



Financial Statements
December 31, 2018 and
September 30, 2017

North Dakota Guaranteed Student Loan Program

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Guaranteed Student Loan Program, an enterprise fund of the State of North Dakota, as of December 31, 2018 and September 30, 2017, and for the fifteen months ended December 31, 2018 and the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the North Dakota Guaranteed Student Loan Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Guaranteed Student Loan Program, as of December 31, 2018 and September 30, 2017, and the changes in financial position and cash flows for the fifteen months ended December 31, 2018 and the year ended September 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Reporting Entity

As discussed in Note 1, the financial statements of the North Dakota Guaranteed Student Loan Program are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the North Dakota Guaranteed Student Loan Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2018 and September 30, 2017 and the changes in its financial position and its cash flows for the fifteen months ended December 31, 2018 and the year ended September 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Reporting Period

As discussed in Note 1, effective October 1, 2017, the North Dakota Guaranteed Student Loan Program changed its fiscal year end from September 30 to December 31 which resulted in the reporting periods presented in the financial statements to be as of December 31, 2018 and September 30, 2017, and for the fifteen months ended December 31, 2018 and the twelve months ended September 30, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2019 on our consideration of North Dakota Guaranteed Student Loan Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 North Dakota Guaranteed Student Loan 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 North Dakota Guaranteed Student Loan Program's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
March 27, 2019

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2018, AND SEPTEMBER 30, 2017 AND 2016

The North Dakota Guaranteed Student Loan Program (the Program) has been designated to act as a guarantor of student loans made pursuant to the Higher Education Act of 1965, as amended, and certain other student loans if the North Dakota Industrial Commission determines that the student loans made under the terms of certain federal programs are no longer meeting the needs of North Dakota students, or are no longer available. On March 31, 2016, all of the Program's Federal Family Education Loan Program (FFELP) guarantees were transferred to Great Lakes Higher Education. Prior to the transfer, the Program was comprised of three components – an Agency Operating Fund (AOF), property of the Program, an Alternative Loan Fund, also property of the Program, and a Federal Student Loan Reserve Fund (FSLRF), the net position of which was property of the Federal Government. On March 31, 2016, the transfer of the FFELP guarantees to Great Lakes resulted in the net position of the Agency Operating Fund being transferred to the Alternative Loan Fund and the net position of the FSLRF being transferred to the Department of Education. Please note this transfer and dissolution of funds throughout the financial statements.

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 fifteen months ended December 31, 2018, and the fiscal years ended September 30, 2017 and 2016. 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.

2018 FINANCIAL HIGHLIGHTS

Alternative Loan Fund

Alternative Loan Fund guarantees during the fifteen months ending December 31, 2018 were \$170 million compared to \$193 million during the fiscal year ending September 30, 2017 and \$240 million during the fiscal year ending September 30, 2016.

Alternative Loan Fund guarantees outstanding at December 31, 2018 were \$1.171 billion compared to \$1.133 billion at September 30, 2017 and \$1.043 billion at September 30, 2016.

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.

Agency Operating Fund

On March 31, 2016, all Federal Family Education Loan Program guarantees were transferred to Great Lakes Higher Education; therefore, there are no guarantees outstanding or revenues and expenses for the fifteen months ended December 31, 2018 or the fiscal year ended September 30, 2017. Collection revenue was \$394,000 during the fiscal year ending September 30, 2016. The Program received these revenues as reimbursement for collection efforts performed for the Department of Education.

Federal Student Loan Reserve Fund

On March 31, 2016, all Federal Family Education Loan Program guarantees were transferred to Great Lakes Higher Education. Subsequently, the balance of the Federal Student Loan Reserve Fund, which was property of the Federal Government, was transferred to the Department of Education on August 4, 2016.

**CONDENSED STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND SEPTEMBER 30, 2017 AND 2016**

	December 31, 2018	(In Thousands) September 30, 2017	September 30, 2016
ASSETS			
Cash and cash equivalents			
Unrestricted	\$ 42,125	\$ 45,230	\$ 33,724
Restricted	131	168	168
Investments	-	-	3,000
Receivables	774	237	979
Total assets	<u>43,030</u>	<u>45,635</u>	<u>37,871</u>
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 43,030</u></u>	<u><u>\$ 45,635</u></u>	<u><u>\$ 37,871</u></u>
LIABILITIES			
Current liabilities			
Allowance for future credit losses	\$ 4,356	\$ 3,915	\$ 3,380
Estimated future refunds of default aversion fees	131	168	-
Other	728	1,016	521
Total current liabilities	<u>5,215</u>	<u>5,099</u>	<u>3,901</u>
Noncurrent liabilities			
Allowance for future credit losses	18,275	20,579	18,421
Estimated future refunds of default aversion fees	-	-	168
Total noncurrent liabilities	<u>18,275</u>	<u>20,579</u>	<u>18,589</u>
Total liabilities	<u>23,490</u>	<u>25,678</u>	<u>22,490</u>
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION - UNRESTRICTED	<u>19,540</u>	19,957	15,381
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u><u>\$ 43,030</u></u>	<u><u>\$ 45,635</u></u>	<u><u>\$ 37,871</u></u>

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 \$3.1 million in 2018 primarily due to claim payments paid to BND. Cash and cash equivalents increased \$11.5 million in 2017 primarily due to a transfer in of \$10 million from the North Dakota Student Loan Trust (Trust).

Investments

There were no investment purchases or maturities in 2018. Investments decreased \$3 million in 2017 due to maturing certificates of deposit.

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.

Allowance for Future 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, 2018, the Program considers the allowance for future credit losses of \$22.6 million adequate to cover losses on Alternative loans. Allowance for future credit losses was \$24.5 million and \$21.8 million as of September 30, 2017 and 2016, respectively.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FIFTEEN MONTHS ENDED DECEMBER 31, 2018 AND YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	December 31, 2018	(In Thousands) September 30, 2017	September 30, 2016
OPERATING REVENUES			
Administrative fee	\$ 7,083	\$ 2,558	\$ 6,713
Loan recoveries net of DOE share	-	-	133
Rehabilitation loans net of DOE share	-	-	32
Collection cost revenues	-	-	229
Fee revenues	28	23	227
Grant income	-	48	947
	<u>7,111</u>	<u>2,629</u>	<u>8,281</u>
OPERATING EXPENSES			
Service and administrative expense	829	1,594	1,738
Grant expenditures	-	48	947
Credit loss expense	6,750	6,440	4,222
Other expenses	-	-	185
	<u>7,579</u>	<u>8,082</u>	<u>7,092</u>
OPERATING INCOME (LOSS)	(468)	(5,453)	1,189
NONOPERATING REVENUES			
Interest income	<u>51</u>	<u>29</u>	<u>40</u>
INCOME (LOSS) BEFORE TRANSFERS	(417)	(5,424)	1,229
OPERATING TRANSFERS			
Transfer from ND Student Loan Trust	<u>-</u>	<u>10,000</u>	<u>-</u>
CHANGE IN NET POSITION	(417)	4,576	1,229
TOTAL NET POSITION - BEGINNING OF PERIOD	<u>19,957</u>	<u>15,381</u>	<u>14,152</u>
TOTAL NET POSITION - END OF PERIOD	<u>\$ 19,540</u>	<u>\$ 19,957</u>	<u>\$ 15,381</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 increased \$4.5 million during the fifteen months ending December 31, 2018 primarily due to in-state fees being reinstated. Administrative fees decreased by \$4.1 million during the fiscal year ending September 30, 2017 primarily due to the \$10 million Trust transfer covering in-state fees for calendar year 2017.

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 \$6.7 million during the fifteen months ending December 31, 2018, \$6.4 million during the fiscal year ending September 30, 2017, and \$4.2 million during the fiscal year ending September 30, 2016.

Transfers

On October 5, 2016, the Alternative Loan Fund received a transfer of \$10 million from the North Dakota Student Loan Trust.

Economic Factors

Discussion in Note 1 to the financial statements indicates that the Program has had an economic dependence on the Department of Education for reinsurance of student loans guaranteed by the Program, and for the payment of certain activity-based fees for the Program's administration of the loan programs for the Department. Upon the March 31, 2016 transfer of all FFELP guarantees, the Program is no longer dependent upon the Department.

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, 2018 AND SEPTEMBER 30, 2017

	<u>December 31, 2018</u>	<u>September 30, 2017</u>
ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 42,124,746	\$ 45,230,383
Restricted	131,595	167,900
Receivables		
Administrative fee	773,515	236,925
Total assets	<u>43,029,856</u>	<u>45,635,208</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 43,029,856</u>	<u>\$ 45,635,208</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to BND	\$ 126,149	\$ 71,880
Payable to lenders	602,189	944,062
Allowance for future credit losses	4,356,000	3,915,000
Estimated future refunds of default aversion fees	131,595	167,900
Total current liabilities	<u>5,215,933</u>	<u>5,098,842</u>
NONCURRENT LIABILITIES		
Allowance for future credit losses	<u>18,273,765</u>	<u>20,579,359</u>
Total liabilities	<u>23,489,698</u>	<u>25,678,201</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION - UNRESTRICTED	<u>19,540,158</u>	<u>19,957,007</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 43,029,856</u>	<u>\$ 45,635,208</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FIFTEEN MONTHS ENDED DECEMBER 31, 2018 AND YEAR ENDED SEPTEMBER 30, 2017

	<u>December 31, 2018</u>	<u>September 30, 2017</u>
OPERATING REVENUES		
Administrative fee	\$ 7,082,440	\$ 2,557,876
Grant income	-	48,327
Referral income	28,850	23,150
	<u>7,111,290</u>	<u>2,629,353</u>
OPERATING EXPENSES		
Service and administrative expense	829,087	1,594,768
Grant expenditures	-	48,327
Credit loss expense	6,750,000	6,439,510
	<u>7,579,087</u>	<u>8,082,605</u>
OPERATING LOSS	(467,797)	(5,453,252)
NONOPERATING REVENUES		
Interest income	50,948	28,735
	<u>50,948</u>	<u>28,735</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(416,849)</u>	<u>(5,424,517)</u>
OPERATING TRANSFERS		
Transfer from North Dakota Student Loan Trust	-	10,000,000
	<u>-</u>	<u>10,000,000</u>
CHANGE IN NET POSITION	(416,849)	4,575,483
TOTAL NET POSITION, BEGINNING OF PERIOD	<u>19,957,007</u>	<u>15,381,524</u>
TOTAL NET POSITION, END OF PERIOD	<u>\$ 19,540,158</u>	<u>\$ 19,957,007</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF CASH FLOWS
FIFTEEN MONTHS ENDED DECEMBER 31, 2018 AND YEAR ENDED SEPTEMBER 30, 2017

	<u>December 31, 2018</u>	<u>September 30, 2017</u>
OPERATING ACTIVITIES		
Loan recoveries received from borrowers	\$ 671,812	\$ 611,061
Credit loss claims paid to BND	(9,458,391)	(3,614,101)
Credit loss claims paid to North Dakota Student Loan Trust	(169,888)	(119,839)
Grant receipts	-	139,525
Administrative fee received from borrowers	6,545,850	3,204,676
Referral fees received	28,850	23,150
Service and administrative expense paid to BND	(774,818)	(1,771,098)
Refunds of default aversion fees	(36,305)	-
NET CASH USED FOR OPERATING ACTIVITIES	<u>(3,192,890)</u>	<u>(1,526,626)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Cash received from North Dakota Student Loan Trust	-	10,000,000
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>10,000,000</u>
INVESTING ACTIVITIES		
Proceeds from investment maturities - BND	-	3,000,000
Interest received	50,948	32,902
NET CASH FROM INVESTING ACTIVITIES	<u>50,948</u>	<u>3,032,902</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,141,942)	11,506,276
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>45,398,283</u>	<u>33,892,007</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 42,256,341</u>	<u>\$ 45,398,283</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (467,797)	\$ (5,453,252)
Adjustments to reconcile operating loss to net cash used for operating activities		
Changes in assets and liabilities:		
Due from others	-	91,198
Administrative fee receivable - BND	(536,590)	646,800
Allowance for future credit losses	(2,206,467)	3,316,631
Refunds of default aversion fees	(36,305)	-
Due to BND	54,269	(128,003)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (3,192,890)</u>	<u>\$ (1,526,626)</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
NOTES TO FINANCIAL STATEMENTS
FIFTEEN MONTHS ENDED DECEMBER 31, 2018 AND YEAR ENDED SEPTEMBER 30, 2017

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.

Reporting Period

Effective October 1, 2017, the Program changed its fiscal year end from September 30 to December 31 to coincide with the fiscal year end of the Bank rather than the fiscal year end of the U.S. Department of Education, which was previously required prior to the transfer of all federal student loan guarantees. This change resulted in the reporting periods presented in the financial statements to be as of December 31, 2018 and September 30, 2017, and for the fifteen months ended December 31, 2018 and the twelve months ended September 30, 2017.

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.

NOTES TO FINANCIAL STATEMENTS

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.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the statement of net position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for future credit losses.

Cash and Cash Equivalents

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

Capital Assets

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

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.

NOTES TO FINANCIAL STATEMENTS

Restricted Assets

The Program has restricted cash for the estimated future refunds of default aversion fees obligated to Great Lakes Higher Education. If an expense is incurred that qualifies for use of both restricted and unrestricted resources, the Program will first apply restricted resources.

Operating and Non-Operating Revenues

Operating revenues consist of 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.

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, 2018 and September 30, 2017, the Program had cash deposits held at the Bank of \$42,256,341 and \$45,398,283, 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>2018</u>	<u>2017</u>
Balance, beginning of period	\$ 167,900	\$ 167,900
Payment to Great Lakes	<u>(36,305)</u>	<u>-</u>
Balance, end of period	<u>\$ 131,595</u>	<u>\$ 167,900</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – ALLOWANCE FOR FUTURE CREDIT LOSSES

Changes in the allowance for future credit losses for the fifteen months ending December 31, 2018 and year ending September 30, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of period	\$ 24,494,359	\$ 21,801,081
Credit loss expense	6,750,000	6,439,510
Recoveries	671,812	611,061
Claims paid	<u>(9,286,406)</u>	<u>(4,357,293)</u>
Balance, end of period	<u>\$ 22,629,765</u>	<u>\$ 24,494,359</u>

NOTE 5 - INTERFUND AND RELATED PARTY TRANSACTIONS

	<u>2018</u>	<u>2017</u>
BANK OF NORTH DAKOTA		
Cash and cash equivalents - unrestricted	\$ 42,124,746	\$ 45,230,383
Cash and cash equivalents - restricted	131,595	167,900
Administrative fee receivable	773,515	236,925
Due to BND	126,149	71,880
Payable to lenders	602,189	944,062
Transfer from North Dakota Student Loan Trust	-	10,000,000

During the fifteen months ended December 31, 2018 and year ended September 30, 2017, the Program paid \$826,346 and \$1,642,319, respectively, to the Bank for reimbursement of expenses paid by the Bank on behalf of the Program, which includes \$108,664 and \$668,933 for indirect common costs that were allocated to the Program and \$717,682 and \$973,386 for direct costs specifically identifiable with the Program. The payable to the Bank for such expenses, amounting to \$126,149 and \$71,880 at December 31, 2018 and September 30, 2017, respectively, is included in "Due To BND" on the statement of net position. The Program received administrative fees of \$5,536,864 during the fifteen months ended December 31, 2018 and \$1,049,319 during the year ended September 30, 2017 from the Bank. This increase was due to in-state fees being reinstated.

As of December 31, 2018 and September 30, 2017, the Program has guaranteed approximately \$1.17 billion and \$1.13 billion of loans owned by the Bank and the Trust. The Program paid claims of approximately \$9.6 million and \$5.2 million to the Bank and the Trust for the fifteen months ended December 31, 2018 and year ended September 30, 2017, respectively. Some of those loans were subsequently rehabilitated and sold to the Bank.

NOTES TO FINANCIAL STATEMENTS

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 Industrial Commission 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, the financial statements of the North Dakota Guaranteed Student Loan Program, an enterprise fund of the State of North Dakota, as of and for the fifteen months ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the North Dakota Guaranteed Student Loan Program’s basic financial statements, and have issued our report thereon dated March 27, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Guaranteed Student Loan Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Bismarck, North Dakota
March 27, 2019



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

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

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

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

Unmodified

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

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

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

No

Audit Committee Communications:

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

As identified in the emphasis of matter paragraph included in the Independent Auditor's Report and Note 1 to the financial statements, effective October 1, 2017, the North Dakota Guaranteed Student Loan Program changed its fiscal year end from September 30 to December 31 which resulted in the reporting periods presented in the financial statements to be as of December 31, 2018 and September 30, 2017, and for the fifteen months ended December 31, 2018 and the twelve months ended September 30, 2017. Our opinion is not modified with respect to this matter.

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

Management's estimate of the allowance for future credit losses is 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. We evaluated the key factors and assumptions used to develop the allowance for future credit losses and determined that it is reasonable in relation to the basic financial statements taken as a whole.

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

EXHIBIT A-2, cont.

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by auditors are directly related to the operations of an information technology system.

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

This information is intended solely for the information and use of the Industrial Commission and the Legislative Assembly, Legislative Audit and Fiscal Review Committee, Bank of North Dakota Advisory Board, and management of the North Dakota Guaranteed Student Loan Program and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
March 27, 2019



The Industrial Commission and
the Legislative Assembly
North Dakota Guaranteed Student Loan Program
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Guaranteed Student Loan Program as of and for the fifteen months ended December 31, 2018, and have issued our report thereon dated March 27, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated October 23, 2018, 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 North Dakota Guaranteed Student Loan 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.

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 North Dakota Guaranteed Student Loan 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 the fifteen months ending December 31, 2018. 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 estimates affecting the financial statements are:

Management's estimate of the allowance for future credit losses is 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. We evaluated the key factors and assumptions used to develop the allowance for future credit losses and determined that it is reasonable in relation to the basic 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 disclosures affecting the North Dakota Guaranteed Student Loan Program's financial statements relates to Note 4 for 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. There were no corrected or uncorrected misstatements identified as a result of 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 North Dakota Guaranteed Student Loan Program's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated March 27, 2019.

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 North Dakota Guaranteed Student Loan Program, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operating 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 North Dakota Guaranteed Student Loan Program's auditors.

Modification of the Auditor's Report

We have made the following modifications to our auditor's report to add Emphasis of Matter Paragraphs.

Reporting Entity

As discussed in Note 1, the financial statements of the North Dakota Guaranteed Student Loan Program are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the North Dakota Guaranteed Student Loan Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2018 and September 30, 2017 and the changes in its financial position and its cash flows for the fifteen months ended December 31, 2018 and the year ended September 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Reporting Period

As discussed in Note 1, effective October 1, 2017, the North Dakota Guaranteed Student Loan Program changed its fiscal year end from September 30 to December 31 which resulted in the reporting periods presented in the financial statements to be as of December 31, 2018 and September 30, 2017, and for the fifteen months ended December 31, 2018 and the twelve months ended September 30, 2017. Our opinion is not modified with respect to this matter.

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

Eide Bailly LLP

Bismarck, North Dakota
March 27, 2019