



Financial Statements  
June 30, 2018 and 2017

# North Dakota Student Loan Trust

# NORTH DAKOTA STUDENT LOAN TRUST

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## Independent Auditor's Report

The Governor of North Dakota and  
the Legislative Assembly  
North Dakota Student Loan Trust  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Student Loan Trust (the Trust), an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Trust'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 Trust'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 respective financial position of the North Dakota Student Loan Trust, as of June 30, 2018 and 2017, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

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

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's financial statements. The combining statements of net position and combining statements of revenues, expenses, and changes in fund net position are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements.

The combining statements of net position, combining statements of revenues, expenses, and changes in fund net position, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position, combining statements of revenues, expenses, and changes in fund net position, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2018 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

*Eide Sallee LLP*

Bismarck, North Dakota  
October 26, 2018

**NORTH DAKOTA STUDENT LOAN TRUST**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018 and 2017**  
**(In Thousands)**

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The discussion and analysis of the financial performance of the North Dakota Student Loan Trust (Trust) that follows is meant to provide additional insight into the Trust's activities for the years ended June 30, 2018 and 2017. Please read it in conjunction with the Trust's financial statements and footnotes, which are presented within this report.

**FINANCIAL HIGHLIGHTS:**

During the current fiscal year, the Trust sold Federal Student Loans to the Bank of North Dakota (Bank) in the amount of \$12,693. The sale or liquidation of up to \$16,592 of student loans was approved by the Industrial Commission to provide for the appropriations that were approved by the 2017 legislature. The Bank, as sole remaining bondholder of the Trust bonds, consented to the sale.

DEAL loans are available at either a fixed rate or a variable rate with the rates being adjusted quarterly. As of July 1, 2018, the fixed rate was 5.45% and the variable rate was 3.84% for all DEAL borrowers. As of July 1, 2017, the fixed rate was 4.83% and the variable rate was 2.75% for all DEAL borrowers. As of July 1, 2016, the fixed rate was 4.33% and the variable rate was 2.15% for all DEAL borrowers. The FFELP Stafford Loans interest rate is based on the T-bill rate. All FFELP Stafford Loans were sold during the year ended June 30, 2018. For the fiscal year beginning July 1, 2017 and 2016, FFELP Stafford student loan interest rates were based on a T-bill rate of .95% and .23%, respectively.

The Trust 2018 statement of net position indicates that the Trust continues to have adequate resources to provide for bond repayment and continuing operations. There are \$9,908 of current assets available to meet the next fiscal year's obligations of approximately \$8,896. This amount includes future obligations as explained under Economic Factors and Future Outlook. The operating income of \$138 reflected in the statement of revenues, expenses, and changes in fund net position also illustrates that the Trust has adequate resources to provide for bond repayment and continuing operations.

**REQUIRED FINANCIAL STATEMENTS:**

The discussion and analysis are intended to serve as an introduction to the Trust's financial statements. The Trust is accounted for utilizing fund accounting and includes the requirements of 1) the General Bond Resolution Fund and 2) the Second General Bond Resolution Fund. Note 1 to the financial statements provides a description of the organization, funds and significant accounting policies. The financial statements of the Trust provide accounting information similar to that of many other business entities. The Statement of Net Position summarizes the assets and liabilities, with the difference between the two reported as net position. It also serves as the basis for analysis of the soundness and liquidity of the Trust. The Statement of Revenues, Expenses and Changes in Fund Net Position summarizes the Trust's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Trust as it conducts its business.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>			
CURRENT ASSETS - UNRESTRICTED	\$ 8,408	\$ 6,726	\$ 15,492
CURRENT ASSETS - RESTRICTED	1,500	500	500
NONCURRENT ASSETS - UNRESTRICTED	866	10,248	13,828
NONCURRENT ASSETS - RESTRICTED	-	1,000	1,000
TOTAL ASSETS	<u>\$ 10,774</u>	<u>\$ 18,474</u>	<u>\$ 30,820</u>
<b>LIABILITIES</b>			
CURRENT LIABILITIES	\$ 8,896	\$ 75	\$ 2,589
NONCURRENT LIABILITIES	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
TOTAL LIABILITIES	<u>9,896</u>	<u>1,075</u>	<u>3,589</u>
<b>NET POSITION</b>			
RESTRICTED FOR DEBT SERVICE	455	452	397
UNRESTRICTED	<u>423</u>	<u>16,947</u>	<u>26,834</u>
TOTAL NET POSITION	<u>878</u>	<u>17,399</u>	<u>27,231</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 10,774</u>	<u>\$ 18,474</u>	<u>\$ 30,820</u>

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

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### *Significant Statement of Net Position Changes*

Total student loan receivable, net of allowance for loan losses, declined by \$13,835 to \$1,117 in 2018, primarily due to the sale of \$12,693 of Federal student loans to the Bank. Total student loans receivable, net of allowance for loan losses, declined by \$3,798 to \$14,952 in 2017. Total student loans receivable, net of allowance for loan losses, declined by \$3,947 to \$18,750 in 2016.

There were no new bonds issued in 2018, 2017 or 2016. No principal payments were made during the fiscal years ended June 30, 2018, 2017 and 2016.

### *Cash, Cash Equivalents and Investments*

Trust cash, cash equivalents and investments, which are included in restricted assets, are restricted for the debt service of bond issues for the General Bond Resolution and Second General Bond Resolution purposes listed in Note 1 to the financial statements.

Trust cash, cash equivalents and investments, which are included in unrestricted assets, are unrestricted within the Trust for the overall uses of the General Bond Resolution and Second General Bond Resolution purposes listed in Note 1 to the financial statements.

### *Student Loans Receivable*

The student loans receivable are included in current and noncurrent assets of the statement of net position. As of June 30, 2018, all student loans are insured by the North Dakota Guaranteed Student Loan Program (GSL). Prior to 2018, Federal student loans were insured by the federal government (FISL). All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts. Additional discussion can be found in Notes 1 and 4 to the financial statements.

### *Appropriation Payable*

The 2017 North Dakota Legislature passed House Bill 1013 and Senate Bills 2003, 2004, 2014, 2144, and 2224 which provide for appropriations of \$16,592 from the North Dakota Student Loan Trust to other state agencies during the biennium beginning July 1, 2017 and ending June 30, 2019. As of June 30, 2018, \$8,843 was reflected as an appropriation payable. See also Note 7 to the financial statements.

### *Bonds Payable*

The Trust has issued bonds in order to facilitate the purchase of student loans. The bonds payable are included in the current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Trust and are secured by student loans purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Note 6 to the financial statements provide a detailed listing of all the bonds outstanding.



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

*Net Position*

The Restricted Net Position of the North Dakota Student Loan Trust is restricted by bond resolutions for the repayment of bond interest and principal. Monies held in surplus accounts can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota, fund a guarantee agency's guarantee program.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED JUNE 30, 2018, 2017, AND 2016**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
OPERATING REVENUES			
Interest on student loans	\$ 195	\$ 453	\$ 544
Special allowance and interest subsidy	22	79	74
	<u>217</u>	<u>532</u>	<u>618</u>
Total operating revenues			
OPERATING EXPENSES			
Interest	22	14	10
Service fees	84	280	350
Other	(27)	81	62
	<u>79</u>	<u>375</u>	<u>422</u>
Total operating expenses			
OPERATING INCOME	138	157	196
NONOPERATING REVENUE	<u>20</u>	<u>11</u>	<u>21</u>
INCOME BEFORE TRANSFERS	158	168	217
TRANSFERS	<u>(16,679)</u>	<u>(10,000)</u>	<u>(7,657)</u>
CHANGE IN NET POSITION	(16,521)	(9,832)	(7,440)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>17,399</u>	<u>27,231</u>	<u>34,671</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 878</u>	<u>\$ 17,399</u>	<u>\$ 27,231</u>

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

Operating revenues of the Trust decreased to \$217 in 2018 from \$532 in 2017. Operating expenses of the Trust decreased to \$79 in 2018 from \$375 in 2017. The decreases in operating revenues and expenses are primarily due to the sale of \$12,693 of Federal student loans to the Bank during 2018.

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

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### *Special Allowance and Interest Subsidy*

The U.S. Department of Education provides a special allowance, which is a subsidy to lenders participating in the Guaranteed Student Loan Program. Also, the U.S. Department of Education pays the Trust the interest earned on subsidized student loans from the date of inception until the end of the grace or deferment period. These payments are included in the operating revenue of the Trust and further discussed in Note 5 of the financial statements. As of June 30, 2018, all Federal student loans had been sold.

### *Transfers*

Transfers of \$16,592 to the Department of Public Instruction, State Board of Higher Education, Department of Health, and Department of Commerce are reflected in the fiscal year 2018 financial statements. Of the \$16,592 of the transfers, the Trust paid \$7,748 to these agencies during the fiscal year 2018 and the remaining \$8,843 was reflected as an appropriation payable. Transfers of \$87 to the North Dakota Industrial Commission are also reflected in the fiscal year 2018 financial statements. Transfers of \$43 to the North Dakota Industrial Commission were not paid during 2017 and were included in the liability for "accrued fees payable – related party." On September 27, 2016, the Industrial Commission authorized the transfer of \$10,000 from the 1996 General Bond Resolution Revenue Fund to the North Dakota Guarantee Agency's Guarantee Program. Transfers of \$7,565 to the State Board of Higher Education, Department of Health, Department of Commerce and Bank of North Dakota were reflected in the fiscal year 2016 financial statements. Of the \$7,565 of the transfers, the Trust paid \$5,115 to these agencies during fiscal year 2016 and the remaining \$2,450 was reflected as an appropriation payable. Transfers of \$92 to the North Dakota Industrial Commission are also reflected in the fiscal year 2016 financial statements. Transfers of \$46 to the North Dakota Industrial Commission were not paid during 2016 and were included in the liability for "accrued fees payable – related party."

## **ECONOMIC FACTORS AND FUTURE OUTLOOK**

The 2017 North Dakota Legislature passed House Bill 1013 that provides for an appropriation of \$220 from North Dakota Student Loan Trust to the Department of Public Instruction for a one-time grant for North Dakota Governor's School Science, Technology, Engineering and Mathematics programs during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, there were no payments to the Department of Public Instruction.

The 2017 North Dakota Legislature passed Senate Bill 2003 that provides for an appropriation of up to \$465 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program, \$539 for the Connect ND Campus Solutions, \$500 for grants to Tribal Community Colleges and \$13,807 for residency positions at the University of North Dakota School of Medicine and Health Sciences during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$229 was paid for the student exchange program, \$270 was paid for Connect ND Campus Solutions, \$200 was paid for Tribal Community Colleges, and \$6,279 was paid for residency positions.

The 2017 North Dakota Legislature passed Senate Bill 2004 that provides for an appropriation of \$360 from the North Dakota Student Loan Trust to the Department of Health for the Dental Loan Repayment Program during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$280 was paid to the Department of Health.

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

### **(In Thousands)**

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The 2017 North Dakota Legislature passed Senate Bill 2014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$43 was paid to the Industrial Commission.

The 2017 North Dakota Legislature passed Senate Bill 2144 that provides for an appropriation of \$500 from the North Dakota Student Loan Trust to the Department of Commerce for Tribal workforce grants during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$406 was paid to the Department of Commerce.

The 2017 North Dakota Legislature passed Senate Bill 2244 that provides for an appropriation of \$200 from the North Dakota Student Loan Trust to the State Board of Higher Education to create a dual-credit courses pilot program during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$84 was paid to the State Board of Higher Education.

### **CONTACTING THE NORTH DAKOTA STUDENT LOAN TRUST'S FINANCIAL MANAGEMENT**

The information in this report is intended to provide the reader with an overview of the Trust's operations along with the Trust's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Industrial Commission, North Dakota Student Loan Trust, 600 East Boulevard Avenue, Department 405, Bismarck, ND 58505-0840.

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**NORTH DAKOTA STUDENT LOAN TRUST**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2018 and 2017**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS - UNRESTRICTED</b>		
Cash and cash equivalents	\$ 967	\$ 13
Investments	7,170	2,846
Interest receivable	3	137
Due from other state agencies	17	1
Special allowance and interest subsidy receivable	-	25
Student loans receivable, net of allowance for loan losses	<u>251</u>	<u>3,704</u>
Total unrestricted current assets	<u>8,408</u>	<u>6,726</u>
<b>CURRENT ASSETS - RESTRICTED</b>		
Investments	<u>1,500</u>	<u>500</u>
<b>NONCURRENT ASSETS - UNRESTRICTED</b>		
Student loans receivable, net of allowance for loan losses	<u>866</u>	<u>10,248</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>		
Student loans receivable, net of allowance for loan losses	<u>-</u>	<u>1,000</u>
Total assets	<u><u>\$ 10,774</u></u>	<u><u>\$ 18,474</u></u>

See Notes to Financial Statements

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accrued interest payable	\$ 2	\$ 1
Accrued fees payable	-	6
Accrued fees payable - related party	51	68
Appropriation payable	<u>8,843</u>	<u>-</u>
Total current liabilities	<u>8,896</u>	<u>75</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable	<u>1,000</u>	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	<u>1,000</u>
Total liabilities	<u>9,896</u>	<u>1,075</u>
<b>NET POSITION</b>		
Restricted for debt service	455	452
Unrestricted	<u>423</u>	<u>16,947</u>
Total net position	<u>878</u>	<u>17,399</u>
Total liabilities and net position	<u>\$ 10,774</u>	<u>\$ 18,474</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED JUNE 30, 2018 and 2017**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Interest on student loans	\$ 195	\$ 453
Special allowance and interest subsidy	<u>22</u>	<u>79</u>
Total operating revenues	<u>217</u>	<u>532</u>
<b>OPERATING EXPENSES</b>		
Interest	22	14
Service fees	84	280
Administration fees	5	17
Provision for (reduction of) loan losses	(68)	8
Bond related expenses	<u>36</u>	<u>56</u>
Total operating expenses	<u>79</u>	<u>375</u>
<b>OPERATING INCOME</b>	138	157
<b>NONOPERATING REVENUE</b>		
Investment income	<u>20</u>	<u>11</u>
<b>INCOME BEFORE TRANSFERS</b>	158	168
<b>TRANSFERS TO STATE AGENCIES</b>	<u>(16,679)</u>	<u>(10,000)</u>
<b>CHANGE IN NET POSITION</b>	(16,521)	(9,832)
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>17,399</u>	<u>27,231</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 878</u>	<u>\$ 17,399</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2018 and 2017**  
**(In Thousands)**

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Receipts of student loan repayments	\$ 1,520	\$ 4,256
Sale of student loans to state agencies	12,693	-
Receipts of special allowance and interest subsidy	47	74
Payments to state agency service providers	(150)	(315)
Payments to other service providers	(36)	(56)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>14,074</b>	<b>3,959</b>
<b>NON-CAPITAL FINANCING ACTIVITIES</b>		
Bond interest payments	(22)	(14)
Transfer to North Dakota Guarantee Agency	-	(10,000)
Transfer to North Dakota Industrial Commission	(43)	(46)
Transfer to State Agencies	(7,748)	(2,450)
<b>NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(7,813)</b>	<b>(12,510)</b>
<b>INVESTING ACTIVITIES</b>		
Investment interest received	17	18
Purchase of investment securities	(28,722)	(4,445)
Proceeds from sale and maturity of investment securities	23,398	12,535
<b>NET CASH FROM/(USED FOR) INVESTING ACTIVITIES</b>	<b>(5,307)</b>	<b>8,108</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>954</b>	<b>(443)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>13</b>	<b>456</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 967</b>	<b>\$ 13</b>



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

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 138	\$ 157
Adjustments to reconcile operating income		
Provision for (reduction of) loan losses	(68)	8
Reclassification of interest income and expense to other activities	(48)	13
Changes in assets and liabilities		
Student loans receivable	13,903	3,791
Interest receivable	134	13
Special allowance and interest subsidy receivable	25	(5)
Accrued interest payable	1	-
Accrued fees payable	6	-
Accrued fees payable - related party	(17)	(18)
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 14,074</u>	<u>\$ 3,959</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 and 2017**  
**(In Thousands)**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Section 54-17-24 of the North Dakota Century Code authorized the establishment of the North Dakota Student Loan Trust (Trust). On June 27, 1979, the Commission adopted the North Dakota Student Loan Revenue Bonds General Bond Resolution establishing the North Dakota Student Loan Trust fund. On June 19, 1996, the Commission adopted the Second General Bond Resolution and the First Supplemental Resolution to the North Dakota Student Loan Revenue Bonds - Second General Bond Resolution. The purpose of the Trust is to provide loans to students in post-secondary education. The Trust acquires eligible loans insured or guaranteed, respectively, by the United States government or the North Dakota Guaranteed Student Loan Program. All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts.

*Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Trust should include all component units over which the Trust exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Trust.

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

*Accounting Standards and Adoptions of Accounting Policies*

The Trust follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

*Fund Accounting*

The North Dakota Student Loan Trust consists of a trust fund, which is a separate accounting entity accounted for as an enterprise fund and uses the accrual basis of accounting. The fund is set up in accordance with the authorizing act, the bond resolutions and indenture. The fund consists of the First General Bond Resolution Fund, which includes the 2004 A student loan revenue bonds and the Second General Bond Resolution Fund. Proceeds of bonds are recorded in the fund and used to provide student loans to eligible students. The bond resolutions require the establishment of certain accounts and sub-accounts. Bond proceeds that are deposited in these accounts are invested in qualifying investments. Interest income, interest expense, special allowance and interest subsidy, and gain on redemption of bonds are recorded in this fund in accordance with the bond resolutions.

## NOTES TO FINANCIAL STATEMENTS

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### *Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the Trust are included on the statement of net position. Net position is segregated into restricted and unrestricted components. The statement of revenues, expenses and changes in fund net position present increases (e.g. revenues) and decreases (e.g. expenses) in net total position. The statement of cash flows presents the cash flows for operating activities, non-capital financing activities, and investing activities.

### *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Significant Group Concentrations of Credit Risk*

Most of the Trust's activities are with student loan borrowers in the State of North Dakota.

### *Cash and Cash Equivalents*

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

### *Deposits and Investments*

Time deposits are carried at cost, as they are nonnegotiable certificates of deposits with redemption terms that do not consider market rates. Investment securities are carried at market value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

### *Interest on Student Loans*

Interest on student loans is accrued when earned. For subsidized loans, interest accrued during periods of student, grace, or any authorized deferment status is billed to and paid by the U.S. Department of Education under its Guaranteed Student Loan Program. Interest during other status periods is paid by the student. For non-subsidized loans, the student pays interest.

### *Allowance for Loan Losses*

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance when management believes the collectability of the principal balance is unlikely. Recoveries of amounts previously charged off are credited to the allowance.

## NOTES TO FINANCIAL STATEMENTS

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### *Restricted Assets and Restricted Net Position*

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

Moneys held in surplus accounts (which are classified as unrestricted on the statement of net position) can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota (the Commission), fund a guarantee agency's guarantee program.

Expenses of the Trust are paid in accordance with the provisions of the General and Second General Bond Resolutions and the Series Resolutions. Expenses related to a specific bond series are paid from funds available within that particular resolution. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Trust considers restricted funds to have been spent first.

### *Operating and Non-Operating Revenues*

Operating revenues consist of interest income on loans and the related special allowance and interest subsidies related to the loans. All other revenues that do not meet the above criteria are classified as non-operating.

## **NOTE 2 - RESTRICTED ASSETS AND RESTRICTED NET POSITION**

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

As of June 30, 2018 and 2017, the surplus accounts consist of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 967	\$ 13
Investments	7,170	2,846
Interest receivable	3	137
Due from other state agencies	17	1
Special allowance and interest subsidy receivable	-	25
Student loans receivable, net of allowance for loan losses	1,117	13,952
Appropriation payable	<u>(8,843)</u>	<u>-</u>
	<u>\$ 431</u>	<u>\$ 16,974</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3 - DEPOSITS AND INVESTMENTS

All funds have their monies invested in securities or deposits allowed by the General Bond Resolution establishing the Trust and the Second General Bond Resolution. Such moneys may be invested in: (1) direct obligations of or obligations guaranteed by the United States of America, (2) deposits of the Bank of North Dakota which are guaranteed as provided in North Dakota Century Code Section 6-09-10, (3) demand deposits and time deposits issued by banks, which are members of the Federal Deposit Insurance Corporation, (4) bonds, debentures, or notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America, (5) repurchase agreements or reverse repurchase agreements with banks, which are secured by securities which are obligations described in item (1) above, and (6) banker's acceptances of banks described in items (2) and (3) above.

#### *Deposits*

As of June 30, 2018 and 2017, the Trust had the following deposits:

	<u>2018</u>	<u>2017</u>
Cash		
Bank of North Dakota	\$ 267	\$ 13
Time deposits		
Bank of North Dakota	<u>9,370</u>	<u>3,346</u>
	<u>\$ 9,637</u>	<u>\$ 3,359</u>

As of June 30, 2018, and 2017, the Trust had the following classification of deposits on the statement of net position:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 967	\$ 13
Investments	<u>8,670</u>	<u>3,346</u>
	<u>\$ 9,637</u>	<u>\$ 3,359</u>

#### *Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Trust will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Trust does not have a formal policy that limits custodial credit risk for deposits. None of the Trust's deposits are covered by depository insurance. The Trust's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4 - STUDENT LOANS RECEIVABLE

The Trust has outstanding loans with annual fixed and variable interest rates. DEAL student loans are guaranteed by the North Dakota Guaranteed Student Loan Program (GSL) and Federal student loans are insured by the federal government.

At June 30, 2018 and 2017, student loans are categorized as follows:

	<u>2018</u>	<u>2017</u>
DEAL	\$ 1,117	\$ 1,468
Federal	-	13,552
	<u>1,117</u>	<u>15,020</u>
Allowance for loan losses	-	(68)
	<u>1,117</u>	<u>14,952</u>
Total student loans receivable	1,117	14,952
Less current portion	<u>251</u>	<u>3,704</u>
	<u>\$ 866</u>	<u>\$ 11,248</u>

Student loans are classified as student, deferred, repayment or claim status. The student status represents the period from the date the loan is made until a student is out of school, plus an authorized grace period. Deferred status represents a loan that has an authorized deferment of payment period. Repayment status indicates the loan is in repayment. Claim status represents those loans that have a claim filed with the guarantor. Interest earned on subsidized loans while the loan is classified as student or deferred is paid by the Department of Education.

At June 30, 2018, student loans receivable are categorized as follows:

	<u>Subsidized</u>	<u>Unsubsidized</u>	<u>DEAL</u>	<u>Total</u>
Student	\$ -	\$ -	\$ -	\$ -
Deferred	-	-	87	87
Repayment	-	-	1,030	1,030
	<u>-</u>	<u>-</u>	<u>1,117</u>	<u>1,117</u>
Allowance for loan losses	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,117</u>	<u>\$ 1,117</u>

## NOTES TO FINANCIAL STATEMENTS

At June 30, 2017, student loans receivable are categorized as follows:

	<u>Subsidized</u>	<u>Unsubsidized</u>	<u>DEAL</u>	<u>Total</u>
Student	\$ -	\$ 19	\$ -	\$ 19
Deferred	381	667	211	1,259
Repayment	<u>5,908</u>	<u>6,577</u>	<u>1,257</u>	<u>13,742</u>
	6,289	7,263	1,468	15,020
Allowance for loan losses	<u>(43)</u>	<u>(25)</u>	<u>-</u>	<u>(68)</u>
Total	<u>\$ 6,246</u>	<u>\$ 7,238</u>	<u>\$ 1,468</u>	<u>\$ 14,952</u>

The composition of the allowance for loan losses for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Balance - beginning of year	\$ 68	\$ 60
Provision for (reduction of) loan losses	<u>(68)</u>	<u>8</u>
Balance - end of year	<u>\$ -</u>	<u>\$ 68</u>

### NOTE 5 - SPECIAL ALLOWANCE AND INTEREST SUBSIDY

The U.S. Department of Education provides a special allowance, which is a subsidy to lenders participating in the Federal Guaranteed Student Loan Program. Special allowances are computed and paid quarterly on the average daily unpaid principal amount of student loans outstanding, based on a special allowance formula which generally follows the average of the quotes of the 3-month commercial paper rates in effect for each of the days in the quarter (for loans made after January 1, 2000) or the average bond equivalent rate 91-day United States Treasury Bills auctioned during the calendar quarter (for loans made prior to January 1, 2000). The Trust records this special allowance as a receivable and as revenue when earned.

The U.S. Department of Education pays the Trust the interest earned on subsidized student loans from the date of inception until the end of the grace or deferment period. This subsidy is equivalent to the annually computed base student loan interest rate multiplied by the average unpaid loan balance for the period in which the borrower is in school, grace or deferred status.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6 - BONDS PAYABLE

#### *Changes in Bonds Payable*

The following is a summary of the changes in bonds payable for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,000	\$ 1,000
Principal payments on bonds	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>

#### *Maturities of Bonds Payable*

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 28	\$ 28
2020	-	28	28
2021	-	28	28
2022	-	28	28
2023	-	28	28
2024-2028	-	140	140
2029	<u>1,000</u>	<u>28</u>	<u>1,028</u>
	<u>\$ 1,000</u>	<u>\$ 308</u>	<u>\$ 1,308</u>

The following is a more detailed description of the individual bond issue that remains outstanding at June 30, 2018 and 2017.

	<u>Maturity Dates</u>	<u>Interest Rate (%)</u>	<u>2018</u>	<u>2017</u>
General Bond Resolution Fund 2004 Series A	June 1, 2029	2.79 (1)	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Less current portion			<u>-</u>	<u>-</u>
Noncurrent portion			<u>\$ 1,000</u>	<u>\$ 1,000</u>

(1) Variable on June 30, 2018.



## NOTES TO FINANCIAL STATEMENTS

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### **2004 SERIES A BONDS**

Interest is payable semiannually on June 1 and December 1 of each year. The 2004 Series A Bonds are variable rate bonds. The rate of interest is determined based on one-month LIBOR plus 0.7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. Section 2.2 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution has deemed these to be Federally Taxable Bonds. The Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

### **NOTE 7 - INTERFUND AND RELATED PARTY TRANSACTIONS**

The North Dakota Student Loan Trust is related to the Bank of North Dakota through common management under the Industrial Commission of North Dakota. All cash and time deposits are deposited in the Bank of North Dakota. Interest receivable from the Bank of North Dakota totaled \$17 and \$1 as of June 30, 2018 and 2017 and is reflected as due from other state agencies on the statement of net position. Investment securities are held in safekeeping and all student loans are purchased from the Bank of North Dakota. The Bank of North Dakota also acts as the paying agent for the 2004 Series A Bonds. In addition, the Bank services the student loans held by the Trust, and maintains the accounting and other records for the Trust.

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

	<u>2018</u>	<u>2017</u>
Service fees	\$ 84	\$ 280
Administration fees	<u>5</u>	<u>17</u>
	<u>\$ 89</u>	<u>\$ 297</u>

Payables to the related parties for such fees amounting to \$51 and \$68 at June 30, 2018 and 2017 are included in "accrued fees payable - related party" on the statement of net position. \$8 is due to the Bank of North Dakota for service and administration fees and \$43 is due to the Industrial Commission of North Dakota at June 30, 2018. At June 30, 2017, \$68 was due to the Bank of North Dakota for service and administration fees.

## NOTES TO FINANCIAL STATEMENTS

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The 2017 North Dakota Legislature passed House Bill 1013 that provides for an appropriation of \$220 from North Dakota Student Loan Trust to the Department of Public Instruction for a one-time grant for North Dakota Governor's School Science, Technology, Engineering and Mathematics programs during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, there were no payments to the Department of Public Instruction. At June 30, 2018, \$220 was included in the appropriation payable liability related to this appropriation.

The 2017 North Dakota Legislature passed Senate Bill 2003 that provides for an appropriation of up to \$465 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program, \$539 for the Connect ND Campus Solutions, \$500 for grants to Tribal Community Colleges and \$13,807 for residency positions at the University of North Dakota School of Medicine and Health Sciences during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$229 was paid for the student exchange program, \$270 was paid for Connect ND Campus Solutions, \$200 was paid for Tribal Community Colleges, and \$6,279 was paid for residency positions. At June 30, 2018, \$8,333 was included in the appropriation payable liability related to these appropriations.

The 2017 North Dakota Legislature passed Senate Bill 2004 that provides for an appropriation of \$360 from the North Dakota Student Loan Trust to the Department of Health for the Dental Loan Repayment Program during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$280 was paid to the Department of Health. At June 30, 2018, \$80 was included in the appropriation payable liability related to this appropriation.

The 2017 North Dakota Legislature passed Senate Bill 2014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2017 and ending June 30, 2019. Transfers of \$87 to the North Dakota Industrial Commission are also reflected in the fiscal year 2018 financial statements. During the year ended June 30, 2018, \$43 was paid to the North Dakota Industrial Commission. Transfers of \$43 to the North Dakota Industrial Commission were not paid during 2018 and were included in the liability for "accrued fees payable – related party."

The 2017 North Dakota Legislature passed Senate Bill 2144 that provides for an appropriation of \$500 from the North Dakota Student Loan Trust to the Department of Commerce for Tribal workforce grants during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$406 was paid to the Department of Commerce. At June 30, 2018, \$94 was included in the appropriation payable liability related to this appropriation.

The 2017 North Dakota Legislature passed Senate Bill 2244 that provides for an appropriation of \$200 from the North Dakota Student Loan Trust to the State Board of Higher Education to create a dual-credit courses pilot program during the biennium beginning July 1, 2017 and ending June 30, 2019. During the year ended June 30, 2018, \$84 was paid to the State Board of Higher Education. At June 30, 2018, \$116 was included in the appropriation payable liability related to this appropriation.

During fiscal year 2017, the Industrial Commission authorized the transfer of \$10,000 from the 1996 General Bond Resolution to the North Dakota Guaranty Agency.

During fiscal year 2018, the Trust sold Federal Student Loans to the Bank in the amount of \$12,693. The sale or liquidation of up to \$16,592 of student loans was approved by the Industrial Commission to provide for the appropriations that were approved by the 2017 legislature. The Bank, as sole remaining bondholder of the Trust bonds, consented to the sale.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 8 - RISK MANAGEMENT

The North Dakota Student Loan Trust is exposed to various risks of loss related to torts and errors and omissions. The North Dakota Student Loan Trust is administered by the North Dakota Industrial Commission and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence. The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$750,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.



Supplementary Information  
June 30, 2018 and 2017

# North Dakota Student Loan Trust

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**NORTH DAKOTA STUDENT LOAN TRUST**  
**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2018**  
**(In Thousands)**

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>ASSETS</b>			
<b>CURRENT ASSETS - UNRESTRICTED</b>			
Cash and cash equivalents	\$ 717	\$ 250	\$ 967
Investments	2,670	4,500	7,170
Interest receivable	1	2	3
Due from other state agencies	-	17	17
Special allowance and interest subsidy receivable	-	-	-
Student loans receivable	-	251	251
	<u>3,388</u>	<u>5,020</u>	<u>8,408</u>
Total unrestricted current assets			
<b>CURRENT ASSETS - RESTRICTED</b>			
Investments	<u>1,500</u>	<u>-</u>	<u>1,500</u>
<b>NONCURRENT ASSETS - UNRESTRICTED</b>			
Student loans receivable	<u>-</u>	<u>866</u>	<u>866</u>
Total assets	<u>\$ 4,888</u>	<u>\$ 5,886</u>	<u>\$ 10,774</u>

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accrued interest payable	\$ 2	\$ -	\$ 2
Accrued fees payable	-	-	-
Accrued fees payable - related party	43	8	51
Appropriation payable	3,036	5,807	8,843
Total current liabilities	<u>3,081</u>	<u>5,815</u>	<u>8,896</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds payable	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total liabilities	<u>4,081</u>	<u>5,815</u>	<u>9,896</u>
<b>NET POSITION</b>			
Restricted for debt service	455	-	455
Unrestricted	<u>352</u>	<u>71</u>	<u>423</u>
Total net position	<u>807</u>	<u>71</u>	<u>878</u>
Total liabilities and net position	<u>\$ 4,888</u>	<u>\$ 5,886</u>	<u>\$ 10,774</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2017**  
**(In Thousands)**

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>ASSETS</b>			
<b>CURRENT ASSETS - UNRESTRICTED</b>			
Cash and cash equivalents	\$ 10	\$ 3	\$ 13
Investments	287	2,559	2,846
Interest receivable	61	76	137
Due from other state agencies	1	-	1
Special allowance and interest subsidy receivable	4	21	25
Student loans receivable, net of allowance for loan losses	<u>1,792</u>	<u>1,912</u>	<u>3,704</u>
Total unrestricted current assets	<u>2,155</u>	<u>4,571</u>	<u>6,726</u>
<b>CURRENT ASSETS - RESTRICTED</b>			
Investments	<u>500</u>	<u>-</u>	<u>500</u>
<b>NONCURRENT ASSETS - UNRESTRICTED</b>			
Student loans receivable, net of allowance for loan losses	<u>5,862</u>	<u>4,386</u>	<u>10,248</u>
<b>NONCURRENT ASSETS - RESTRICTED</b>			
Student loans receivable, net of allowance for loan losses	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total assets	<u>\$ 9,517</u>	<u>\$ 8,957</u>	<u>\$ 18,474</u>



	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accrued interest payable	\$ 1	\$ -	\$ 1
Accrued fees payable	6	-	6
Accrued fees payable - related party	41	27	68
Appropriation payable	-	-	-
Total current liabilities	<u>48</u>	<u>27</u>	<u>75</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds payable	<u>1,000</u>	-	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	-	<u>1,000</u>
Total liabilities	<u>1,048</u>	<u>27</u>	<u>1,075</u>
<b>NET POSITION</b>			
Restricted for debt service	452	-	452
Unrestricted	<u>8,017</u>	<u>8,930</u>	<u>16,947</u>
Total net position	<u>8,469</u>	<u>8,930</u>	<u>17,399</u>
Total liabilities and net position	<u>\$ 9,517</u>	<u>\$ 8,957</u>	<u>\$ 18,474</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEAR ENDED JUNE 30, 2018**  
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>OPERATING REVENUES</b>			
Interest on student loans	\$ 66	\$ 129	\$ 195
Special allowance and interest subsidy	4	18	22
Total operating revenues	<u>70</u>	<u>147</u>	<u>217</u>
<b>OPERATING EXPENSES</b>			
Interest	22	-	22
Service fees	43	41	84
Administration fees	2	3	5
Provision for (reduction of) loan losses	(33)	(35)	(68)
Bond related expenses	26	10	36
Total operating expenses	<u>60</u>	<u>19</u>	<u>79</u>
<b>OPERATING INCOME</b>	10	128	138
<b>NONOPERATING REVENUE</b>			
Investment income	10	10	20
<b>INCOME BEFORE TRANSFERS</b>	<u>20</u>	<u>138</u>	<u>158</u>
<b>TRANSFERS</b>			
State Board of Higher Education	(9,705)	(5,807)	(15,512)
Department of Commerce	(500)	-	(500)
Department of Health	(360)	-	(360)
Department of Public Instruction	(220)	-	(220)
Interfund	3,190	(3,190)	-
North Dakota Industrial Commission	(87)	-	(87)
Total transfers	<u>(7,682)</u>	<u>(8,997)</u>	<u>(16,679)</u>
<b>CHANGE IN NET POSITION</b>	(7,662)	(8,859)	(16,521)
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>8,469</u>	<u>8,930</u>	<u>17,399</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 807</u>	<u>\$ 71</u>	<u>\$ 878</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEAR ENDED JUNE 30, 2017**  
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
<b>OPERATING REVENUES</b>			
Interest on student loans	\$ 208	\$ 245	\$ 453
Special allowance and interest subsidy	14	65	79
Total operating revenues	<u>222</u>	<u>310</u>	<u>532</u>
<b>OPERATING EXPENSES</b>			
Interest	14	-	14
Service fees	166	114	280
Administration fees	10	7	17
Provision for loan losses	4	4	8
Bond related expenses	23	33	56
Total operating expenses	<u>217</u>	<u>158</u>	<u>375</u>
<b>OPERATING INCOME</b>	5	152	157
<b>NONOPERATING REVENUE</b>			
Investment income	1	10	11
<b>INCOME BEFORE TRANSFERS</b>	<u>6</u>	<u>162</u>	<u>168</u>
<b>TRANSFERS</b>			
Interfund	557	(557)	-
North Dakota Guarantee Agency	-	(10,000)	(10,000)
Total transfers	<u>557</u>	<u>(10,557)</u>	<u>(10,000)</u>
<b>CHANGE IN NET POSITION</b>	563	(10,395)	(9,832)
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>7,906</u>	<u>19,325</u>	<u>27,231</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 8,469</u>	<u>\$ 8,930</u>	<u>\$ 17,399</u>

**NORTH DAKOTA STUDENT LOAN TRUST**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2018**  
**(In Thousands)**

**EXHIBIT A-1**

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program:		
Federal Family Education Loan Program	84.032	
Interest Subsidy		\$ 4
Special Allowance		<u>18</u>
Guaranteed Student Loans:		
Balance of guaranteed student loans at July 1, 2017		
on which there are continuing compliance requirements		<u>13,552</u>
TOTAL FEDERAL AWARDS		<u>\$ 13,574</u>

**NOTE 1** - The schedule of expenditures of federal awards includes the federal grant activity of the North Dakota Student Loan Trust and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. No federal financial assistance has been provided to a subrecipient.

The North Dakota Student Loan Trust's summary of significant accounting policies is presented in Note 1 in the North Dakota Student Loan Trust's financial statements.

The organization does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

**NOTE 2** – There were no outstanding guaranteed student loans with continuing compliance requirements under the student loan program at June 30, 2018.



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

The Governor of North Dakota and  
the Legislative Assembly  
North Dakota Student Loan Trust  
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 Student Loan Trust (the Trust), an enterprise fund of the State of North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements and have issued our report thereon dated October 26, 2018.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Trust’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

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

Bismarck, North Dakota  
October 26, 2018



**Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

The Governor of North Dakota and  
the Legislative Assembly  
North Dakota Student Loan Trust  
Bismarck, North Dakota

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

We have audited North Dakota Student Loan Trust’s (the Trust), an enterprise fund of the State of North Dakota, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Trust’s major federal program for the year ended June 30, 2018. The Trust’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the compliance of the Trust’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Trust’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Trust’s compliance.

**Opinion on the Major Federal Program**

In our opinion, North Dakota Student Loan Trust complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

Management of the Trust is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Trust’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Trust’s internal control over compliance.

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

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

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



Bismarck, North Dakota  
October 26, 2018



**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Federal Family Education Loan Program	84.032
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

**Section II – Financial Statement Findings**

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

**Section III – Federal Award Findings and Questioned Costs**

There are no findings and no questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of the Uniform Guidance.



**Independent Auditor's Comments Requested by the  
North Dakota Legislative Audit and Fiscal Review Committee  
Year Ended June 30, 2018**

The Governor of North Dakota and  
the Legislative Assembly  
North Dakota Student Loan Trust  
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the June 30, 2018 audit of North Dakota Student Loan Trust are as follows:

**Audit Report Communications**

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

**Audit Committee Communications:**

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

None

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

None

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

Based on the audit procedures performed, North Dakota Student Loan Trust's critical information technology system is the Helms system. There were no exceptions identified that were directly related to this application.

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

*Eide Sallee LLP*

Bismarck, North Dakota  
October 26, 2018



To the Governor of North Dakota and  
the Legislative Assembly  
North Dakota Student Loan Trust  
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Student Loan Trust (the Trust) as of and for the year ended June 30, 2018, and have issued our report thereon dated October 26, 2018. 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* and our Compliance Audit under the Uniform Guidance**

As communicated in our letter dated May 22, 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 and to express an opinion on whether the North Dakota Student Loan Trust complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the North Dakota Student Loan Trust's major federal program. Our audit of the financial statements and major program compliance does not relieve you or management of its 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 North Dakota Student Loan Trust solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of North Dakota Student Loan Trust's major federal program compliance, is to express an opinion on the compliance for the North Dakota Student Loan Trust's major federal program based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the North Dakota Student Loan Trust's internal control over compliance.

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

We have provided our comments regarding internal controls during our audit in our 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* dated October 26, 2018. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated October 26, 2018.

### **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, and our firm, 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 Trust 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 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. There are no significant estimates that affect the Trust's financial statements.

#### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the Trust's financial statements relates to Note 7 – Interfund and Related Party Transactions.

**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 Trust'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 included in the management representation letter dated October 26, 2018.

**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 Trust, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business 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 Trust's auditors.

**Modification of the Auditor's Report**

We have made the following modification to our auditor's report.

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

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

*Eide Bailly LLP*

Bismarck, North Dakota  
October 26, 2018