following provides a brief description of College SAVE (the Plan). For more information and disclosures about the Plan, refer to the College SAVE Plan Disclosure Statement and Participation Agreement available on the Plan's website ([www.collegesave4u.com](http://www.collegesave4u.com)) or call 1-866-728-3529.

#### **(a) General**

The Plan was created in September of 2000, pursuant to North Dakota Century Code Title 6, Chapter 9, Section 38 to enable residents of North Dakota (and other states) to save on a tax-favored basis for qualified higher education expenses. The Plan is designed to comply with the requirements for treatment as a "qualified tuition program" under Section 529 of the Internal Revenue Code of 1986, as amended, and any regulations and other guidance issued thereunder.

The College SAVE Trust (the Trust) was created to hold the assets of the Plan, thereby ensuring that the assets of the Plan can only be used for the benefit of account owners and their designated beneficiaries and cannot be used by the state of North Dakota to finance its operations. The Bank of North Dakota (the Bank), an enterprise fund of the state of North Dakota, is the designated Trustee.

The Plan is a fiduciary fund of the state of North Dakota and is included in the state of North Dakota's financial statements as a private purpose trust fund. Fiduciary funds are used to report assets that are held in a trust or agency capacity for others and therefore cannot be used to support a government's own programs. A private purpose trust fund is a type of fiduciary fund used to report certain trust arrangements under which principal and income benefit individuals, private organizations or other governments.

#### **(b) Administration**

As Trustee, the Bank is the authority responsible for oversight and overall administration of the Plan. Rules governing the operation of the Plan, as adopted by the Bank, are set forth in the North Dakota Administrative Code Title 12.5, Article 2, Chapter 1 (the Administrative Code). The Administrative Code allows the Bank to enter into contracts with service providers, agents or third-party contractors to administer the Plan, provide investment advice for the Plan, provide accounting and recordkeeping services for the Plan, enroll participants, process account owner transactions and market the Plan.

Pursuant to the Plan Management Agreement, as amended (the Management Agreement), Ascensus Broker Dealer Services, Inc. (ABD) serves as the Program Manager and Ascensus College Savings Recordkeeping Services, LLC (ACSR) serves as the recordkeeping and servicing agent. Collectively, ABD and ACSR are referred to as "Ascensus College Savings (ACS)."

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS (Continued)**

##### **(b) Administration (Continued)**

Pursuant to the terms of the North Dakota 529 Program Operational Agreement, as amended (the Operational Agreement), The Vanguard Group, Inc. (Vanguard) provides investment advisory, fund accounting and related administrative services.

The Bank of New York Mellon Corporation (BNY Mellon) is the custody agent for the Plan, responsible for maintaining a custody account to provide for the safekeeping and recordkeeping of certain assets invested in the Plan.

#### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Basis of Accounting**

In accordance with accounting principles generally accepted in the United States of America applicable to fiduciary fund types prescribed by the Governmental Accounting Standards Board (GASB), the Plan's financial statements are prepared using the flow of economic resources measurement focus and accrual basis of accounting.

##### **(b) Income Taxes**

The Plan has been designed to comply with the requirements for treatment as a "qualified tuition program" under Section 529 of the Internal Revenue Code of 1986, as amended, and any regulations or other guidance issued thereunder. As such, the Plan is exempt from federal and state income tax.

##### **(c) Estimates**

The preparation of basic financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

##### **(d) Investments**

The Plan's investments consist of Vanguard mutual funds and investment contracts (collectively, "the Underlying Funds").

The mutual funds are reported at fair value, determined by Vanguard based on the net asset value per share of each mutual fund as of the close of the New York Stock Exchange (NYSE) on the reporting date. Net realized and unrealized gains (losses) are included in "net appreciation (depreciation) in value of investments" on the statements of changes in fiduciary net position. Purchase and sales of shares of mutual funds are recorded on a trade-date basis. Dividends and capital gain distributions are recorded on the ex-dividend date and are automatically reinvested in additional shares of the respective mutual fund.



# College SAVE

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### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(d) Investments (Continued)**

Accounting standards categorize fair value measurements according to a hierarchy that is based on valuation inputs that are used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted market prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable. The fair values of the Plan's mutual funds are determined using Level 1 inputs.

The investment contracts, which include contracts issued by financial institutions and insurance companies, are fully benefit-responsive and are reported at contract value, which is equal to contributions, plus interest credited at a guaranteed rate, less withdrawals and any applicable fees and expenses. Interest is accrued as it is earned. The crediting interest rates, which may reset periodically, ranged from 1.72% to 1.86% at December 31, 2017.

The fair value standards are not applicable to the investment contracts, since they are reported at contract value, rather than fair value.

##### **(e) Cash and Cash Equivalents**

Cash and cash equivalents generally include contributions received from account owners that have not yet been invested in Underlying Funds and/or redemption proceeds from Underlying Funds for withdrawals that have not yet been distributed in accordance with account owners' instructions. Contribution and withdrawal transactions are processed through a demand deposit account maintained at BNY Mellon in the Plan's name. The bank balances of this account at December 31, 2017 and 2016, are \$43,115 and \$1,901,595, respectively. Balances in this account are insured by the Federal Deposit Insurance Corporation (FDIC), along with any other accounts maintained at BNY Mellon under the same taxpayer identification number, in the aggregate, up to \$250,000. Amounts in excess of FDIC insurance limits are not collateralized or covered by supplementary insurance.

Cash and cash equivalents also include the Plan's equity position in a pooled account maintained by Vanguard to facilitate the processing of investment buy and sell transactions on behalf of their 529 plan clients. The Plan's equity position in the pooled account at December 31, 2017 and 2016, is \$126,820 and \$62,800, respectively.

##### **(f) Contributions**

Individuals or entities meeting eligibility requirements that have properly executed a participation agreement with the Plan may establish an account to which cash contributions may be made, subject to certain minimum contribution requirements and aggregate contribution limitations. Contributions received by ACS prior to the close of the NYSE are recorded as increases in fiduciary net position on the date they are received, provided that all related documentation is found to be in good order and approved by ACS.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(f) Contributions (Continued)**

Account owners may elect to invest their contributions in one or more portfolio options offered by the Plan, consisting of six Individual Portfolio Options and three Age-Based Options. The Individual Portfolio Options are structured for various time horizons and levels of risk tolerance and are designed to allow account owners flexibility in managing their asset allocations. The Age-Based Options, which invest in a series of Individual Portfolio Options, allow account owners to choose a predetermined investment strategy based on their risk tolerance and the age of the beneficiary. Over time, as the beneficiary ages, assets are automatically reallocated to more conservative portfolios.

In addition to the various portfolio options, effective May 5, 2017, the Plan began to offer two classes of units, the Direct Class (available to account owners who do not utilize a financial advisor to invest in the Plan) and Advisor Class (available to account owners who utilize a financial advisor to invest in the Plan). As more fully disclosed in Note 4, each unit class is subject to a different fee structure.

In exchange for contributions to the Plan, account owners receive full and/or fractional interests, or units, issued by the Trust. These units are municipal securities. Although money contributed to the Plan is invested in portfolio options that hold mutual funds or investment contracts, the units themselves are not direct investments in the mutual funds or the investment contracts. These units are not insured by the FDIC, the Bank of North Dakota or the state of North Dakota, nor have they been registered with the Securities and Exchange Commission or any state commission.

In addition, although account owners can select the portfolio options in which their contributions are invested, they cannot direct the selection or allocation of the Underlying Funds composing each portfolio option.

The Trustee allows North Dakota resident account owners who meet certain eligibility requirements to be considered for a BND Match (formerly known as the College SAVE 529 Matching Grant Program, until the name was changed effective December 21, 2017) award. Upon award, a separate BND Match account is opened by the Bank on behalf of the account owner and designated beneficiary. The Bank retains ownership of the assets in the BND Match account until the account owner submits a request in good order for a qualified withdrawal to an eligible educational institution. BND Match awards under this program totaled \$296,636 and \$293,444 for the years ended December 31, 2017 and 2016, respectively, and are included in contributions on the statements of changes in fiduciary net position.

The New Baby Match Program (formerly known as the Children FIRST Grant Program, until the name was changed effective December 21, 2017) allows North Dakota newborns to be considered for a one-time award. To be eligible to receive this award, interested persons must complete and return an enrollment form during the time the beneficiary, who must be a North Dakota resident, is 12 months old or younger. In addition, the account owner has up to 12 months from the enrollment date to contribute to their

# College SAVE

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### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(f) Contributions (Continued)**

account in order to be eligible to receive a dollar for dollar match in an amount up to \$200. Once these requirements are met, the account owner retains the ownership of the match and any earnings thereon. New Baby Match Program awards under this program totaled \$208,645 and \$179,700 for the years ended December 31, 2017 and 2016, respectively, and are included in contributions on the statements of changes in fiduciary net position.

##### **(g) Withdrawals**

Account owners may request withdrawals for qualified or non-qualified expenses. It is the responsibility of the account owner to determine whether or not the withdrawal is for qualified higher educational expenses and to calculate the applicable amount of federal or state tax or penalties for non-qualified withdrawals, if any. Withdrawals are recorded as deductions from fiduciary net position on the date the withdrawal request is found to be in good order and approved by ACS.

Withdrawals presented on the statements of changes in fiduciary net position include annual account maintenance fees, which are \$20 for each account and are assessed annually during the anniversary month of the account opening. This fee is not charged to BND Match or New Baby Match Program accounts nor to those accounts for which the account owner or the beneficiary is a North Dakota resident. In addition, accounts established prior to February 28, 2002, where either the account owner or the beneficiary was a resident of South Dakota at the time of account opening, are not subject to this fee. Withdrawals also include service fees for other transactions, such as returned checks, overnight delivery charges, outgoing wire transfers and requests for historical statements. Annual account maintenance fees and service fees which totaled approximately \$212,000 and \$217,000 for the years ended December 31, 2017 and 2016, respectively, are paid to ACS.

##### **(h) Exchanges and Transfers**

As explained in Note 2(f), for each of the Age-Based Options, account balances will automatically be exchanged from one portfolio option to another more conservative portfolio option as the beneficiary ages. In addition, subject to certain limitations and restrictions, account owners may generally direct that their account balance be reinvested in one or more different portfolio options twice per calendar year. Transfers of funds between portfolio options are referred to as "exchanges." Under certain conditions, account assets may be transferred from one beneficiary to another or from one account owner to another. These transactions are referred to as "transfers." The amounts of contributions and withdrawals reported on the statements of changes in fiduciary net position do not include exchanges or transfers, as these have no impact on the overall financial position of the Plan.

# College SAVE

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### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) Unit Valuation**

As explained in Note 2(f), each account owner's full and/or fractional interest in a portfolio option is evidenced by a unit. The net asset value of a unit is calculated daily based on the value of the Underlying Funds, adjusted for the effects of such transactions as accrued administrative fees and investment income that has not been reinvested. The value of any individual account is determined by multiplying the number of units in a portfolio option attributable to that account owner by the net asset value per unit of that portfolio option.

**NOTE 3: INVESTMENTS**

**(a) Investments by Type**

At December 31, 2017 and 2016, investments held in the various portfolio options are detailed in the schedules that follow. Percentages are rounded to the nearest tenth of a percent.

2017			
Underlying Fund	Designation	Balance as of December 31, 2017	Percent of Total Balance
<b>Aggressive Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	\$ 53,133,143	59.8%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	35,708,384	40.2%
		88,841,527	100.0%
<b>Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	32,674,014	44.8%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	22,015,108	30.2%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	12,785,226	17.5%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	5,467,871	7.5%
		72,942,219	100.0%

**(Continued)**

# College SAVE

## Picture the Future

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### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 3: INVESTMENTS (Continued)

##### (a) Investments by Type (Continued)

2017			
Underlying Fund	Designation	Balance as of December 31, 2017	Percent of Total Balance
<b>Moderate Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	\$ 34,943,250	30.0%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	23,596,175	20.2%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	40,685,262	34.9%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	17,373,466	14.9%
		<u>116,598,153</u>	<u>100.0%</u>
<b>Conservative Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	14,669,367	15.0%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	9,934,162	10.2%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	51,177,498	52.4%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	21,864,505	22.4%
		<u>97,645,532</u>	<u>100.0%</u>
<b>Income Portfolio</b>			
Vanguard Short-Term Reserves Account	Stable Value	19,941,361	25.0%
Vanguard Short-Term Inflation-Protected Securities Index Fund Institutional Shares	Inflation Protected Bond	14,373,500	18.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	27,546,788	34.5%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	17,944,808	22.5%
		<u>79,806,457</u>	<u>100.0%</u>
<b>Interest Accumulation Portfolio</b>			
Vanguard Short-Term Reserves Account	Stable Value	13,682,631	100.0%
<b>Total Investments</b>		<u>\$ 469,516,519</u>	

(Continued)

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

**NOTE 3: INVESTMENTS (Continued)**

**(a) Investments by Type (Continued)**

2016			
Underlying Fund	Designation	Balance as of December 31, 2016	Percent of Total Balance
<b>Aggressive Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	\$ 40,044,700	59.7%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	<u>27,025,268</u>	<u>40.3%</u>
		<u>67,069,968</u>	<u>100.0%</u>
<b>Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	28,002,816	44.6%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	18,962,732	30.3%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	11,066,436	17.6%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	<u>4,719,023</u>	<u>7.5%</u>
		<u>62,751,007</u>	<u>100.0%</u>
<b>Moderate Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	32,493,023	30.0%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	21,689,301	20.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	37,818,129	35.0%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	<u>16,196,539</u>	<u>15.0%</u>
		<u>108,196,992</u>	<u>100.0%</u>

**(Continued)**

# College SAVE

## Picture the Future

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### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 3: INVESTMENTS (Continued)

##### (a) Investments by Type (Continued)

2016			
Underlying Fund	Designation	Balance as of December 31, 2016	Percent of Total Balance
<b>Conservative Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	\$ 13,486,675	15.2%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	8,897,268	10.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	46,513,759	52.3%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	19,966,352	22.5%
		<u>88,864,054</u>	<u>100.0%</u>
<b>Income Portfolio</b>			
Vanguard Short-Term Reserves Account	Stable Value	18,507,212	25.0%
Vanguard Short-Term Inflation-Protected Securities Fund Institutional Shares	Inflation Protected Bond	13,350,587	18.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	25,622,600	34.5%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	16,658,873	22.5%
		<u>74,139,272</u>	<u>100.0%</u>
<b>Interest Accumulation Portfolio</b>			
Vanguard Short-Term Reserves Account	Stable Value	14,451,059	100.0%
<b>Total Investments</b>		<u>\$ 415,472,352</u>	

# College **SAVE**

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

**NOTE 3: INVESTMENTS (Continued)**

**(b) Vanguard Short-Term Reserves Account**

The Plan maintains a stable value separate account that is managed by Vanguard. This account invests in guaranteed investment contracts issued by insurance companies, bank investment contracts issued by financial institutions and a money market mutual fund. The underlying holdings of this account during the years ended December 31, 2017 and 2016, are as follows:

	<b>2017</b>	<b>2016</b>
Investment contracts, at contract value		
American General Life Insurance Company	\$ 5,101,976	\$ -
Nationwide Life	5,546,129	-
Prudential Insurance Company	6,774,586	6,661,790
State Street Bank	6,774,678	6,665,466
Total investment contracts, at contract value	24,197,369	13,327,256
Vanguard Federal Money Market Fund	9,426,623	19,631,015
Total Vanguard Short-Term Reserves Account	\$ 33,623,992	\$ 32,958,271

Based on the nature of the investment contracts and underlying asset holdings, contract value is a reasonable approximation of fair value.

The bank investment contracts are not insured by the FDIC or otherwise covered by collateral or supplementary insurance.

**(c) Net Appreciation in Value of Investments**

The following table calculates the net change in the value of investments during the years ended December 31, 2017 and 2016.

	<b>2017</b>	<b>2016</b>
Value of investments, end of year	\$ 469,516,519	\$ 415,472,352
Less cost of investments purchased and investment income reinvested during the year	(196,201,533)	(143,924,810)
Plus proceeds from investments sold during the year	182,945,835	132,051,482
Less value of investments, beginning of year	(415,472,352)	(388,755,541)
Net appreciation in value of investments	\$ 40,788,469	\$ 14,843,483



# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 3: INVESTMENTS (Continued)**

##### **(d) Investment Risk**

The mutual funds in which the Plan invests contain various investment securities, which include corporate debt and equity securities, obligations of the United States government and government agencies and international equity securities in their asset holdings. These securities are exposed to various risks, such as interest rate, market and credit risk, and it is at least reasonably possible that changes in their fair values could occur in the near term, materially affecting account owner balances and the amounts reported in the Plan's financial statements.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 59, *Financial Instruments Omnibus*, require that certain disclosures be made related to the Plan's investment policy and its exposure to credit risk, interest rate risk and foreign currency risk, which are included in the paragraphs that follow.

##### Investment Policy

The Underlying Funds in which the Plan's assets are invested and the allocation of the Underlying Funds within each portfolio option are specified in the Management Agreement and the Operational Agreement and may not be changed without approval of the Bank. There is no separate investment policy that specifically addresses credit risk, interest rate risk, concentrations of credit risk or foreign currency risk. However, the Bank, ACS and Vanguard believe that the portfolio options available to account owners are appropriately structured to allow account owners to manage these specific risk types, to the greatest extent possible, given the nature of the Underlying Funds.

##### Credit Risk

Certain Underlying Funds invest in bonds issued by corporations, foreign government, the U.S. government, its agencies and instrumentalities. The Plan may be indirectly exposed to credit risk, which is the risk that a bond issuer will fail to pay interest and principal, when due, as a result of adverse market or economic conditions.

The Plan's mutual funds are not subject to classification by custodial credit risk, which is the risk the Plan will not recover the value of investments that are in the possession of an outside party. In addition, the investment contracts are considered a contractual investment, rather than investment securities, and are not exposed to custodial credit risk, except as disclosed in Note 3(b) regarding bank investment contracts.

The mutual funds in which the Plan invests are not rated as to credit quality by a nationally recognized statistical rating organization.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 3: INVESTMENTS (Continued)**

##### **(d) Investment Risk (Continued)**

###### Interest Rate Risk

Certain Underlying Funds invest primarily in short- and intermediate-term bonds and may be exposed to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely impact the fair value of an investment. Average maturity is the average length of time until fixed-income securities held by a fund reach maturity and will be repaid, taking into consideration the possibility that the issuer may call a bond before its maturity date. In general, the longer the average maturity, the more a fund's share price will fluctuate in response to changes in interest rates. Average duration is an estimate of how much the value of the bonds held by a fund will fluctuate in response to changes in interest rates. As of December 31, 2017, the average maturity and average duration of these mutual funds are as follows:

	<u>Average Maturity</u>	<u>Average Duration</u>
Vanguard Total Bond Market II Index Fund Institutional Shares	8.4 years	6.1 years
Vanguard Short-term Inflation-Protected Securities Index Fund Institutional Shares	2.5 years	2.5 years
Vanguard Total International Bond Index Fund Institutional Shares	9.2 years	7.8 years
Vanguard Federal Money Market Fund	56 days	N/A

###### Foreign Currency Risk

The Vanguard Total International Stock Index Fund Institutional Shares invests in a diversified index of non-U.S. stocks representing the major developed and emerging equity markets, and the Vanguard Total Bond Index Fund Institutional Shares invests in diversified investment grade, fixed-income investments issued in currencies other than the U.S. dollar. There are certain inherent risks involved when investing in international securities that are not present with investments in domestic securities, such as foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention or delay of currency exchange due to foreign governmental laws or restrictions.

#### **NOTE 4: ADMINISTRATIVE FEES AND EXPENSES**

##### **(a) Administrative Fees**

Administrative fees presented on the statements of changes in fiduciary net position include service fees that are paid to the Bank, ACS and Vanguard, as provided in the Management Agreement and the Operational Agreement. These fees include the plan management fee and the state administrative fee, which are calculated based on the fiduciary net position of each portfolio option, accrued daily and paid monthly.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### NOTES TO BASIC FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 4: ADMINISTRATIVE FEES AND EXPENSES (Continued)**

##### **(a) Administrative Fees (Continued)**

In addition, Advisor Class units of each portfolio, excluding the Interest Accumulation Portfolio, are subject to an ongoing distribution and service fee, which is calculated based on net position of Advisor Class units in each portfolio option and accrued daily. This fee is paid monthly to ACS, and on a quarterly basis is distributed to financial advisors for certain distribution and account related services. Direct Class units are not subject to the distribution and service fee.

The Bank, ACS and Vanguard agreed to temporarily limit their respective service fees attributable to the Interest Accumulation Portfolio to maintain a zero or positive yield for this portfolio. This limit remains in effect as of the date of this report.

Administrative fees related to the years ended December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
ACS	\$ 2,344,867 <sup>(1)</sup>	\$ 2,186,878
Vanguard	516,260	608,488
Bank	<u>443,487</u>	<u>403,061</u>
Total administrative fees	<u>\$ 3,304,614</u>	<u>\$ 3,198,427</u>

<sup>(1)</sup> Includes distribution and service fees ultimately paid to financial advisors.

##### **(b) Underlying Fund Expenses**

Vanguard also receives fees for management of the Underlying Funds. These fees are not included in administrative fees presented on the Plan's statements of changes in fiduciary net position since they reduce the amount of investment income available for distribution to the Plan and are not a direct expense paid from Plan assets.

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## **Supplementary Information**

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### SCHEDULE OF FIDUCIARY NET POSITION BY PORTFOLIO December 31, 2017

	Aggressive Growth Portfolio	Growth Portfolio	Moderate Growth Portfolio	Conservative Growth Portfolio	Income Portfolio	Interest Accumulation Portfolio	Plan Total
<b>ASSETS</b>							
Investments	\$ 88,841,527	\$ 72,942,219	\$ 116,598,153	\$ 97,645,532	\$ 79,806,457	\$ 13,682,631	\$ 469,516,519
Cash and cash equivalents (cash overdraft)	208,177	241,121	159,524	78,618	54,589	(22,821)	719,208
Receivables for investments sold	-	-	-	-	170,427	20,593	191,020
<b>Total Assets</b>	<u>89,049,704</u>	<u>73,183,340</u>	<u>116,757,677</u>	<u>97,724,150</u>	<u>80,031,473</u>	<u>13,680,403</u>	<u>470,426,747</u>
<b>LIABILITIES</b>							
Payables for investments purchased	101,029	110,883	58,097	31,130	14,727	1,974	317,840
Withdrawals payable	87,368	19,065	56,307	20,322	323,219	33,148	539,429
Accrued administrative fees	50,797	41,345	71,775	61,478	51,018	5,942	282,355
<b>Total Liabilities</b>	<u>239,194</u>	<u>171,293</u>	<u>186,179</u>	<u>112,930</u>	<u>388,964</u>	<u>41,064</u>	<u>1,139,624</u>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES</b>	<u>\$ 88,810,510</u>	<u>\$ 73,012,047</u>	<u>\$ 116,571,498</u>	<u>\$ 97,611,220</u>	<u>\$ 79,642,509</u>	<u>\$ 13,639,339</u>	<u>\$ 469,287,123</u>
<b>UNIT INFORMATION<sup>(1) (2)</sup></b>							
<b>Advisor Class</b>							
Units outstanding	2,660,316	2,102,545	4,733,397	4,739,605	4,696,347	827,201	
Net asset value per unit	\$ 20.23	\$ 19.99	\$ 18.05	\$ 16.03	\$ 13.43	\$ 10.07	
<b>Direct Class</b>							
Units outstanding	3,110,428	2,821,691	2,909,690	2,074,338	1,637,407	527,775	
Net asset value per unit	\$ 11.25	\$ 10.98	\$ 10.70	\$ 10.43	\$ 10.12	\$ 10.06	

<sup>(1)</sup> Rounded to the nearest whole share

<sup>(2)</sup> Rounded to the nearest hundredth

See Independent Auditor's Report.

# College SAVE

## Picture the Future

(A Private Purpose Trust Fund of the State of North Dakota)

### SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION BY PORTFOLIO Year Ended December 31, 2017

	Aggressive Growth Portfolio	Growth Portfolio	Moderate Growth Portfolio	Conservative Growth Portfolio	Income Portfolio	Interest Accumulation Portfolio	Plan Total
<b>ADDITIONS</b>							
Contributions	\$ 13,004,135	\$ 10,175,647	\$ 10,388,187	\$ 6,190,453	\$ 4,811,089	\$ 1,105,640	\$ 45,675,151
Investment income:							
Dividends and interest	1,824,477	1,580,516	2,683,492	2,247,535	1,529,864	176,735	10,042,619
Net appreciation in fair value of investments	14,661,125	9,687,181	11,272,674	4,978,935	188,554	-	40,788,469
Net investment income	16,485,602	11,267,697	13,956,166	7,226,470	1,718,418	176,735	50,831,088
Exchanges in	31,967,321	36,344,377	43,505,352	43,558,381	36,426,618	8,770,360	200,572,409
<b>Total Additions</b>	<b>61,457,058</b>	<b>57,787,721</b>	<b>67,849,705</b>	<b>56,975,304</b>	<b>42,956,125</b>	<b>10,052,735</b>	<b>297,078,648</b>
<b>DEDUCTIONS</b>							
Withdrawals	2,890,538	2,957,530	5,648,576	7,289,607	17,639,735	3,062,312	39,488,298
Administrative fees	565,033	484,919	861,017	718,229	591,175	84,241	3,304,614
Exchanges out	36,363,926	44,139,548	53,037,970	40,217,522	19,101,424	7,712,019	200,572,409
<b>Total Deductions</b>	<b>39,819,497</b>	<b>47,581,997</b>	<b>59,547,563</b>	<b>48,225,358</b>	<b>37,332,334</b>	<b>10,858,572</b>	<b>243,365,321</b>
<b>NET INCREASE (DECREASE)</b>	<b>21,637,561</b>	<b>10,205,724</b>	<b>8,302,142</b>	<b>8,749,946</b>	<b>5,623,791</b>	<b>(805,837)</b>	<b>53,713,327</b>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, BEGINNING OF YEAR</b>	<b>67,172,949</b>	<b>62,806,323</b>	<b>108,269,356</b>	<b>88,861,274</b>	<b>74,018,718</b>	<b>14,445,176</b>	<b>415,573,796</b>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, END OF YEAR</b>	<b>\$ 88,810,510</b>	<b>\$ 73,012,047</b>	<b>\$ 116,571,498</b>	<b>\$ 97,611,220</b>	<b>\$ 79,642,509</b>	<b>\$ 13,639,339</b>	<b>\$ 469,287,123</b>

See Independent Auditor's Report.

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**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***

Bank of North Dakota  
Ascensus Broker Dealer Services, Inc., Program Manager  
College SAVE

We have audited, in accordance with the 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 **College SAVE** (the Plan), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated March 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Plan'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Plan's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 Plan'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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thomas & Thomas LLP*

Certified Public Accountants

March 30, 2018  
Little Rock, Arkansas