



Financial Statements
September 30, 2013 and 2012

North Dakota Guaranteed Student Loan Program

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

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Independent Auditor's Report

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Guaranteed Student Loan Program, an enterprise fund of the State of North Dakota, as of and for the years ended September 30, 2013 and 2012, and the related notes to the 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 Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota Guaranteed Student Loan Program, as of September 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Early Adoption of New Accounting Standard

As described in Note 1 to the financial statements, the North Dakota Guaranteed Student Loan Program early adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As discussed in Note 1 to the financial statements, the North Dakota Guaranteed Student Loan Program has retroactively restated the previously reported 2012 financial statements to account for administrative fees in accordance with this Statement. Our opinion is not modified with respect to this matter.

Reporting Entity

As discussed in Note 1, the financial statements of the North Dakota Guaranteed Student Loan Program are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the North Dakota Guaranteed Student Loan Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of September 30, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 inquires 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 North Dakota Guaranteed Student Loan Program's financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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 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 March 3, 2014 on our consideration of North Dakota Guaranteed Student Loan Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Dakota Guaranteed Student Loan Program's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota
March 3, 2014

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2013, 2012 AND 2011

The North Dakota Guaranteed Student Loan Program (the Program) has been designated to act as a guarantor of student loans made pursuant to the Higher Education Act of 1965, as amended (the Act), and certain other student loans if the North Dakota Industrial Commission determines that the student loans made under the terms of certain federal programs are no longer meeting the needs of North Dakota students, or are no longer available. Operationally, the Program is comprised of three components – an Agency Operating Fund (the AOF), an Alternative Loan Fund, both of which are property of the Program, and a separate group of monies administered by the Program (the Federal Student Loan Reserve Fund (FSLRF)), the net position of which is property of the Federal Government and is reported as a liability to the Federal Government.

Note 1 to the financial statements provides a discussion of the organization and significant accounting policies of the Program. The financial statements of the Program provide accounting information similar to that of many other business entities. The Statement of Net Position summarizes the assets, liabilities and net position of the Program and provides the basis for analysis of the soundness and liquidity of the organization. The Statement of Revenues, Expenses and Changes in Net Position summarizes the success of the organization in carrying out its business over the course of the most recent fiscal periods. The Statement of Cash Flows summarizes the flow of cash through the organization as it conducts its business.

The discussion and analysis of the financial performance of the Program which follows is meant to provide additional insight into the Program's activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the Program's financial statements and footnotes which are presented elsewhere in this report. Please note that the Program continues to have adequate resources to act as a guarantor of student loans and the auditor's opinion which accompanies the financial statements and the supplementary information is unmodified.

2013 FINANCIAL HIGHLIGHTS

Agency Operating Fund

The original principal amount of the Program's Federal Family Education Loan guarantees outstanding at the end of fiscal year 2013 totaled \$825 million compared to \$916 million at the end of fiscal year 2012, and \$1.045 billion at the end of fiscal year 2011. This resulted in a decrease of \$81,000 in account maintenance fees to the AOF for the fiscal year.

The Program provided first time default aversion activities on \$26 million in delinquent loans held by lenders in the fiscal year ending September 30, 2013. A one-time fee of 1% is received from the FSLRF for this service.

Collection revenue during the fiscal year ending September 30, 2013 was \$1,269,000 compared to \$1,290,000 received in the fiscal year ending September 30, 2012, and \$879,000 for fiscal year ending September 30, 2011. The Program receives these revenues as reimbursement for collection efforts performed for the Department of Education (the Department).

The Agency Operating Fund unrestricted statement of net position indicates that there are adequate resources to meet the next fiscal year's obligations.

Federal Student Loan Reserve Fund

The reserve ratio of the FSLRF, calculated by dividing the sum of the FSLRF liability account and the allowance for loan loss by the original principal amount of guarantees outstanding, is 0.94% as of September 30, 2013. The minimum reserve ratio allowed by federal law is 0.25%.

State law requires that the Program must maintain a 0.25% reserve fund on deposit with the Bank of North Dakota (the Bank) for the original principal amount of all outstanding student loans insured or guaranteed by the Program which are subject to federal reinsurance. Sufficient reserve funds were in place at September 30, 2013.

The Program must maintain a reinsurance rate of less than 5% in order to receive the maximum reimbursement from the Federal Government on loan claims. The Program's reinsurance rate of 1.24% is well under this limitation.

The Federal Student Loan Reserve Fund 2013 statement of net position indicates that the FSLRF has adequate resources to provide for claim payments to lenders.

Alternative Loan Fund

State law requires that the Program must maintain a reserve fund on deposit with the Bank for all outstanding Alternative Loans. The fund level may be no less than the Bank of North Dakota historical default rate. Sufficient reserve funds were in place at September 30, 2013.

Alternative Loan Fund guarantees during the fiscal year ending September 30, 2013 were \$165 million compared to \$135 million guaranteed during the fiscal year ending September 30, 2012, and \$110 million guaranteed during the fiscal year ending September 30, 2011.

Alternative Loan Fund guarantees outstanding at the end of fiscal year 2013 totaled \$533 million compared to \$429 million at the end of fiscal year 2012 and \$343 million at the end of fiscal year 2011.

The Alternative Loan Fund 2013 statement of net position indicates that the Alternative Loan Fund has adequate resources to provide for new loan guarantees, claim payments to lenders and continuing obligations.

CONDENSED STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013, 2012 AND 2011

		(In Thousands)	
	2013	(Restated) 2012	(Restated) 2011
ASSETS			
Current assets			
Cash and cash equivalents			
Unrestricted	\$ 5,564	\$ 2,492	\$ 3,949
Restricted	3,606	3,389	3,717
Investments			
Unrestricted	15,000	12,500	9,946
Restricted	3,500	3,500	5,500
Receivables			
Unrestricted	994	617	541
Restricted	4,340	4,541	2,346
Total current assets	<u>33,004</u>	<u>27,039</u>	<u>25,999</u>
Total assets	<u>33,004</u>	<u>27,039</u>	<u>25,999</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 33,004</u></u>	<u><u>\$ 27,039</u></u>	<u><u>\$ 25,999</u></u>
LIABILITIES			
Current liabilities			
Other	\$ 5,506	\$ 4,572	\$ 3,458
Total current liabilities	<u>5,506</u>	<u>4,572</u>	<u>3,458</u>
Noncurrent liabilities			
Allowance for future credit losses	9,754	6,292	6,702
Federal Student Loan Reserve Fund	5,069	5,641	6,203
Other	368	493	503
Total noncurrent liabilities	<u>15,191</u>	<u>12,426</u>	<u>13,408</u>
Total liabilities	<u>20,697</u>	<u>16,998</u>	<u>16,866</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Restricted for default prevention activities	591	594	601
Unrestricted	11,716	9,447	8,532
Total net position	<u>12,307</u>	<u>10,041</u>	<u>9,133</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u><u>\$ 33,004</u></u>	<u><u>\$ 27,039</u></u>	<u><u>\$ 25,999</u></u>

Cash and Cash Equivalents

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

Receivables

The receivable balances are comprised of interest, administrative fee, reinsurance payments and various fees due to the Program as of the end of each year. Of these amounts, 84%, 91%, and 87%, were due from the Department as of the end of fiscal years 2013, 2012, and 2011 respectively.

Allowance for Future Credit Losses

The Program estimates the allowance for future loan losses based on periodic evaluation of outstanding loans guaranteed and historical claim rates on the Program's guarantee activities.

Federal Student Loan Reserve Fund

The balance in this account represents the Federal Government's share of the total assets of the Program as discussed in Notes 1 and 3 to the financial statements.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2013, 2012 AND 2011

		(In Thousands) (Restated)	(Restated)
	2013	2012	2011
OPERATING REVENUES			
Administrative fee	\$ 2,369	\$ 1,878	\$ 1,715
Loan recoveries net of DOE share	285	253	262
Rehabilitation loans net of DOE share	430	424	262
Collection cost revenues	554	614	354
Fee revenues	762	930	1,055
Grant income	1,298	1,802	897
	<u>5,698</u>	<u>5,901</u>	<u>4,545</u>
OPERATING EXPENSES			
Service and administrative expense	2,100	1,873	1,732
Grant expenditures	1,298	1,802	895
Credit loss expense	5,098	1,230	816
Other expenses	-	139	182
	<u>8,496</u>	<u>5,044</u>	<u>3,625</u>
OPERATING INCOME (LOSS)	(2,798)	857	920
NONOPERATING REVENUES			
Interest income	<u>64</u>	<u>51</u>	<u>115</u>
INCOME (LOSS) BEFORE TRANSFERS	(2,734)	908	1,035
OPERATING TRANSFERS			
Transfer from ND Student Loan Trust	<u>5,000</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	2,266	908	1,035
TOTAL NET POSITION - BEGINNING OF YEAR	<u>10,041</u>	<u>9,133</u>	<u>8,098</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 12,307</u>	<u>\$ 10,041</u>	<u>\$ 9,133</u>

Operating Revenues and Expenses

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

Service and Administrative Expense - Bank of North Dakota

The Program has entered into a number of agreements as discussed in Note 4 to the financial statements pertaining to related party transactions. Several of these agreements resulted in payments between the various parties either to pay claims on student loans guaranteed by the Program or to fund operations of the Program.

Credit Loss Expense

As discussed in Note 1 to the financial statements, the Program changed their estimation methodology for calculating the allowance for future credit loss during the year ended September 30, 2013. When combined with an increase in loan volume and cumulative defaults, credit loss expense increased by \$3,868,000 in 2013 compared to an increase of \$414,000 in 2012.

Transfers

On December 3, 2012, the Alternative Loan Fund received a transfer of \$5,000,000 from the North Dakota Student Loan Trust.

Economic Factors

Discussion at Notes 1 and 6 to the financial statements indicate that the Program has an economic dependence on the Department for reinsurance of student loans guaranteed by the Program, and for the payment of certain activity based fees for the Program's administration of the loan programs for the Department.

Budgetary Information

As discussed in Note 1 to the financial statements, the North Dakota Century Code designates the Bank as the agency to administer the Program. The Bank's operations are funded under a biennial appropriation approved by the state legislature which encompasses the Bank's operations, including those of the Program. Section 15-62.1-01 of the North Dakota Century Code also provides continuing appropriation authority to expend monies received and interest earned as may be necessary to implement and administer the Program. Since the legislature does not identify separate appropriation funding for the Program, it is not possible to prepare an analysis of actual performance to appropriation for the Program.

Contacting the North Dakota Guaranteed Student Loan Program's financial management

The information in this report is intended to provide the reader with an overview of the results of the Program's operations along with the Program's accountability for those operations. If you have questions or require additional information, contact us at PO Box 5524, Bismarck, ND 58506-5524, or call us at 701-328-5654.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>(Restated) 2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 5,564,168	\$ 2,491,879
Restricted	<u>3,605,890</u>	<u>3,388,740</u>
Investments		
Unrestricted	15,000,000	12,500,000
Restricted	<u>3,500,000</u>	<u>3,500,000</u>
Receivables		
Unrestricted		
Interest	15,964	12,494
Department of Education	4,711	45,665
Account maintenance fee	123,772	144,484
Administrative fee	363,852	292,457
Other receivables	486,011	123,055
Restricted		
Interest	2,498	711
Federal reinsurance	<u>4,337,529</u>	<u>4,539,868</u>
Total receivables	<u>5,334,337</u>	<u>5,158,734</u>
Total current assets	<u>33,004,395</u>	<u>27,039,353</u>
Total assets	<u>33,004,395</u>	<u>27,039,353</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 33,004,395</u></u>	<u><u>\$ 27,039,353</u></u>

See Notes to Financial Statements

	2013	(Restated) 2012
LIABILITIES		
CURRENT LIABILITIES		
Due to other funds	\$ 226,228	\$ 136,412
Payable to lenders	2,674,767	2,394,885
Collections payable		
Department of Education	655,817	412,384
Allowance for future credit losses	1,829,000	1,509,000
Estimated future refunds of DAF	120,000	119,000
Total current liabilities	<u>5,505,812</u>	<u>4,571,681</u>
NONCURRENT LIABILITIES		
Allowance for future credit losses	9,754,000	6,291,895
Estimated future refunds		
of default aversion fees	367,937	493,326
Federal Student Loan Reserve Fund	5,069,076	5,640,938
Total noncurrent liabilities	<u>15,191,013</u>	<u>12,426,159</u>
Total liabilities	<u>20,696,825</u>	<u>16,997,840</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION		
Restricted		
Expendable for default prevention activities	590,613	594,395
Unrestricted	11,716,957	9,447,118
Total net position	<u>12,307,570</u>	<u>10,041,513</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 33,004,395</u>	<u>\$ 27,039,353</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>(Restated) 2012</u>
OPERATING REVENUES		
Administrative fee	\$ 2,368,827	\$ 1,878,161
Loan recoveries, net of remittance to Department of Education of \$1,520,833 in 2013 and \$1,348,307 in 2012	284,975	252,615
Rehabilitated loans, net of remittance to Department of Education of \$1,704,826 in 2013 and \$1,613,898 in 2012	430,192	423,785
Collection cost revenues, net of remittance to Department of Education of \$173,260 in 2013 and \$173,191 in 2012	554,253	614,036
Account maintenance fees	502,189	582,890
Default aversion fees	256,794	347,150
Grant income	1,297,562	1,802,157
Referral income	3,490	-
	<u>5,698,282</u>	<u>5,900,794</u>
OPERATING EXPENSES		
Service and administrative expense	2,095,973	1,864,499
Grant expenditures	1,297,562	1,802,157
Default prevention activities	4,599	8,806
Credit loss expense	5,098,524	1,229,639
DAF refund provision	-	138,859
	<u>8,496,658</u>	<u>5,043,960</u>
OPERATING INCOME (LOSS)	(2,798,376)	856,834
NONOPERATING REVENUES		
Interest income	<u>64,433</u>	<u>51,108</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(2,733,943)	907,942
OPERATING TRANSFERS		
Transfer from North Dakota Student Loan Trust	<u>5,000,000</u>	-
CHANGE IN NET POSITION	2,266,057	907,942
TOTAL NET POSITION, BEGINNING OF YEAR	10,041,513	9,133,571
TOTAL NET POSITION, END OF YEAR	<u>\$ 12,307,570</u>	<u>\$ 10,041,513</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	(Restated) 2012
OPERATING ACTIVITIES		
Loan recoveries received from borrowers	\$ 2,075,811	\$ 1,736,278
Loan recoveries remitted to DOE	(1,507,255)	(1,225,861)
Credit loss claims paid to lenders - BND	(10,475,253)	(9,737,712)
Credit loss claims paid to other lenders	(4,764,835)	(5,248,368)
Credit loss claims received from DOE	13,650,840	11,636,041
Rehab loan proceeds received from lenders - BND	2,630,946	2,506,536
Rehab loan proceeds remitted to DOE	(1,476,344)	(1,660,102)
Collections received from borrowers	144,706	239,974
Grant receipts	934,606	1,753,130
Account maintenance fees received from DOE	522,901	595,205
Default fees received from borrowers and lenders	(327)	-
Administrative fee received from borrowers	2,297,432	1,858,923
Servicing fees received	3,490	-
Service and administrative expense paid - BND	(3,316,133)	(3,774,966)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	720,585	(1,320,922)
NON-CAPITAL FINANCING ACTIVITIES		
Cash received from North Dakota Student Loan Trust	5,000,000	-
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	5,000,000	-
INVESTING ACTIVITIES		
Proceeds from investment maturities - BND	11,500,000	24,446,102
Purchase of investments - BND	(14,000,000)	(25,000,000)
Interest received	68,854	90,305
NET CASH USED FOR INVESTING ACTIVITIES	(2,431,146)	(463,593)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,289,439	(1,784,515)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,880,619	7,665,134
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,170,058	\$ 5,880,619

(continued on next page)

STATEMENTS OF CASH FLOWS – page 2

	2013	(Restated) 2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (2,798,376)	\$ 856,834
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities		
Credit loss expense	3,801,107	316,094
DAF refund provision, net of refunds	(124,389)	17,734
Changes in assets and liabilities:		
Administrative fee receivable - BND	(71,395)	(19,238)
Default fee receivable	(42)	42
Department of Education receivable	243,293	(2,242,667)
Account maintenance fee receivable	20,712	12,315
Due to other funds	(346,964)	(48,798)
Due to BND	73,824	(98,018)
Payable to lenders	260,880	367,300
Collections payable	243,433	92,197
Federal Student Loan Reserve Fund, net of interest	(581,498)	(574,717)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 720,585</u>	<u>\$ (1,320,922)</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 15-62.1 of the North Dakota Century Code (NDCC) designates the Bank of North Dakota (the Bank) as the agency for the administration of the North Dakota Guaranteed Student Loan Program (the Program). The Program shall expend monies received and interest on the reserve funds established pursuant to this section of the NDCC as may be necessary to implement and administer the Program. The Program has been designated to act as a guarantor of student loans made pursuant to the Higher Education Act of 1965, as amended (the Act), and certain other student loans if the North Dakota Industrial Commission determines that student loans made under the terms of certain federal programs are no longer meeting the needs of North Dakota students, or are no longer available. As such, the Program is responsible for processing loans submitted for guarantee, issuing loan guarantees, providing collection assistance to lenders for delinquent loans, paying lender claims for loans and collecting loans on which default claims have been paid.

The Program is comprised of three components – an Agency Operating Fund (the AOF), an Alternative Loan Fund and a separate group of monies administered by the Program (the Federal Student Loan Reserve Fund (FSLRF)). The AOF and any future earnings of the fund are the property of the Program, and may be used for application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring and other student financial aid related activities as selected by the Program. The Alternative Loan Fund and any earnings on the fund are property of the Program and may be used to fund the operations of the Program in its role as a guarantor of student loans outside the scope of the Act. The FSLRF and any earnings thereon are the sole property of the Federal Government, and may only be used to pay claims and certain specified fees.

In accordance with the provisions of the Act, the Program has entered into certain contracts with the U.S. Department of Education (the Department). These contracts define the responsibilities of the Program to the Department and qualify the Program for various forms of payment available under the Act. The basic agreement provides for the qualification of borrowers and participating lenders whose loans are guaranteed by the Program for federal interest benefits. Other agreements provide for reinsurance of loans with the Federal Government.

Reporting Entity

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

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

Accounting Standards

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

NOTES TO FINANCIAL STATEMENTS

Fund Accounting

The AOF and the Alternative Loan Fund are both property of the Program and are reported herein as enterprise funds. The FSLRF is property of the Federal Government, and is administered by the Program. The net position of the FSLRF is reported herein as a liability to the Federal Government.

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 using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statements of cash flows present the cash flows for operating activities, investing activities and non-capital financing activities.

The AOF and Alternative Loan Fund are enterprise funds and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The FSLRF uses the accrual basis of accounting for recognition of increases and decreases in amounts due to the Federal Government.

In the process of aggregating data for the financial statements, some amounts reported as interfund activity and balances in the funds have been eliminated or reclassified.

Use of Estimates

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

Cash and Cash Equivalents

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

Deposits and Investments

The Program records deposits and investments in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Nonnegotiable certificates of deposit meet the classification of Interest-earning Investment Contracts having redemption terms which do not consider market rates and are therefore carried at cost. Investment securities are carried at their market value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

NOTES TO FINANCIAL STATEMENTS

Capital Assets

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

Proceeds received from the sale of computer software, net of direct incremental costs of marketing, are applied against the carrying amount of the software. No profit is recognized until aggregate new proceeds from sales and amortization have reduced the carrying amount of the software to zero. Subsequent proceeds are recognized in revenue earned.

Administrative Fee Revenue

Administrative fee revenue is to be used by the Program to insure loans and to cover costs incurred in the administration of the Alternative Loan Fund. The revenue is recognized at the time of loan disbursement.

Loan Recoveries, Rehabilitated Loans and Collection Cost Revenues

Regulations require that the Program assess collection costs on all defaulted loans which it is attempting to collect for the Department. The Program is entitled to retain for its operations a portion of its collections of principal, interest and collection costs received on defaulted loans. Income is recorded when the loan collections are received.

Account Maintenance Fees

The Act provides an account maintenance fee to be paid by the Department to compensate the Program for certain costs incurred by the Program. The Department pays the account maintenance fee to the AOF at a level of 0.06% of the original principal amount of outstanding guarantees as of September 30.

Default Aversion Fee and Estimated Future Refunds of Default Aversion Fees

The Act provides a default aversion fee to be paid from the FSLRF to the AOF to compensate the Program for certain costs incurred by the Program. Payment of this fee is limited to once per loan and is equal to 1% of the principal and accrued interest receivable balances when default aversion assistance is requested by lenders, with an obligation to refund the fee in the event of default based upon principal and accrued interest receivable at the time of claim payment. The fee is recognized upon completion of the default aversion activities by the Program, net of estimated refunds.

NOTES TO FINANCIAL STATEMENTS

The Program calculates the estimated allowance for refunds of the default aversion fee based on a periodic evaluation of default aversion fees received and a historical refund rate.

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 612,326	\$ 594,592
Refund provision	-	138,859
Refunds paid	<u>(124,389)</u>	<u>(121,125)</u>
Balance, end of year	<u>\$ 487,937</u>	<u>\$ 612,326</u>

Credit Loss Expenses

The Program estimates the allowance for future credit losses based on periodic evaluation of outstanding loans guaranteed and historical claim rates on the Program's guarantee activities. In fiscal year 2013, the Program changed its estimation methodology of calculating the allowance for future credit losses. Starting in fiscal year 2013, the allowance for future credit loss calculation is based upon two calculations. The first calculation is based upon the outstanding portfolio categorized by year disbursed which is then multiplied by an allowance factor and an age factor to arrive at an estimated allowance. The allowance factor is determined by calculating the average claim rate over the last five years and multiplying it by the expected life of an average loan. The expected life is determined by periodically reviewing all guaranteed loans that have been either paid in full by borrower, consolidation, or claim. The age factor is determined by periodically reviewing all claim loans and calculating the percentage of claims paid by age of a loan. The second calculation determines a minimum allowance for future credit loss, which is based upon the five year realized average loan loss multiplied by the expected life of an average loan. The allowance for future credit losses carried on the statement of net position is the greater of the two calculations. The change in estimate resulted in a \$2,588,550 decrease in the change in net position for the statement of revenues, expenses, and changes in net position for the year ended September 30, 2013.

Changes in the allowance for future credit losses for the Alternative Loan Fund for the years ending September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 5,175,895	\$ 5,086,895
Credit loss expense	5,098,524	1,229,639
Recoveries	142,702	111,637
Claims paid	<u>(1,549,121)</u>	<u>(1,252,276)</u>
Balance, end of year	<u>\$ 8,868,000</u>	<u>\$ 5,175,895</u>

The FSLRF is reimbursed by the Federal Government for a portion of claims paid on FFELP loans as discussed in Note 6.

NOTES TO FINANCIAL STATEMENTS

Changes in the allowance for future losses for the FSLRF for the years ending September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 2,625,000	\$ 2,625,000
Credit loss expense	612,348	495,155
Claims paid, net of reinsurance	<u>(522,348)</u>	<u>(495,155)</u>
Balance, end of year	<u>\$ 2,715,000</u>	<u>\$ 2,625,000</u>

Restricted Assets and Restricted Net Position

Certain Program assets and net position carry a restricted classification, either because they are property of the Federal Government or their use has been restricted by the Federal Government for default prevention activities only.

If an expense is incurred that qualifies for use of both restricted and unrestricted resources, the Program will first apply restricted resources.

Operating and Non-Operating Revenues

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake. All other revenues that do not meet the above criteria are classified as non-operating.

New GAAP Implementation

The Program implemented the following new pronouncements during the year ended September 30, 2013:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* was effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It eliminates the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

NOTES TO FINANCIAL STATEMENTS

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was effective for financial statements for periods beginning after December 15, 2011. This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* was effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as expenses or revenues, such as debt issuance costs, fees and costs associated with mortgage banking activities, lending activities and loan purchases. .

GASB Statement 65 specifically changes the reporting and recognition for the administrative fee in the Alternative Loan Fund. Previously, these fees were reported as deferred liabilities with forty percent of revenues recognized at the time of loan disbursement and the remainder recognized over the estimated life of an average loan (10 years) using the sum-of-the-years digits method. Under the new requirements, the administrative fee revenue should be recognized when the loan is disbursed.

The Program has elected early implementation of GASB Statement 65, which is required to be effective for financial statement periods beginning after December 15, 2012, but earlier implementation is encouraged. The effect of this early implementation is reported as a restatement of beginning fund position for the fiscal year September 30, 2012. Comparative financial statements for that year have been adjusted to apply the new requirements retrospectively.

The financial statements for fiscal year ended September 30, 2012 have been restated to adjust the activity related to the administrative fees. Beginning net position has been increased by \$3,512,364 to a balance of \$9,133,571 for the recognition of the deferred administrative fee liability from September 30, 2011. In addition, the deferred administrative fee and revenue previously reported for the year ended September 30, 2012 have been adjusted to reflect this change. The following financial statement line items for fiscal year 2012 were affected by the change in accounting principle:

NOTES TO FINANCIAL STATEMENTS

STATEMENT OF NET POSITION SEPTEMBER 30, 2012:

	As Originally Reported	As Adjusted	Effect of Change
Unearned administrative fee	\$ 1,186,000	\$ -	\$ (1,186,000)
Total current liabilities	5,757,681	4,571,681	(1,186,000)
Unearned administrative fee	2,394,597	-	(2,394,597)
Total noncurrent liabilities	14,820,756	12,426,159	(2,394,597)
Total liabilities	20,578,437	16,997,840	(3,580,597)
Net position - unrestricted	5,866,521	9,447,118	3,580,597
Total net position	6,460,916	10,041,513	3,580,597

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION SEPTEMBER 30, 2012:

	As Originally Reported	As Adjusted	Effect of Change
Administrative fee	\$ 1,809,928	\$ 1,878,161	\$ 68,233
Total operating revenues	5,832,561	5,900,794	68,233
Operating income (loss)	788,601	856,834	68,233
Income (loss) before operating transfers	839,709	907,942	68,233
Change in net position	839,709	907,942	68,233
Total net position, beginning of year	5,621,207	9,133,571	3,512,364
Total net position, end of year	6,460,916	10,041,513	3,580,597

STATEMENT OF CASH FLOWS SEPTEMBER 30, 2012:

	As Originally Reported	As Adjusted	Effect of Change
Operating income (loss)	\$ 788,601	\$ 856,834	\$ 68,233
Changes in assets and liabilities:			
Unearned administrative fee	68,233	-	(68,233)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds have their moneys invested in securities or deposits allowed by federal and state regulations. Section 682.410(a)(5) of Federal Regulations states that assets of the Program may be invested in low-risk securities, such as obligations issued or guaranteed by the United States or a State. North Dakota Century Code Section 15-62.1-05 states that securities in which moneys of the Program may be invested must meet the same requirements as those authorized for investment under the state investment board.

Deposits

As of September 30, 2013 and 2012, the Program had the following deposits:

	<u>2013</u>	<u>2012</u>
Cash and Savings Accounts	\$ 9,170,058	\$ 5,880,619
Time Deposits	<u>18,500,000</u>	<u>16,000,000</u>
	<u>\$ 27,670,058</u>	<u>\$ 21,880,619</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 Program will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Program does not have a formal policy that limits custodial credit risk for deposits. None of the Program's deposits are covered by depository insurance. The Program's deposits are uncollateralized and all of the deposits are held at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - NONCURRENT LIABILITIES

Long-term liability activity for the years ended September 30, 2013 and 2012 was as follows:

	Balance 2012	Additions	Reductions	Balance 2013	Amounts Due Within One Year
Allowance for future credit losses	\$ 7,800,895	\$ 5,853,574	\$ (2,071,469)	\$11,583,000	\$1,829,000
Estimated future refunds of default aversion fees	612,326	-	(124,389)	487,937	120,000
Federal Student Loan Reserve Fund	<u>5,640,938</u>	<u>17,561,897</u>	<u>(18,133,759)</u>	<u>5,069,076</u>	<u>-</u>
	<u>\$14,054,159</u>	<u>\$23,415,471</u>	<u>\$(20,329,617)</u>	<u>\$17,140,013</u>	<u>\$1,949,000</u>
	Balance 2011	Additions	Reductions	Balance 2012	Amounts Due Within One Year
Allowance for future credit losses	\$ 7,711,895	\$ 1,836,431	\$ (1,747,431)	\$ 7,800,895	\$1,509,000
Estimated future refunds of default aversion fees	594,592	138,859	(121,125)	612,326	119,000
Federal Student Loan Reserve Fund	<u>6,202,770</u>	<u>17,630,708</u>	<u>(18,192,540)</u>	<u>5,640,938</u>	<u>-</u>
	<u>\$14,509,257</u>	<u>\$19,605,998</u>	<u>\$(20,061,096)</u>	<u>\$14,054,159</u>	<u>\$1,628,000</u>

A reconciliation of the FSLRF for the years ending September 30, 2013 and 2012 is as follows:

	2013	2012
Federal Student Loan Reserve Fund, beginning of year	\$ 5,640,938	\$ 6,202,770
Investment income	9,636	12,883
Default fee	(285)	(42)
Loan revenues, net of remittance to Department of Education and AOF of \$3,225,658 in 2013 and \$2,962,205 in 2012	163,540	146,507
Credit loss expense, net of reinsurance from Department of Education of \$13,448,500 in 2013 and \$13,833,043 in 2012	(612,348)	(495,155)
Default aversion fee	<u>(132,405)</u>	<u>(226,025)</u>
Federal Student Loan Reserve Fund, end of year	<u>\$ 5,069,076</u>	<u>\$ 5,640,938</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INTERFUND AND RELATED PARTY TRANSACTIONS

	<u>2013</u>	<u>2012</u>
BANK OF NORTH DAKOTA		
Cash and cash equivalents - unrestricted	\$ 5,564,168	\$ 2,491,879
Cash and cash equivalents - restricted	3,605,890	3,388,740
Investments - unrestricted	15,000,000	12,500,000
Investments - restricted	3,500,000	3,500,000
Interest receivable - unrestricted	15,964	12,494
Interest receivable - restricted	2,498	711
Administrative fee receivable - unrestricted	363,852	292,457
Due to other funds	226,228	136,412
Payable to lenders	2,360,619	2,067,742

In addition, the Program reimburses the Bank for expenses paid by the Bank on behalf of the Program. The reimbursements are based on an allocation of indirect costs and assignment of direct costs. Servicing and administrative expenses totaled \$3,371,736 in 2013 and \$3,646,980 in 2012. The payable to the Bank for such expenses, amounting to \$218,138 and \$129,315 at September 30, 2013 and 2012, respectively, is included in "Due To Other Funds" on the statement of net position. The Program received administrative fees of \$408,500 in 2013 and \$766,860 in 2012 from the Bank.

At September 30, 2013 and 2012, the Program has guaranteed approximately \$1.118 billion and \$1.088 billion of loans owned by the Bank and the North Dakota Student Loan Trust (Trust). The Program paid claims of approximately \$11,203,000 and \$10,705,000 to the Bank and the Trust for the years ended September 30, 2013 and 2012, respectively. Some of those loans were subsequently rehabilitated and sold to the Bank.

NOTE 5 - GUARANTEE RESERVE AGREEMENTS

According to the Act, the Program is required to maintain a reserve ratio of the FSLRF at a minimum level of 0.25% of the original principal amount of guarantees outstanding. The reserve ratio is calculated by dividing the sum of the FSLRF liability account and the allowance for loan loss by the original principal amount of guarantees outstanding. The Program had a reserve ratio of 0.94% and 0.84% at September 2013 and 2012, respectively.

For the Alternative Loan Fund, the Program must maintain a minimum guarantee fund that is no less than the Bank of North Dakota historical default rate. The Program has chosen to use a similar calculation as the reserve ratio in the FSLRF for this minimum amount. The ratio is calculated by dividing the sum of the unearned administrative fees, the allowance for future loan loss and the fund balance by the outstanding principal balance. The Program had a ratio of 3.13% in 2013 and 2.67% in 2012, which is well above the current Bank's historical default rate on alternative student loans.

NOTE 6 - FEDERAL REINSURANCE OF STUDENT LOANS

In the event of borrower default on a guaranteed loan, the Act provides for reinsurance by the Federal Government based on the level of federal reinsurance associated with the Program's annual reinsurance rate (reinsurance claims paid by the Federal Government during the fiscal year divided by the amount of loans in repayment at the beginning of the year).

NOTES TO FINANCIAL STATEMENTS

The Program is reimbursed by the Federal Government upon payment of claims on FFEL Program loans. The Program is, therefore, economically dependent on the Department of Education for these reimbursements and for its continued existence. The Program incurred claims totaling \$13,970,849 and \$14,328,198 for the years ended September 30, 2013 and 2012, respectively, of which \$4,337,529 and \$4,539,868 remains as a receivable from the Federal Government at September 30, 2013 and 2012, respectively. Reimbursement of default claims on FFEL Program loans is determined according to the following schedule. Reimbursement of claims on FFEL Program loans for reasons other than default is at 100%. There is no reimbursement of claims paid by the Alternative Loan Fund.

Claim Percentage of Loans in Repayment	Levels of Federal Reinsurance
0% to 5% (On loans disbursed prior to 10/01/93)	100%
0% to 5% (On loans disbursed on or after 10/01/93 and before 10/01/98)	98%
0% to 5% (On loans disbursed on or after 10/01/98)	95%
More than 5% but less than or equal to 9% (On loans disbursed prior to 10/01/93)	100% of claims up to 5% and 90% of claims over 5% but less than or equal to 9%
More than 5% but less than or equal to 9% (On loans disbursed on or after 10/01/93 and before 10/01/98)	98% of claims up to 5% and 88% of claims over 5% but less than or equal to 9%
More than 5% but less than or equal to 9% (On loans disbursed on or after 10/01/98)	95% of claims up to 5% and 85% of claims over 5% but less than or equal to 9%
Over 9% (On loans disbursed prior to 10/01/93)	100% of claims up to 5% and 90% of claims over 5% but less than or equal to 9% and 80% of claims over 9%
Over 9% (On loans disbursed on or after 10/01/93 and before 10/01/98)	98% of claims up to 5% and 88% of claims over 5% but less than or equal to 9% and 78% of claims over 9%
Over 9% (On loans disbursed on or after 10/01/98)	95% of claims up to 5% and 85% of claims over 5% but less than or equal to 9% and 75% of claims over 9%

Each year the Department of Education calculates the Program's reinsurance rate for the ensuing year based on historical levels of claims paid. At no time has the Program's reinsurance rate exceeded the 5% level discussed above.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts and errors and omissions. The Program is administered by the Bank and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The State Bonding Fund currently provides the Bank with blanket employee fidelity bond coverage in the amount of \$2,000,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	2013				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents					
Unrestricted	\$ 1,304,423	\$ 4,259,745	\$ -	\$ -	\$ 5,564,168
Restricted	90,301	-	3,515,589	-	3,605,890
Investments					
Unrestricted	1,500,000	13,500,000	-	-	15,000,000
Restricted	500,000	-	3,000,000	-	3,500,000
Due from other funds					
Unrestricted	2,477	260	-	(2,737)	-
Restricted	-	-	5,565	(5,565)	-
Receivables					
Unrestricted					
Interest	625	15,339	-	-	15,964
Default aversion fee	5,798	-	-	(5,798)	-
Department of Education	4,711	-	-	-	4,711
Account maintenance fee	123,772	-	-	-	123,772
Administrative fee	-	363,852	-	-	363,852
Other receivables	486,011	-	-	-	486,011
Restricted					
Interest	312	-	2,186	-	2,498
Federal reinsurance	-	-	4,337,529	-	4,337,529
Total receivables	621,229	379,191	4,339,715	(5,798)	5,334,337
Total current assets	4,018,430	18,139,196	10,860,869	(14,100)	33,004,395
NONCURRENT ASSETS - Unrestricted					
Capital assets					
Computer software	3,819,514	-	-	-	3,819,514
Accumulated amortization	(3,819,514)	-	-	-	(3,819,514)
Total capital assets	-	-	-	-	-
Total assets	4,018,430	18,139,196	10,860,869	(14,100)	33,004,395
DEFERRED OUTFLOWS OF RESOURCES					
	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS					
	\$ 4,018,430	\$ 18,139,196	\$ 10,860,869	\$ (14,100)	\$ 33,004,395

	2013				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
LIABILITIES					
CURRENT LIABILITIES					
Due to other funds	\$ 179,055	\$ 39,320	\$ 16,155	\$ (8,302)	\$ 226,228
Default aversion fee payable	-	-	5,798	(5,798)	-
Payable to lenders	-	246,096	2,428,671	-	2,674,767
Collections payable					
Department of Education	29,648	-	626,169	-	655,817
Allowance for future credit losses	-	1,231,000	598,000	-	1,829,000
Estimated future refunds of default aversion fees	120,000	-	-	-	120,000
Total current liabilities	328,703	1,516,416	3,674,793	(14,100)	5,505,812
NONCURRENT LIABILITIES					
Allowance for future losses	-	7,637,000	2,117,000	-	9,754,000
Estimated future refunds of default aversion fees	367,937	-	-	-	367,937
Federal Student Loan Reserve Fund	-	-	5,069,076	-	5,069,076
Total noncurrent liabilities	367,937	7,637,000	7,186,076	-	15,191,013
Total liabilities	696,640	9,153,416	10,860,869	(14,100)	20,696,825
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-
NET POSITION					
Restricted - Expendable for default prevention activities	590,613	-			590,613
Unrestricted	2,731,177	8,985,780	-	-	11,716,957
Total net position	3,321,790	8,985,780	-	-	12,307,570
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 4,018,430</u>	<u>\$ 18,139,196</u>	<u>\$ 10,860,869</u>	<u>\$ (14,100)</u>	<u>\$ 33,004,395</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2012

	(Restated) 2012				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents					
Unrestricted	\$ 1,298,372	\$ 1,193,507	\$ -	\$ -	\$ 2,491,879
Restricted	594,395	-	2,794,345	-	3,388,740
Investments					
Unrestricted	1,500,000	11,000,000	-	-	12,500,000
Restricted	-	-	3,500,000	-	3,500,000
Due from other funds					
Unrestricted	1,054	260	-	(1,314)	-
Restricted	-	-	144	(144)	-
Receivables					
Unrestricted					
Interest	493	12,001	-	-	12,494
Default aversion fee	16,210	-	-	(16,210)	-
Department of Education	45,665	-	-	-	45,665
Account maintenance fee	144,484	-	-	-	144,484
Administrative fee	-	292,457	-	-	292,457
Other receivables	123,055	-	-	-	123,055
Restricted					
Interest	-	-	711	-	711
Federal reinsurance	-	-	4,539,868	-	4,539,868
Total receivables	329,907	304,458	4,540,579	(16,210)	5,158,734
Total current assets	3,723,728	12,498,225	10,835,068	(17,668)	27,039,353
NONCURRENT ASSETS - Unrestricted					
Capital assets					
Computer software	3,819,514	-	-	-	3,819,514
Accumulated amortization	(3,819,514)	-	-	-	(3,819,514)
Total capital assets	-	-	-	-	-
Total assets	3,723,728	12,498,225	10,835,068	(17,668)	27,039,353
DEFERRED OUTFLOWS OF RESOURCES					
	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS					
	\$ 3,723,728	\$ 12,498,225	\$ 10,835,068	\$ (17,668)	\$ 27,039,353

	(Restated) 2012				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
LIABILITIES					
CURRENT LIABILITIES					
Due to other funds	\$ 105,522	\$ 31,143	\$ 1,205	\$ (1,458)	\$ 136,412
Default aversion fee payable	-	-	16,210	(16,210)	-
Payable to lenders	-	227,094	2,167,791	-	2,394,885
Collections payable					
Department of Education	28,460	-	383,924	-	412,384
Allowance for future credit losses	-	916,000	593,000	-	1,509,000
Estimated future refunds of default aversion fees	119,000	-	-	-	119,000
Total current liabilities	252,982	1,174,237	3,162,130	(17,668)	4,571,681
NONCURRENT LIABILITIES					
Allowance for future losses	-	4,259,895	2,032,000	-	6,291,895
Estimated future refunds of default aversion fees	493,326	-	-	-	493,326
Federal Student Loan Reserve Fund	-	-	5,640,938	-	5,640,938
Total noncurrent liabilities	493,326	4,259,895	7,672,938	-	12,426,159
Total liabilities	746,308	5,434,132	10,835,068	(17,668)	16,997,840
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-
NET POSITION					
Restricted - Expendable for default prevention activities	594,395	-	-	-	594,395
Unrestricted	2,383,025	7,064,093	-	-	9,447,118
Total net position	2,977,420	7,064,093	-	-	10,041,513
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 3,723,728	\$ 12,498,225	\$ 10,835,068	\$ (17,668)	\$ 27,039,353

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2013

	2013		
	Agency Operating Fund	Alternative Loan Fund	Total
OPERATING REVENUES			
Administrative fee	\$ -	\$ 2,368,827	\$ 2,368,827
Loan recoveries, net of remittance to Department of Education of \$1,520,833	284,975	-	284,975
Rehabilitated loans, net of remittance to Department of Education of \$1,704,826	430,192	-	430,192
Collection cost revenues net of remittance to Department of Education of \$173,260	554,253	-	554,253
Account maintenance fees	502,189	-	502,189
Default aversion fees	256,794	-	256,794
Grant income	1,297,562	-	1,297,562
Referral income	-	3,490	3,490
	<u>3,325,965</u>	<u>2,372,317</u>	<u>5,698,282</u>
OPERATING EXPENSES			
Service and administrative expense	1,682,740	413,233	2,095,973
Grant expenditures	1,297,562	-	1,297,562
Default prevention activities	4,599	-	4,599
Credit loss expense	-	5,098,524	5,098,524
	<u>2,984,901</u>	<u>5,511,757</u>	<u>8,496,658</u>
OPERATING INCOME (LOSS)	<u>341,064</u>	<u>(3,139,440)</u>	<u>(2,798,376)</u>
NONOPERATING REVENUES			
Interest income	<u>3,306</u>	<u>61,127</u>	<u>64,433</u>
OPERATING INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>344,370</u>	<u>(3,078,313)</u>	<u>(2,733,943)</u>
OPERATING TRANSFERS			
Transfer from North Dakota Student Loan Trust	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
CHANGE IN NET POSITION	<u>344,370</u>	<u>1,921,687</u>	<u>2,266,057</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>2,977,420</u>	<u>7,064,093</u>	<u>10,041,513</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 3,321,790</u>	<u>\$ 8,985,780</u>	<u>\$ 12,307,570</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2012

	(Restated) 2012		
	Agency Operating Fund	Alternative Loan Fund	Total
OPERATING REVENUES			
Administrative fee	\$ -	\$ 1,878,161	\$ 1,878,161
Loan recoveries, net of remittance to Department of Education of \$1,348,307	252,615	-	252,615
Rehabilitated loans, net of remittance to Department of Education of \$1,613,898	423,785	-	423,785
Collection cost revenues net of remittance to Department of Education of \$173,191	614,036	-	614,036
Account maintenance fees	582,890	-	582,890
Default aversion fees	347,150	-	347,150
Grant income	1,802,157	-	1,802,157
	<u>4,022,633</u>	<u>1,878,161</u>	<u>5,900,794</u>
OPERATING EXPENSES			
Service and administrative expense	1,495,525	368,974	1,864,499
Grant expenditures	1,802,157	-	1,802,157
Default prevention activities	8,806	-	8,806
Credit loss expense	-	1,229,639	1,229,639
DAF refund provision	138,859	-	138,859
	<u>3,445,347</u>	<u>1,598,613</u>	<u>5,043,960</u>
OPERATING INCOME	<u>577,286</u>	<u>279,548</u>	<u>856,834</u>
NONOPERATING REVENUES			
Interest income	<u>6,883</u>	<u>44,225</u>	<u>51,108</u>
CHANGE IN NET POSITION	<u>584,169</u>	<u>323,773</u>	<u>907,942</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>2,393,251</u>	<u>6,740,320</u>	<u>9,133,571</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 2,977,420</u>	<u>\$ 7,064,093</u>	<u>\$ 10,041,513</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2013

	2013				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
OPERATING ACTIVITIES					
Loan recoveries received from borrowers	\$ 324,215	\$ 142,702	\$ 1,608,894	\$ -	\$ 2,075,811
Loan recoveries remitted to DOE	-	-	(1,507,255)	-	(1,507,255)
Credit loss claims paid to lenders - BND	-	(1,507,496)	(8,967,757)	-	(10,475,253)
Credit loss claims paid to other lenders	-	(22,623)	(4,742,212)	-	(4,764,835)
Credit loss claims received from DOE	-	-	13,650,840	-	13,650,840
Rehab loan proceeds received from lenders - BND	840,927	-	1,790,019	-	2,630,946
Rehab loan proceeds remitted to DOE	-	-	(1,476,344)	-	(1,476,344)
Collections received from borrowers	144,706	-	-	-	144,706
Grant receipts	934,606	-	-	-	934,606
Account maintenance fees received from DOE	522,901	-	-	-	522,901
Default aversion fees received from FFEL Program	142,817	-	(142,817)	-	-
Default fees received from borrowers and lenders	-	-	(327)	-	(327)
Administrative fee received from borrowers	-	2,297,432	-	-	2,297,432
Servicing fees received	-	3,490	-	-	3,490
Service and administrative expense paid - BND	(2,911,077)	(405,056)	-	-	(3,316,133)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	(905)	508,449	213,041	-	720,585
NON-CAPITAL FINANCING ACTIVITIES					
Cash received from ND Student Loan Trust	-	5,000,000	-	-	5,000,000
INVESTING ACTIVITIES					
Proceeds from investment maturities - BND	3,000,000	5,000,000	3,500,000	-	11,500,000
Purchase of investments - BND	(3,500,000)	(7,500,000)	(3,000,000)	-	(14,000,000)
Interest received	2,862	57,789	8,203	-	68,854
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	(497,138)	(2,442,211)	508,203	-	(2,431,146)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(498,043)	3,066,238	721,244	-	3,289,439
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,892,767	1,193,507	2,794,345	-	5,880,619
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,394,724	\$ 4,259,745	\$ 3,515,589	\$ -	\$ 9,170,058

COMBINING STATEMENT OF CASH FLOWS – Page 2

	2013				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES					
Operating income	\$ 341,064	\$ (3,139,440)	\$ -	\$ -	\$ (2,798,376)
Adjustments to reconcile operating income to net cash from (used for) operating activities					
Credit loss expense	-	3,711,107	90,000	-	3,801,107
DAF refund provision, net of refunds	(124,389)	-	-	-	(124,389)
Changes in assets and liabilities:					
Due from other funds	(364,379)	-	(5,421)	369,800	-
Administrative fee receivable - BND	-	(71,395)	-	-	(71,395)
Default fee receivable	-	-	(42)	-	(42)
Department of Education receivable	40,954	-	202,339	-	243,293
Account maintenance fee receivable	20,712	-	-	-	20,712
Default aversion fee receivable	10,412	-	-	(10,412)	-
Due to other funds	(291)	8,177	14,950	(369,800)	(346,964)
Due to BND	73,824	-	-	-	73,824
Payable to lenders	-	-	260,880	-	260,880
Collections payable	1,188	-	242,245	-	243,433
Federal Student Loan Reserve Fund	-	-	(581,498)	-	(581,498)
Default aversion fee payable	-	-	(10,412)	10,412	-
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ (905)</u>	<u>\$ 508,449</u>	<u>\$ 213,041</u>	<u>\$ -</u>	<u>\$ 720,585</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2012

	(Restated) 2012				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
OPERATING ACTIVITIES					
Loan recoveries received from borrowers	\$ 210,248	\$ 111,637	\$ 1,414,393	\$ -	\$ 1,736,278
Loan recoveries remitted to DOE	-	-	(1,225,861)	-	(1,225,861)
Credit loss claims paid to lenders - BND	-	(1,002,504)	(8,735,208)	-	(9,737,712)
Credit loss claims paid to other lenders	-	(22,678)	(5,225,690)	-	(5,248,368)
Credit loss claims received from DOE	-	-	11,636,041	-	11,636,041
Rehab loan proceeds received from lenders - BND	813,801	-	1,692,735	-	2,506,536
Rehab loan proceeds remitted to DOE	-	-	(1,660,102)	-	(1,660,102)
Collections received from borrowers	239,974	-	-	-	239,974
Grant receipts	1,753,130	-	-	-	1,753,130
Account maintenance fees received from DOE	595,205	-	-	-	595,205
Default aversion fees received from FFEL Program	233,425	-	(233,425)	-	-
Default fees received from borrowers and lenders	-	-	-	-	-
Administrative fee received from borrowers	-	1,858,923	-	-	1,858,923
Service and administrative expense paid - BND	(3,404,506)	(370,460)	-	-	(3,774,966)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	441,277	574,918	(2,337,117)	-	(1,320,922)
INVESTING ACTIVITIES					
Proceeds from investment maturities - BND	2,000,000	12,946,102	9,500,000	-	24,446,102
Purchase of investments - BND	(3,000,000)	(14,000,000)	(8,000,000)	-	(25,000,000)
Interest received	7,041	68,042	15,222	-	90,305
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	(992,959)	(985,856)	1,515,222	-	(463,593)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(551,682)	(410,938)	(821,895)	-	(1,784,515)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,444,449	1,604,445	3,616,240	-	7,665,134
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,892,767	\$ 1,193,507	\$ 2,794,345	\$ -	\$ 5,880,619

(continued on next page)

COMBINING STATEMENT OF CASH FLOWS – Page 2

	(Restated) 2012				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES					
Operating income	\$ 577,286	\$ 279,548	\$ -	\$ -	\$ 856,834
Adjustments to reconcile operating income to net cash from (used for) operating activities					
Credit loss expense	-	316,094	-	-	316,094
DAF refund provision, net of refunds	17,734	-	-	-	17,734
Changes in assets and liabilities:					
Due from other funds	(35,211)	-	12,439	22,772	-
Administrative fee receivable - BND	-	(19,238)	-	-	(19,238)
Default fee receivable	-	-	42	-	42
Department of Education receivable	(45,665)	-	(2,197,002)	-	(2,242,667)
Account maintenance fee receivable	12,315	-	-	-	12,315
Default aversion fee receivable	7,400	-	-	(7,400)	-
Due to other funds	(10,518)	(1,486)	(14,022)	(22,772)	(48,798)
Due to BND	(98,018)	-	-	-	(98,018)
Payable to lenders	-	-	367,300	-	367,300
Collections payable	15,954	-	76,243	-	92,197
Federal Student Loan Reserve Fund	-	-	(574,717)	-	(574,717)
Default aversion fee payable	-	-	(7,400)	7,400	-
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 441,277</u>	<u>\$ 574,918</u>	<u>\$ (2,337,117)</u>	<u>\$ -</u>	<u>\$ (1,320,922)</u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT A-1

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program		
Federal Family Education Loan (FFEL) Program (Note 2)	84.032	
Direct subsidies		
Reinsurance Payments		\$ 13,448,500
Guarantee Agency's Equitable Share of Loan Collections		878,102
Default Aversion Fee		132,405
Account Maintenance Fee		<u>502,189</u>
Total FFEL Program Direct Subsidies		<u>14,961,196</u>
Guaranteed FFEL Program Student Loans (Note 3)		
Original principal amount of loans from previous years on which there are continuing compliance requirements		<u>916,128,953</u>
Total FFEL Program		<u>931,090,149</u>
Pass-through programs from:		
Bank of North Dakota		
College Access Challenge Grant (Note 4)	84.378A	<u>1,297,562</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 932,387,711</u></u>

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT A-2

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the North Dakota Guaranteed Student Loan Program and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - See Notes 5 and 6 to the financial statements for information relative to the existence and value of federal loan guarantee programs.

NOTE 3 - At September 30, 2013, the original principal amount of guaranteed student loans outstanding on which there are continuing compliance requirements is \$825,148,032.

NOTE 4 - Of the federal expenditures presented in the schedule, the North Dakota Guaranteed Student Loan Program provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount provided to Subrecipients</u>
84.378A	College Access Challenge Grant	\$ 272,008

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT A-3

There were no prior federal audit findings reported for the North Dakota Guaranteed Student Loan Program.



EXHIBIT A-4

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 Industrial Commission
State of North Dakota
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 North Dakota Guaranteed Student Loan Program, an enterprise fund of the State of North Dakota, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise North Dakota Guaranteed Student Loan Program's basic financial statements, and have issued our report thereon dated March 3, 2014.

Internal Control over Financial Reporting

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

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

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

Purpose of this Report

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

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

Aberdeen, South Dakota
March 3, 2014



EXHIBIT A-5

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on Compliance for Each Major Federal Program

We have audited North Dakota Guaranteed Student Loan Program's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of North Dakota Guaranteed Student Loan Program's major federal programs for the year ended September 30, 2013. North Dakota Guaranteed Student Loan Program's major federal programs are 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of North Dakota Guaranteed Student Loan Program's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 North Dakota Guaranteed Student Loan Program'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 each major federal program. However, our audit does not provide a legal determination of North Dakota Guaranteed Student Loan Program's compliance.

Opinion on Each Major Federal Program

In our opinion, North Dakota Guaranteed Student Loan Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended September 30, 2013.

Report on Internal Control over Compliance

Management of North Dakota Guaranteed Student Loan Program 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 North Dakota Guaranteed Student Loan Program's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 North Dakota Guaranteed Student Loan Program'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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Aberdeen, South Dakota
March 3, 2014

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT A-6

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weakness 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 programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	No
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 section 510(a) of Circular A-133	No
Identification of major programs:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Federal Family Education Loan Program	84.032
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as a 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 or questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

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

The Industrial Commission
State of North Dakota
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 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, 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?

Yes

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

No

Audit Committee Communications:

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

As described in Note 1 to the financial statements, the North Dakota Guaranteed Student Loan Program changed accounting policies related to revenue recognition for administrative fees received by adopting Statement of Governmental Accounting Standards (GASB Statement) No.65, *Items Previously Reported as Assets and Liabilities*, in 2013. Accordingly, the financial statements for the fiscal year ended September 30, 2012 have been restated to adjust the activity related to administrative fees, including an adjustment to increase beginning net position as of October 1, 2011 by \$3,512,364.

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

Management's estimate of future refunds of default aversion fees for which the percentage of income method is used to calculate the estimated allowance for refunds of the default aversion fee based on a periodic evaluation of default aversion fees received and a historical refund rate.

Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors.

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

EXHIBIT A-7, cont.

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

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

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

Eide Bailly LLP

Aberdeen, South Dakota
March 3, 2014



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

We have audited the financial statements of the business-type activities of North Dakota Guaranteed Student Loan Program for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 14, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Guaranteed Student Loan Program are described in Note 1 to the financial statements. During 2013, North Dakota Guaranteed Student Loan Program implemented GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus*, GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which did not have a significant effect on financial reporting. As described in Note 1 to the financial statements, the North Dakota Guaranteed Student Loan Program also changed accounting policies related to revenue recognition for administrative fees received by adopting GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in 2013. Accordingly, the financial statements for the fiscal year ended September 30, 2012 have been restated to adjust the activity related to administrative fees, including an adjustment to increase beginning net position as of October 1, 2011 by \$3,512,364. No other new accounting policies were adopted and the application of other existing policies was not changed during the year ended September 30, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the North Dakota Guaranteed Student Loan Program's financial statements were:

Management's estimate of the allowance for future refunds of default aversion fees is based on a periodic evaluation of default aversion fees received and a historical refund rate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No misstatements were detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 3, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

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

Aberdeen, South Dakota
March 3, 2014