

# College **SAVE**

## Picture the Future

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

**FINANCIAL STATEMENTS**  
December 31, 2016 and 2015  
and  
**SUPPLEMENTARY INFORMATION**  
December 31, 2016  
(With Independent Auditor's Report Thereon)

**Thomas &  
Thomas LLP**  
Certified Public Accountants

# College SAVE

## Picture the Future

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

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## INDEPENDENT AUDITOR'S REPORT

Bank of North Dakota  
Ascensus Broker Dealer Services, Inc.

### Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position and statements of changes in fiduciary net position of **College SAVE** (the Plan), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements.

### *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 on the preceding page present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2016 and 2015, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

The Plan is a private purpose trust fund of the Bank of North Dakota, which is an enterprise fund of the state of North Dakota. As discussed in Note 1, these basic financial statements present only the activities and balances attributable to the Plan and do not purport to, and do not, present fairly the fiduciary net position or changes in fiduciary net position of the fiduciary funds of the Bank of North Dakota or the state of North Dakota as of and for the years ended December 31, 2016 and 2015.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 7 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, as it is considered to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information in management's discussion and analysis because the limited procedures we performed do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements. The schedules of fiduciary net position and changes in fiduciary net position by portfolio on pages 34 and 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in these schedules is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

*Thomas & Thomas LLP*

Certified Public Accountants

March 31, 2017  
Little Rock, Arkansas

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

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# College SAVE

## Picture the Future

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2016 and 2015

This management's discussion and analysis is intended to provide readers an objective discussion of the financial statements of College SAVE (the Plan) as of December 31, 2016 and 2015, and for the years then ended. This discussion and analysis, which is supplementary information required by the Governmental Accounting Standards Board (GASB), is intended to provide a highly summarized overview of the Plan's assets, liabilities, fiduciary net position and changes in fiduciary net position and should be read in conjunction with the Plan's financial statements and notes thereto, which are included on pages 18 through 32. In addition, readers may find useful the supplementary schedules on pages 34 and 35, which include information about the Plan's investment portfolios.

\* \* \* \* \*

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

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

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

Effective December 3, 2015, Genstar Capital and Aquiline Capital Partners (each a private equity firm) acquired Ascensus, Inc. and its subsidiaries, including ACS, from J.C. Flowers & Co. There were no material changes to the corporate structure of Ascensus, Inc. or the services provided by ACS to the Plan as a result of this acquisition.

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

# College SAVE

## Picture the Future

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2016 and 2015

#### Financial Highlights

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

- At December 31, 2016, 2015 and 2014, the Plan's fiduciary net position totaled \$415.6 million, \$388.6 million and \$384.7 million, respectively. Fiduciary net position increased \$27.0 million, or 7.0%, from December 31, 2015, to December 31, 2016, compared to an increase of \$3.9 million, or 1.0%, from December 31, 2014, to December 31, 2015.
- Contributions exceeded withdrawals by approximately \$6.5 million, \$6.9 million and \$3.2 million during 2016, 2015 and 2014, respectively.
- Contributions during the year ended December 31, 2016, 2015 and 2014 totaled \$42.4 million, \$41.4 million and \$39.0 million, respectively. Contributions increased \$1.0 million, or 2.5%, from December 31, 2015, to December 31, 2016, and increased \$2.4 million, or 6.0%, from December 31, 2014, to December 31, 2015.
- Withdrawals during the year ended December 31, 2016, 2015 and 2014 totaled \$35.9 million, \$34.4 million and \$35.8 million, respectively. Withdrawals increased \$1.5 million, or 4.2%, from December 31, 2015, to December 31, 2016, and decreased \$1.4 million, or -3.9%, from December 31, 2014, to December 31, 2015.
- Administrative fees totaled \$3.2 million, \$3.1 million and \$2.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. These fees, which are based on the Plan's fiduciary net position, are paid to the Bank, ACS and Vanguard for performing oversight, administrative and investment duties.
- For the year ended December 31, 2016, the Plan experienced net investment income of \$23.7 million, resulting from net appreciation of the fair value of its investments totaling \$14.8 million and dividends and interest totaling \$8.9 million. For the year ended December 31, 2015, the Plan experienced net investment income of \$6.0 thousand, resulting from net depreciation of the fair value of its investments of \$8.3 million offset by dividends totaling approximately the same amount. For the year ended December 31, 2014, the Plan experienced net investment income of \$23.7 million, resulting from net appreciation of the fair value of its investments totaling \$15.6 million and dividends totaling \$8.1 million.
- The number of active accounts has increased from 26,783 at December 31, 2014, to 29,209 at December 31, 2015, to 31,609 at December 31, 2016. The average active account balance decreased from approximately \$14,400 at December 31, 2014, to approximately \$13,300 at December 31, 2015, to approximately \$13,100 at December 31, 2016.
- The College SAVE 529 Matching Grant Program awarded \$293,444, \$273,736 and \$515,041 in matching grants in 2016, 2015 and 2014, respectively, to qualifying account owners.
- The Children FIRST Grant Program awarded \$179,700, \$98,000 and \$83,300 in matching grants in 2016, 2015 and 2014, respectively, to qualifying account owners.

# College SAVE

## Picture the Future

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2016 and 2015

#### Overview of the Financial Statements

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

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

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

#### Financial Analysis

##### Fiduciary Net Position

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Total assets	\$ 416,352,919	\$ 389,344,476	\$ 385,963,633
Total liabilities	<u>779,123</u>	<u>788,604</u>	<u>1,280,508</u>
Net position held in trust for account owners and beneficiaries	<u>\$ 415,573,796</u>	<u>\$ 388,555,872</u>	<u>\$ 384,683,125</u>

# College SAVE

## Picture the Future

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

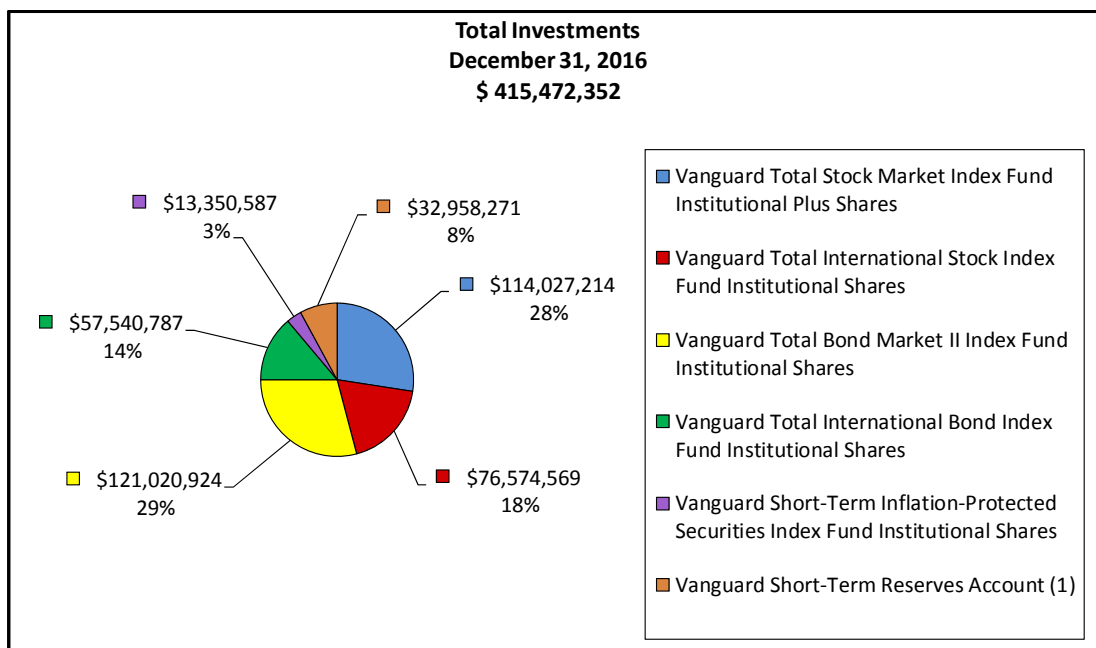
December 31, 2016 and 2015

#### Financial Analysis (Continued)

##### Fiduciary Net Position (Continued)

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

Investments, which totaled \$415.5 million, \$388.8 million, and \$384.5 million at December 31, 2016, 2015 and 2014, respectively, represent over 99% of the Plan's total assets. Account owners are able to direct investment of their contributions into one or more portfolio options, each of which is invested in one or more Vanguard mutual funds or synthetic investment contracts (as of September 1, 2016) (the Underlying Funds) in accordance with a predetermined asset allocation strategy approved by the Bank. At December 31, 2016, 2015 and 2014, the Plan's Underlying Funds are as follows:



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

<sup>(1)</sup> At December 31, 2016, the underlying investments in this account include synthetic guaranteed investment contracts (40.5%) and the Vanguard Federal Money Market Fund (59.5%).

# College SAVE

## Picture the Future

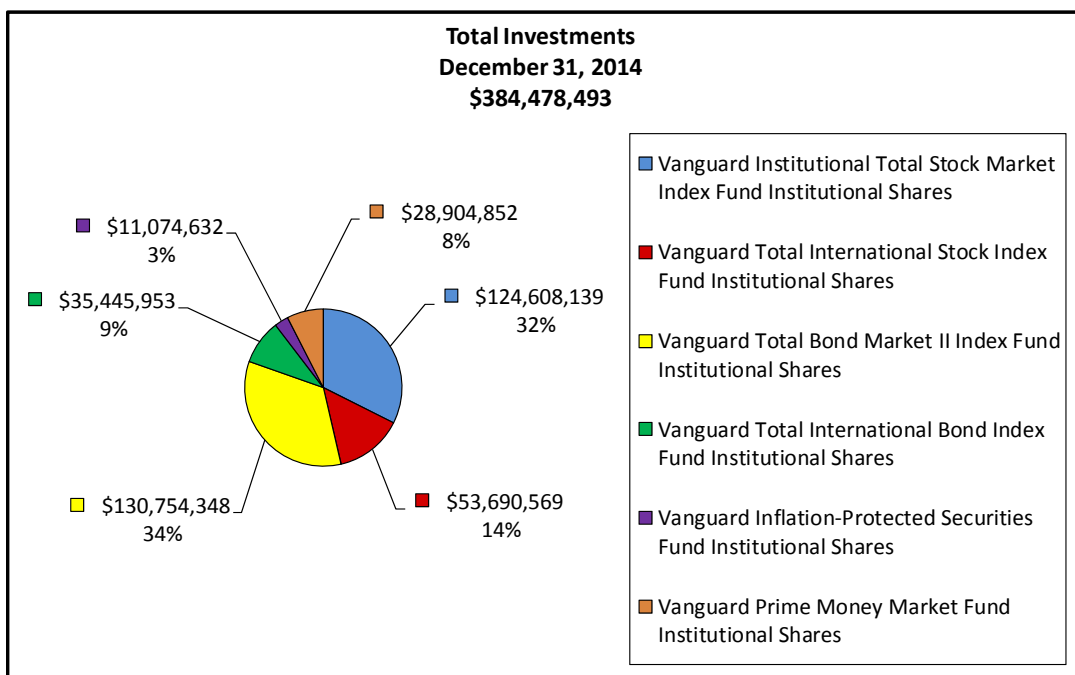
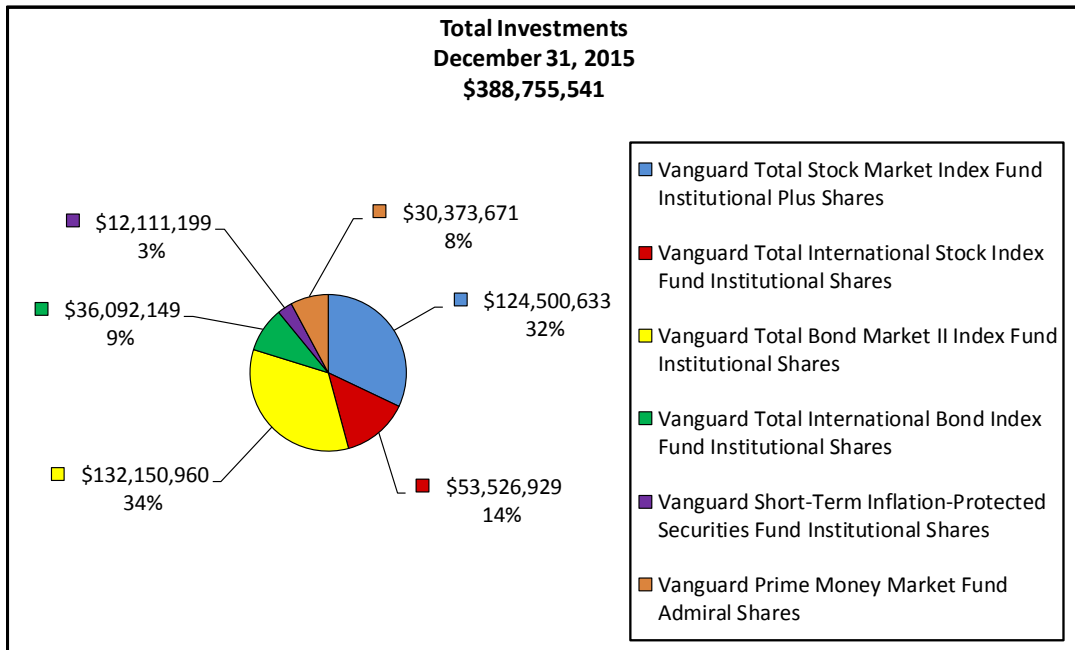
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### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2016 and 2015

#### Financial Analysis (Continued)

#### Fiduciary Net Position (Continued)



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

# College SAVE

## Picture the Future

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) December 31, 2016 and 2015

#### Financial Analysis (Continued)

##### Fiduciary Net Position (Continued)

Other assets, which totaled \$880.6 thousand at December 31, 2016, \$588.9 thousand at December 31, 2015 and \$1.5 million at December 31, 2014, comprise amounts to be invested or distributed on behalf of account owners and their beneficiaries and receivables for proceeds from Underlying Fund sales transactions. The Plan's liabilities, which totaled \$779.1 thousand at December 31, 2016, \$788.6 thousand at December 31, 2015, and \$1.3 million at December 31, 2014, comprise accrued administrative fees, payables for withdrawals approved but not yet paid and payables for Underlying Fund purchase transactions.

##### Changes in Fiduciary Net Position

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

	<u>Year Ended December 31, 2016</u>	<u>Year Ended December 31, 2015</u>	<u>Year Ended December 31, 2014</u>
Contributions	\$ 42,379,208	\$ 41,356,876	\$ 39,008,006
Net investment income	23,717,629	6,128	23,659,064
Withdrawals	(35,880,486)	(34,426,853)	(35,809,135)
Administrative fees	<u>(3,198,427)</u>	<u>(3,063,404)</u>	<u>(2,842,415)</u>
Net Increase	27,017,924	3,872,747	24,015,520
Net position held in trust for account owners and beneficiaries, beginning of year	<u>388,555,872</u>	<u>384,683,125</u>	<u>360,667,605</u>
Net position held in trust for account owners and beneficiaries, end of year	<u>\$ 415,573,796</u>	<u>\$ 388,555,872</u>	<u>\$ 384,683,125</u>

#### Investment Commentary

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

# College SAVE

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2016 and 2015

#### Investment Commentary (*Continued*)

At December 31, 2014, and until May 28, 2015, four portfolio options included the Vanguard Institutional Total Stock Market Index Fund Institutional Share Class in their asset holdings. On May 28, 2015, holdings in the Vanguard Institutional Total Stock Market Index Fund Institutional Share Class were transferred to the Vanguard Total Stock Market Index Fund Institutional Plus Share Class. The holdings and strategies of the two share classes are the same; however, the institutional plus share class maintains a lower expense ratio. The Vanguard Total Stock Market Index Fund Institutional Plus Share Class is passively managed, using index sampling. The fund invests in large-, mid- and small-capitalization stocks diversified across growth and value investment styles and seeks to track the performance of the CRSP US Total Market Index. The Vanguard Institutional Total Stock Market Index Fund Institutional Share Class experienced returns of 4.29% during the period January 1, 2015 through May 28, 2015, and 12.60% during the year ended December 31, 2014, while the Vanguard Total Stock Market Index Fund Institutional Plus Share Class experienced negative returns of (3.71%) during the period May 28, 2015 through December 31, 2015, compared to positive returns of 12.69% for the year ended December 31, 2016. The Vanguard Institutional Total Stock Market Index Fund Institutional Share Class share price increased from \$46.78 on December 31, 2014 to \$48.42 on May 28, 2015. The Vanguard Total Stock Market Index Fund Institutional Plus Share Class share price decreased from \$100.45 at May 28, 2015, to \$95.26 at December 31, 2015, but increased to \$105.18 at December 31, 2016.

The Vanguard Total International Stock Index Fund Institutional Share Class employs an indexing investment approach and seeks to track the performance of the FTSE Global All Cap ex US Index, which is designed to measure equity market performance in developed and emerging markets, excluding the United States. During the year ended December 31, 2016, the fund experienced positive returns of 4.70%, compared to negative returns of (4.25%) and (4.15%) during the years ended December 31, 2015 and 2014, respectively. The share price of this fund decreased from \$103.98 at December 31, 2014, to \$96.94 at December 31, 2015, but increased to \$98.50 at December 31, 2016.

The Vanguard Total Bond Market II Index Fund Institutional Share Class is passively managed, using index sampling and seeks to track the performance of the Bloomberg Barclays U.S. Aggregate Float Adjusted Index. This fund provides broadly diversified exposure to the entire U.S. investment grade bond market and is intermediate in duration. The fund experienced returns of 2.62%, 0.35% and 5.99% during the years ended December 31, 2016, 2015, and 2014, respectively. The share price of this fund decreased from \$10.84 at December 31, 2014, to \$10.60 at December 31, 2015, but increased to \$10.61 at December 31, 2016.

Effective February 18, 2014, four portfolio options began to include the Vanguard Total International Bond Index Fund Institutional Share Class in their asset holdings. This fund is passively managed, using index sampling and seeks to track the performance of the Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged). This fund provides broad exposure to non-U.S. investment grade

# College SAVE

## Picture the Future

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2016 and 2015

#### Investment Commentary (*Continued*)

bonds, primarily bonds issued by developed countries, but also some from emerging markets countries. During the years ended December 31, 2016, 2015, and 2014, the fund experienced positive returns of 4.69%, 1.15% and 8.91%, respectively. The share price of this fund increased from \$30.17 at February 18, 2014, to \$31.84 at December 31, 2014, decreased to \$31.67 at December 31, 2015, but increased to \$32.52 at December 31, 2016.

At December 31, 2014, and until January 30, 2015, the Income Portfolio included the Vanguard Inflation-Protected Securities Fund Institutional Share Class in its asset holdings. On January 30, 2015, holdings in the Vanguard Inflation-Protected Securities Fund Institutional Share Class were transferred to the Short-Term Inflation-Protected Securities Index Fund Institutional Share Class, which is described in the next paragraph. The Vanguard Inflation-Protected Securities Fund Institutional Share Class invests primarily in investment grade inflation-indexed bonds issued by the US government, its agencies and instrumentalities and domestic corporations. This fund is designed to protect investors from the eroding effects of inflation by investing in securities that seek to provide a "real" return. This fund experienced positive returns of 3.13% and 4.07% for the period January 1, 2015 through January 30, 2015 and the year ended December 31, 2014, respectively. The share price of the fund increased from \$10.54 on December 31, 2014, to \$10.87 on January 30, 2015.

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

At December 31, 2015 and 2014, and until June 3, 2016, two portfolio options included the Vanguard Prime Money Market Fund Admiral Share Class (formerly known as Vanguard Prime Money Market Fund Institutional Shares until the name was changed effective December 14, 2015) in their asset holdings. Effective June 3, 2016, holdings in the Vanguard Prime Money Market Admiral Shares were transferred to the Vanguard Short-Term Reserves Account, which is described in the next paragraph. The Vanguard Prime Money Market Fund Admiral Share Class invests in high credit-quality, short-term money market instruments and seeks to maintain a \$1 value of its shares. The fund experienced positive returns of 0.19%, 0.11% and 0.05% for the period January 1, 2016 through June 3, 2016, and for the years ended December 31, 2015 and 2014, respectively.



# College SAVE

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

December 31, 2016 and 2015

#### **Investment Commentary (*Continued*)**

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

#### **Recent Developments**

##### New Portfolio Option

Effective June 3, 2016, the Money Market Portfolio was closed, and all existing assets in that portfolio were liquidated and transferred to the Interest Accumulation Portfolio.

#### **Requests for Information**

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

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## **Basic Financial Statements**

# College SAVE

## Picture the Future

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

### STATEMENTS OF FIDUCIARY NET POSITION December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Investments	\$ 415,472,352	\$ 388,755,541
Cash and cash equivalents	834,076	516,988
Receivables for investments sold	46,491	71,947
<b>Total Assets</b>	<u>416,352,919</u>	<u>389,344,476</u>
<b>LIABILITIES</b>		
Payables for investments purchased	109,292	213,282
Withdrawals payable	390,167	309,206
Accrued administrative fees	279,664	266,116
<b>Total Liabilities</b>	<u>779,123</u>	<u>788,604</u>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES</b>	<u>\$ 415,573,796</u>	<u>\$ 388,555,872</u>

See accompanying notes to financial statements.

# College SAVE

## Picture the Future

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

### STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ADDITIONS</b>		
Contributions	\$ 42,379,208	\$ 41,356,876
Investment income:		
Dividends and interest	8,874,146	8,323,216
Net appreciation (depreciation) in fair value of investments	<u>14,843,483</u>	<u>(8,317,088)</u>
Net investment income	<u>23,717,629</u>	<u>6,128</u>
<b>Total Additions</b>	<u>66,096,837</u>	<u>41,363,004</u>
<b>DEDUCTIONS</b>		
Withdrawals	35,880,486	34,426,853
Administrative fees	<u>3,198,427</u>	<u>3,063,404</u>
<b>Total Deductions</b>	<u>39,078,913</u>	<u>37,490,257</u>
<b>NET INCREASE</b>	27,017,924	3,872,747
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, BEGINNING OF YEAR</b>	<u>388,555,872</u>	<u>384,683,125</u>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, END OF YEAR</b>	<u>\$ 415,573,796</u>	<u>\$ 388,555,872</u>

See accompanying notes to financial statements.

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# College SAVE

## Picture the Future

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

### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

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

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

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

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

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

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

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

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

# College SAVE

## Picture the Future

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

### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

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

Effective December 3, 2015, Genstar Capital and Aquiline Capital Partners (each a private equity firm) acquired Ascensus, Inc. and its subsidiaries, including ACS, from J.C. Flowers & Co. There were no material changes to the corporate structure of Ascensus, Inc. or the services provided by ACS to the Plan as a result of this acquisition.

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

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

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

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

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

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

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

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

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

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

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



# College SAVE

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### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

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

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

The synthetic guaranteed investment contracts are fully benefit responsive and are reported at contract value, which is equal to contributions, plus interest credited at a guaranteed rate, less withdrawals and any applicable fees and expenses. Interest is accrued as it is earned. The crediting interest rates, which may reset quarterly, ranged from 1.2% to 1.4% at December 31, 2016.

Accounting standards categorize fair value measurements according to a hierarchy that is based on valuation inputs that are used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted market prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable. The fair values of the Plan’s mutual funds are determined using Level 1 inputs. The fair value standards are not applicable to the synthetic guaranteed investment contracts, since they are reported at contract value, rather than fair value.

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

Cash and cash equivalents generally include contributions received from account owners that have not yet been invested in Underlying Funds and/or redemption proceeds from Underlying Funds for withdrawals that have not yet been distributed in accordance with account owners' instructions. Contribution and withdrawal transactions are processed through a demand deposit account maintained at BNY Mellon in the Plan’s name. The bank balances of this account at December 31, 2016 and 2015, are \$1,901,595 and \$1,378,848, respectively. Balances in this account are insured by the Federal Deposit Insurance Corporation (FDIC), along with any other accounts maintained at BNY Mellon under the same taxpayer identification number, in the aggregate, up to \$250,000. Amounts in excess of FDIC insurance limits are not collateralized or covered by supplementary insurance.

Cash and cash equivalents also include the Plan’s equity position in a pooled account maintained by Vanguard to facilitate the processing of investment buy and sell transactions on behalf of their 529 plan clients. The Plan’s equity position in the pooled account at December 31, 2016 and 2015, is \$62,800 and \$141,335, respectively.

# College SAVE

## Picture the Future

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### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

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

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

Account owners may elect to invest their contributions in one or more portfolio options offered by the Plan. At December 31, 2016 and 2015, there were six (6) Individual Portfolio Options and three (3) Age-Based Options from which to choose. The Individual Portfolio Options are structured for various time horizons and levels of risk tolerance and are designed to allow account owners flexibility in managing their asset allocations. The Age-Based Options, which invest in a series of Individual Portfolio Options, allow account owners to choose a predetermined investment strategy based on their risk tolerance and the beneficiary's age. Over time, as the beneficiary ages, assets are automatically reallocated to more conservative portfolios.

The Trustee allows eligible North Dakota residents who meet certain income requirements and open a Plan account on or after July 1, 2007, to be considered for a matching grant award under the College SAVE 529 Matching Grant Program. Upon award, a separate matching grant account is opened by the Bank on behalf of the account owner and designated beneficiary. The Bank retains ownership of the assets in the matching grant account until the account owner submits a request in good order for a qualified withdrawal to an eligible educational institution. Matching grant awards totaling \$293,444 and \$273,736 for the years ended December 31, 2016 and 2015, respectively, are included in contributions on the statements of changes in fiduciary net position.

During the year ended December 31, 2011, the Bank approved the implementation of the Children FIRST Grant Program, a program that allows North Dakota newborns 12 months old or younger to be considered for a one-time grant. To be eligible to receive this grant, interested persons must complete and return a Children FIRST Enrollment Form during the time the beneficiary is twelve months or younger. The beneficiary must be a North Dakota resident. In addition, a Plan account must be established for the beneficiary, and effective September 1, 2015, participants who enroll in the program will have up to 12 months from their enrollment date to contribute up to \$200 to their account in order to be eligible to receive a match in an amount up to \$200. Previously, participants had until the designated beneficiary's fourth birthday to contribute up to \$100 to their account in order to receive a match in an amount up to \$100. Children FIRST matching grant awards totaling \$179,700 and \$98,000 for the years ended December 31, 2016 and 2015, respectively, are included in contributions on the statements of changes in fiduciary net position.

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### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

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

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

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

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

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

Withdrawals presented on the statements of changes in fiduciary net position include annual account maintenance fees, which are \$20 for each account and are assessed annually during the anniversary month of the account opening. This fee is not charged to Matching Grant or Children FIRST accounts nor to those accounts for which the account owner or the beneficiary is a North Dakota resident. In addition, accounts established prior to February 28, 2002, where either the account owner or the beneficiary was a resident of South Dakota at the time of account opening, are not subject to this fee. Withdrawals also include service fees for other transactions, such as returned checks, overnight delivery charges, outgoing wire transfers and requests for historical statements. Annual account maintenance fees and service fees totaled approximately \$217,000 and \$226,000 for the years ended December 31, 2016 and 2015, respectively, and are paid to ACS.

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

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

# College SAVE

## Picture the Future

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

### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

##### (i) Unit Valuation

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

#### NOTE 3: INVESTMENTS

At December 31, 2016 and 2015, investments held in the various portfolio options are detailed in the schedules that follow. Percentages are rounded to the nearest tenth of a percent.

2016			
Underlying Fund	Designation	Balance as of December 31, 2016	Percent of Total Balance
<b>Aggressive Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	\$ 40,044,700	59.7%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	27,025,268	40.3%
		<u>67,069,968</u>	<u>100.0%</u>
<b>Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	28,002,816	44.6%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	18,962,732	30.3%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	11,066,436	17.6%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	4,719,023	7.5%
		<u>62,751,007</u>	<u>100.0%</u>

(Continued)

# College SAVE

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### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

#### NOTE 3: INVESTMENTS (Continued)

2016			
Underlying Fund	Designation	Balance as of December 31, 2016	Percent of Total Balance
<b>Moderate Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	\$ 32,493,023	30.0%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	21,689,301	20.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	37,818,129	35.0%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	16,196,539	15.0%
		<u>108,196,992</u>	<u>100.0%</u>
<b>Conservative Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	13,486,675	15.2%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	8,897,268	10.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	46,513,759	52.3%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	19,966,352	22.5%
		<u>88,864,054</u>	<u>100.0%</u>
<b>Income Portfolio</b>			
Vanguard Short-Term Reserves Account	(1)	18,507,212	25.0%
Vanguard Short-Term Inflation-Protected Securities Index Fund Institutional Shares	Inflation Protected Bond	13,350,587	18.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	25,622,600	34.5%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	16,658,873	22.5%
		<u>74,139,272</u>	<u>100.0%</u>
<b>Interest Accumulation Portfolio</b>			
Vanguard Short-Term Reserves Account	(1)	14,451,059	100.0%
<b>Total Investments</b>		<u>\$ 415,472,352</u>	

<sup>(1)</sup> At December 31, 2016, the underlying investments in this account include synthetic guaranteed investment contracts (40.5%) and the Vanguard Federal Money Market Fund (59.5%).

(Continued)

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### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

#### NOTE 3: INVESTMENTS (Continued)

2015			
Underlying Fund	Designation	Balance as of December 31, 2015	Percent of Total Balance
<b>Aggressive Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	\$ 41,546,725	70.0%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	17,841,503	30.0%
		<u>59,388,228</u>	<u>100.0%</u>
<b>Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	31,817,486	52.3%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	13,663,424	22.5%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	12,245,165	20.2%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	3,060,131	5.0%
		<u>60,786,206</u>	<u>100.0%</u>
<b>Moderate Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	36,797,237	34.9%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	15,843,702	15.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	42,370,249	40.1%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	10,602,912	10.0%
		<u>105,614,100</u>	<u>100.0%</u>

(Continued)

# College SAVE

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### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

**NOTE 3: INVESTMENTS (Continued)**

2015			
Underlying Fund	Designation	Balance as of December 31, 2015	Percent of Total Balance
<b>Conservative Growth Portfolio</b>			
Vanguard Total Stock Market Index Fund Institutional Plus Shares	Domestic Large Blend	\$ 14,339,185	17.5%
Vanguard Total International Stock Index Fund Institutional Shares	International Large Blend	6,178,300	7.5%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	49,295,953	60.0%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	12,343,211	15.0%
		<u>82,156,649</u>	<u>100.0%</u>
<b>Income Portfolio</b>			
Vanguard Prime Money Market Fund Admiral Shares <sup>(2)</sup>	Money Market	16,800,291	25.0%
Vanguard Short-term Inflation-Protected Securities Fund Institutional Shares	Inflation Protected Bond	12,111,199	18.0%
Vanguard Total Bond Market II Index Fund Institutional Shares	Intermediate-Term Bond	28,239,593	42.0%
Vanguard Total International Bond Index Fund Institutional Shares	World Bond	10,085,895	15.0%
		<u>67,236,978</u>	<u>100.0%</u>
<b>Money Market Portfolio</b>			
Vanguard Prime Money Market Fund Admiral Shares <sup>(2)</sup>	Money Market	13,573,380	100.0%
<b>Total Investments</b>		<u>\$ 388,755,541</u>	

<sup>(2)</sup> Formerly known as Vanguard Prime Money Market Fund Institutional Shares, until the name was changed to Vanguard Prime Money Market Admiral Shares effective December 14, 2015.

# College SAVE

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

### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

The following table calculates the net change in the fair value of investments during the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Fair value of investments, end of year	\$ 415,472,352	\$ 388,755,541
Less cost of investments purchased and investment income reinvested during the year	(143,924,810)	(214,869,547)
Plus proceeds from investments sold during the year	132,051,482	202,275,411
Less fair value of investments, beginning of year	<u>(388,755,541)</u>	<u>(384,478,493)</u>
Net appreciation (depreciation) in fair value of investments	<u>\$ 14,843,483</u>	<u>\$ (8,317,088)</u>

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

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

#### **(a) Investment Policy**

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



# College SAVE

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

### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

##### **(b) Credit Risk**

The Vanguard Total Bond Market II Index Fund Institutional Shares, Vanguard Short-Term Inflation-Protected Securities Fund Institutional Shares, Vanguard Total International Bond Index Fund Institutional Shares and Vanguard Federal Money Market Fund include bonds issued by corporations, foreign government, the U.S. government, its agencies and instrumentalities. Although all of the bonds included in these Underlying Funds are of investment-grade quality (rated BBB or higher by Standard & Poor's or Baa or higher by Moody's Investors Service, Inc.), the Plan may be indirectly exposed to credit risk, which is the risk that a bond issuer will fail to pay interest and principal, when due, as a result of adverse market or economic conditions.

The Plan's mutual funds are not subject to classification by custodial credit risk, which is the risk the Plan will not recover the value of investments that are in the possession of an outside party. In addition, the synthetic guaranteed investment contracts are considered a contractual investment, rather than investment securities, and are not exposed to custodial credit risk.

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

##### **(c) Interest Rate Risk**

The Vanguard Total Bond Market II Index Fund Institutional Shares, Vanguard Short-Term Inflation-Protected Securities Fund Institutional Shares, Vanguard Total International Bond Index Fund Institutional Shares and Vanguard Federal Money Market Fund invest primarily in short- and intermediate-term bonds and may be exposed to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely impact the fair value of an investment. Average maturity is the average length of time until fixed-income securities held by a fund reach maturity and will be repaid, taking into consideration the possibility that the issuer may call a bond before its maturity date. In general, the longer the average maturity, the more a fund's share price will fluctuate in response to changes in interest rates. Average duration is an estimate of how much the value of the bonds held by a fund will fluctuate in response to changes in interest rates. As of December 31, 2016, the average maturity and average duration of these mutual funds are as follows:

	<u>Average Maturity</u>	<u>Average Duration</u>
Vanguard Total Bond Market II Index Fund Institutional Shares	8.3 years	6.0 years
Vanguard Short-term Inflation-Protected Securities Index Fund Institutional Shares	2.5 years	2.5 years
Vanguard Total International Bond Index Fund Institutional Shares	9.2 years	7.8 years
Vanguard Federal Money Market Fund	56 days	N/A

# College SAVE

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### NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

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

##### **(d) Foreign Currency Risk**

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

#### **NOTE 4: ADMINISTRATIVE FEES**

Administrative fees presented on the statements of changes in fiduciary net position include service fees that are paid to the Bank, ACS and Vanguard, as provided in the Management Agreement and the Operational Agreement. These fees are calculated based on the fiduciary net position of the Plan, accrued daily and paid monthly.

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

The Bank, ACS and Vanguard agreed to temporarily limit their respective service fees attributable to the Money Market Portfolio (until it closed on June 3, 2016) and the Interest Accumulation Portfolio to maintain a zero or positive yield for those portfolios. This limit remains in effect as of the date of this report.

Administrative fees related to the years ended December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
ACS	\$ 2,186,878	\$ 2,079,503
Vanguard	608,488	594,590
Bank	<u>403,061</u>	<u>389,311</u>
Total administrative fees	<u>\$ 3,198,427</u>	<u>\$ 3,063,404</u>

## **Supplementary Schedules**

# College SAVE

## Picture the Future

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

### SCHEDULE OF FIDUCIARY NET POSITION BY PORTFOLIO December 31, 2016

	Aggressive Growth Portfolio	Growth Portfolio	Moderate Growth Portfolio	Conservative Growth Portfolio	Income Portfolio	Interest Accumulation Portfolio	Plan Total
<b>ASSETS</b>							
Investments	\$ 67,069,968	\$ 62,751,007	\$ 108,196,992	\$ 88,864,054	\$ 74,139,272	\$ 14,451,059	\$ 415,472,352
Cash and cash equivalents	179,789	151,102	261,552	67,210	139,593	34,830	834,076
Receivables for investments sold	-	-	-	6,349	40,142	-	46,491
<b>Total Assets</b>	<u>67,249,757</u>	<u>62,902,109</u>	<u>108,458,544</u>	<u>88,937,613</u>	<u>74,319,007</u>	<u>14,485,889</u>	<u>416,352,919</u>
<b>LIABILITIES</b>							
Payables for investments purchased	12,840	24,449	48,509	-	-	23,494	109,292
Withdrawals payable	18,758	29,198	67,297	15,798	249,885	9,231	390,167
Accrued administrative fees	45,210	42,139	73,382	60,541	50,404	7,988	279,664
<b>Total Liabilities</b>	<u>76,808</u>	<u>95,786</u>	<u>189,188</u>	<u>76,339</u>	<u>300,289</u>	<u>40,713</u>	<u>779,123</u>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES</b>	<u>\$ 67,172,949</u>	<u>\$ 62,806,323</u>	<u>\$ 108,269,356</u>	<u>\$ 88,861,274</u>	<u>\$ 74,018,718</u>	<u>\$ 14,445,176</u>	<u>\$ 415,573,796</u>
<b>UNITS OUTSTANDING <sup>(1)</sup></b>	<u>4,076,028</u>	<u>3,687,981</u>	<u>6,728,984</u>	<u>5,943,898</u>	<u>5,590,538</u>	<u>1,444,518</u>	
<b>NET ASSET VALUE PER UNIT <sup>(2)</sup></b>	<u>\$ 16.48</u>	<u>\$ 17.03</u>	<u>\$ 16.09</u>	<u>\$ 14.95</u>	<u>\$ 13.24</u>	<u>\$ 10.00</u>	

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

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

See Independent Auditor's Report.

# College **SAVE**

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### SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION BY PORTFOLIO Year Ended December 31, 2016

	Aggressive Growth Portfolio	Growth Portfolio	Moderate Growth Portfolio	Conservative Growth Portfolio	Income Portfolio	Money Market Portfolio	Interest Accumulation Portfolio	Plan Total
<b>ADDITIONS</b>								
Contributions	\$ 10,283,752	\$ 9,727,466	\$ 9,357,241	\$ 6,822,409	\$ 4,646,400	\$ 801,977	\$ 739,963	\$ 42,379,208
Investment income:								
Dividends and interest	1,545,749	1,462,427	2,577,545	2,064,700	1,161,694	27,519	34,512	8,874,146
Net appreciation in fair value of investments	4,424,007	3,365,988	4,479,318	2,012,221	561,949	-	-	14,843,483
Net investment income	5,969,756	4,828,415	7,056,863	4,076,921	1,723,643	27,519	34,512	23,717,629
Exchanges in	1,395,443	5,161,442	14,388,150	21,962,848	20,381,938	1,404,780	17,292,312	81,986,913
<b>Total Additions</b>	<b>17,648,951</b>	<b>19,717,323</b>	<b>30,802,254</b>	<b>32,862,178</b>	<b>26,751,981</b>	<b>2,234,276</b>	<b>18,066,787</b>	<b>148,083,750</b>
<b>DEDUCTIONS</b>								
Withdrawals	3,643,504	1,826,066	4,841,395	4,899,783	16,192,424	1,193,335	3,283,979	35,880,486
Administrative fees	501,078	487,163	868,394	700,185	579,802	27,502	34,303	3,198,427
Exchanges out	5,729,827	15,399,028	22,437,835	20,481,721	3,032,934	14,602,239	303,329	81,986,913
<b>Total Deductions</b>	<b>9,874,409</b>	<b>17,712,257</b>	<b>28,147,624</b>	<b>26,081,689</b>	<b>19,805,160</b>	<b>15,823,076</b>	<b>3,621,611</b>	<b>121,065,826</b>
<b>NET INCREASE (DECREASE)</b>	<b>7,774,542</b>	<b>2,005,066</b>	<b>2,654,630</b>	<b>6,780,489</b>	<b>6,946,821</b>	<b>(13,588,800)</b>	<b>14,445,176</b>	<b>27,017,924</b>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, BEGINNING OF YEAR</b>	<b>59,398,407</b>	<b>60,801,257</b>	<b>105,614,726</b>	<b>82,080,785</b>	<b>67,071,897</b>	<b>13,588,800</b>	<b>-</b>	<b>388,555,872</b>
<b>NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, END OF YEAR</b>	<b>\$ 67,172,949</b>	<b>\$ 62,806,323</b>	<b>\$ 108,269,356</b>	<b>\$ 88,861,274</b>	<b>\$ 74,018,718</b>	<b>\$ -</b>	<b>\$ 14,445,176</b>	<b>\$ 415,573,796</b>

See Independent Auditor's Report.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Bank of North Dakota  
Ascensus Broker Dealer Services, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **College SAVE** (the Plan), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated March 31, 2017.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Thomas & Thomas LLP*

Certified Public Accountants

March 31, 2017  
Little Rock, Arkansas