



Financial Statements  
September 30, 2017 and 2016

# North Dakota Guaranteed Student Loan Program

# NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Guaranteed Student Loan Program, an enterprise fund of the State of North Dakota, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the North Dakota Guaranteed Student Loan Program's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Guaranteed Student Loan Program, as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of 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, 2017 and 2016 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Guaranteed Student Loan Program's financial statements. The combining statements of net position, combining statements of revenues, expenses, and changes in net position, and combining statements of cash flows are presented for purposes of additional analysis and are 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 combining statements of cash flows 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 combining statements of cash flows 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 December 15, 2017 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 effectiveness of the North Dakota Guaranteed Student Loan Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Dakota Guaranteed Student Loan Program's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eric Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Bismarck, North Dakota  
December 15, 2017

# **NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2017, 2016, AND 2015**

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

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

The discussion and analysis of the financial performance of the Program which follows is meant to provide additional insight into the Program's activities for the fiscal years ended September 30, 2017, 2016, and 2015. 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.

## **2017 FINANCIAL HIGHLIGHTS**

### *Alternative Loan Fund*

Alternative Loan Fund guarantees during the fiscal year ending September 30, 2017 were \$193 million compared to \$240 million during the fiscal year ending September 30, 2016 and \$294 million during the fiscal year ending September 30, 2015.

Alternative Loan Fund guarantees outstanding at the end of fiscal year 2017 totaled \$1.133 billion compared to \$1.043 billion at the end of fiscal year 2016 and \$901 million at the end of fiscal year 2015.

State law requires that the Program maintain a reserve fund on deposit with the Bank for all outstanding Alternative Loans. The fund level may be no less than the Bank of North Dakota historical default rate. The Statement of Net Position indicates that the Alternative Loan Fund has adequate resources to provide for new loan guarantees, claim payments to lenders, and continuing obligations.

*Agency Operating Fund*

On March 31, 2016, all Federal Family Education Loan Program guarantees were transferred to Great Lakes Higher Education; therefore, there were no guarantees outstanding at the end of fiscal year 2017 or 2016. The original principal amount of guarantees at the end of fiscal year 2015 totaled \$605 million.

Collection revenue during the fiscal year ending September 30, 2016 was \$394,000 compared to \$676,000 received in the fiscal year ending September 30, 2015. This decrease was due to the guarantees being transferred on March 31, 2016. The Program received these revenues as reimbursement for collection efforts performed for the Department of Education.

*Federal Student Loan Reserve Fund*

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

Prior to the dissolution of the FSLRF, the Program was required to 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 during fiscal year 2016 and 2015 was 1.32% and 1.18%, well under the limitation.

**CONDENSED STATEMENTS OF NET POSITION  
SEPTEMBER 30, 2017, 2016 and 2015**

	(In Thousands)		
	2017	2016	2015
<b>ASSETS</b>			
Cash and cash equivalents			
Unrestricted	\$ 45,230	\$ 33,724	\$ 27,066
Restricted	168	168	3,695
Investments			
Unrestricted	-	3,000	6,500
Restricted	-	-	2,000
Receivables			
Unrestricted	237	979	1,060
Restricted	-	-	4,360
Total current assets	<u>45,635</u>	<u>37,871</u>	<u>44,681</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 45,635</u>	<u>\$ 37,871</u>	<u>\$ 44,681</u>
<b>LIABILITIES</b>			
Current liabilities			
Allowance for future credit losses	\$ 3,915	\$ 3,380	\$ 6,882
Federal Student Loan Reserve Fund	-	-	4,418
Other	1,184	521	3,396
Total current liabilities	<u>5,099</u>	<u>3,901</u>	<u>14,696</u>
Noncurrent liabilities			
Allowance for future credit losses	20,579	18,421	15,833
Estimated future refunds of default aversion fees	-	168	-
Total noncurrent liabilities	<u>20,579</u>	<u>18,589</u>	<u>15,833</u>
Total liabilities	<u>25,678</u>	<u>22,490</u>	<u>30,529</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>			
Restricted for default prevention activities	-	-	582
Unrestricted	19,957	15,381	13,570
Total net position	<u>19,957</u>	<u>15,381</u>	<u>14,152</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 45,635</u>	<u>\$ 37,871</u>	<u>\$ 44,681</u>



*Cash and Cash Equivalents*

The Program considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for purposes of reporting cash flows. Cash and cash equivalents increased \$11.5 million in 2017 primarily due to a transfer in of \$10 million from the North Dakota Student Loan Trust (Trust). The increase of \$3.1 million in 2016 was primarily due to investment maturities of \$3.5 million.

*Investments*

Investments decreased \$3 million in 2017 and \$5.5 million in 2016 due to maturing certificates of deposit.

*Receivables*

The receivable balances are comprised of interest, administrative fees, reinsurance payments and various fees due to the Program as of the end of each year. As of September 30, 2017 and 2016, all receivables were due from the Bank of North Dakota for administrative fees. As of September 30, 2015, the majority of receivables were due from the Department of Education for reinsurance payments.

*Allowance for Future Credit Losses*

The Program estimates the allowance for future credit losses based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of outstanding loans guaranteed, current and anticipated economic conditions, and other pertinent factors. As of September 30, 2017, the Program considers the allowance for future credit losses of \$24.5 million adequate to cover losses on Alternative loans. Allowance for future credit losses was \$21.8 million and \$22.7 million as of September 30, 2016 and 2015, respectively. The September 30, 2015 allowance included both Alternative loans and Federal loans.

*Federal Student Loan Reserve Fund*

The balance in this account represented the Federal Government's share of the total assets of the Program as discussed in Notes 1 and 5 to the financial statements. Subsequent to the transfer of all FFELP guarantees, the Federal Student Loan Reserve Fund was returned to the Department of Education.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED SEPTEMBER 30, 2017, 2016 and 2015**

	(In Thousands)		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>			
Administrative fee	\$ 2,558	\$ 6,713	\$ 8,399
Loan recoveries net of DOE share	-	133	306
Rehabilitation loans net of DOE share	-	32	(56)
Collection cost revenues	-	229	407
Fee revenues	23	227	519
Grant income	48	947	869
	<u>2,629</u>	<u>8,281</u>	<u>10,444</u>
<b>OPERATING EXPENSES</b>			
Service and administrative expense	1,594	1,738	2,078
Grant expenditures	48	947	869
Credit loss expense	6,440	4,222	11,065
Other expenses	-	185	112
	<u>8,082</u>	<u>7,092</u>	<u>14,124</u>
<b>OPERATING INCOME (LOSS)</b>	<b>(5,453)</b>	<b>1,189</b>	<b>(3,680)</b>
<b>NONOPERATING REVENUES</b>			
Interest income	29	40	75
	<u>29</u>	<u>40</u>	<u>75</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(5,424)</b>	<b>1,229</b>	<b>(3,605)</b>
<b>OPERATING TRANSFERS</b>			
Transfer from ND Student Loan Trust	10,000	-	5,000
	<u>10,000</u>	<u>-</u>	<u>5,000</u>
<b>CHANGE IN NET POSITION</b>	<b>4,576</b>	<b>1,229</b>	<b>1,395</b>
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<b>15,381</b>	<b>14,152</b>	<b>12,757</b>
	<u>15,381</u>	<u>14,152</u>	<u>12,757</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<b>\$ 19,957</b>	<b>\$ 15,381</b>	<b>\$ 14,152</b>
	<u>\$ 19,957</u>	<u>\$ 15,381</u>	<u>\$ 14,152</u>

*Operating Revenues and Expenses*

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to Program operations. Administrative fees decreased by \$4.1 million in fiscal year 2017 primarily due to the \$10 million Trust transfer covering in-state fees for calendar year 2017. Administrative fees decreased by \$1.7 million in fiscal year 2016 primarily due to a regression to the mean in alternative loan volume.

*Service and Administrative Expense - Bank of North Dakota*

The Program has entered into a number of agreements as discussed in Note 6 to the financial statements pertaining to related party transactions. Several of these agreements resulted in payments between the various parties either to pay claims on student loans guaranteed by the Program or to fund operations of the Program.

*Credit Loss Expense*

Credit loss expense was \$6.4 million in fiscal year 2017, \$4.2 million in fiscal year 2016, and \$11.1 million in fiscal year 2015.

*Transfers*

On October 5, 2016, the Alternative Loan Fund received a transfer of \$10 million from the North Dakota Student Loan Trust. On May 27, 2016, the balance of the Agency Operating Fund was transferred to the Alternative Loan Fund, effectively dissolving the AOF. This transfer is not shown on the condensed statements of revenues due to the elimination of interfund activities, but is shown on the combining statements of revenues. On December 23, 2014, the Alternative Loan Fund received a transfer of \$5,000,000 from the North Dakota Student Loan Trust.

*Economic Factors*

Discussion in Notes 1 and 8 to the financial statements indicate that the Program has had an economic dependence on the Department of Education for reinsurance of student loans guaranteed by the Program, and for the payment of certain activity-based fees for the Program's administration of the loan programs for the Department. Upon the March 31, 2016 transfer of all FFELP guarantees, the Program is no longer dependent upon the Department.

*Budgetary Information*

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

*Contacting the North Dakota Guaranteed Student Loan Program's Financial Management*

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

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents		
Unrestricted	\$ 45,230,383	\$ 33,724,107
Restricted	<u>167,900</u>	<u>167,900</u>
Investments		
Unrestricted	<u>-</u>	<u>3,000,000</u>
Receivables		
Unrestricted		
Interest	-	4,167
Administrative fee	236,925	883,725
Other receivables	<u>-</u>	<u>91,198</u>
Total receivables	<u>236,925</u>	<u>979,090</u>
Total current assets	<u>45,635,208</u>	<u>37,871,097</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u><u>\$ 45,635,208</u></u>	<u><u>\$ 37,871,097</u></u>

**STATEMENTS OF NET POSITION – page 2**

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Due to other funds	\$ 71,880	\$ 199,883
Payable to lenders	944,062	320,709
Allowance for future credit losses	3,915,000	3,380,000
Estimated future refunds of DAF	167,900	-
Total current liabilities	<u>5,098,842</u>	<u>3,900,592</u>
<b>NONCURRENT LIABILITIES</b>		
Allowance for future credit losses	20,579,359	18,421,081
Estimated future refunds of default aversion fees	-	167,900
Total noncurrent liabilities	<u>20,579,359</u>	<u>18,588,981</u>
Total liabilities	<u>25,678,201</u>	<u>22,489,573</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Unrestricted	<u>19,957,007</u>	<u>15,381,524</u>
Total net position	<u>19,957,007</u>	<u>15,381,524</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u>\$ 45,635,208</u>	<u>\$ 37,871,097</u>

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Administrative fee	\$ 2,557,876	\$ 6,713,116
Loan recoveries, net of remittance to Department of Education of \$670,105 in 2016	-	132,699
Rehabilitated loans, net of remittance to Department of Education of \$567,256 in 2016	-	32,577
Collection cost revenues, net of remittance to Department of Education of \$174,501 in 2016	-	228,781
Account maintenance fees	-	165,901
Default aversion fees	-	37,643
Grant income	48,327	946,728
Referral income	23,150	23,350
	<u>2,629,353</u>	<u>8,280,795</u>
<b>OPERATING EXPENSES</b>		
Service and administrative expense	1,594,768	1,738,049
Grant expenditures	48,327	946,728
Default prevention activities	-	1,078
Credit loss expense	6,439,510	4,222,000
DAF refund provision	-	183,935
	<u>8,082,605</u>	<u>7,091,790</u>
<b>OPERATING INCOME (LOSS)</b>	(5,453,252)	1,189,005
<b>NONOPERATING REVENUES</b>		
Interest income	<u>28,735</u>	<u>40,115</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<u>(5,424,517)</u>	<u>1,229,120</u>
<b>OPERATING TRANSFERS</b>		
Transfer from North Dakota Student Loan Trust	<u>10,000,000</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	4,575,483	1,229,120
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>15,381,524</u>	<u>14,152,404</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 19,957,007</u>	<u>\$ 15,381,524</u>

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Loan recoveries received from borrowers	\$ 611,061	\$ 994,722
Loan recoveries remitted to DOE	-	(881,088)
Credit loss claims paid to lenders - BND	(3,614,101)	(10,707,911)
Credit loss claims paid to other lenders	(119,839)	(1,138,313)
Credit loss claims received from DOE	-	11,478,681
Rehab loan proceeds received from lenders - BND	-	725,984
Rehab loan proceeds remitted to DOE	-	(661,442)
Collections received from borrowers	-	123,163
Grant receipts	139,525	864,053
Account maintenance fees received from DOE	-	256,633
Default aversion fees transferred to Great Lakes	-	(354,145)
Administrative fee received from borrowers	3,204,676	6,771,268
Referral fees received	23,150	23,350
Service and administrative expense paid - BND	(1,771,098)	(2,655,967)
Return of FSLRF to DOE	-	(7,259,443)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>(1,526,626)</b>	<b>(2,420,455)</b>
<b>NON-CAPITAL FINANCING ACTIVITIES</b>		
Cash received from North Dakota Student Loan Trust	10,000,000	-
<b>NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>10,000,000</b>	<b>-</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from investment maturities - BND	3,000,000	5,500,000
Interest received	32,902	51,380
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>3,032,902</b>	<b>5,551,380</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>11,506,276</b>	<b>3,130,925</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>33,892,007</b>	<b>30,761,082</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 45,398,283</b>	<b>\$ 33,892,007</b>

**STATEMENTS OF CASH FLOWS – page 2**

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (5,453,252)	\$ 1,189,005
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities		
Credit loss expense (reversal)	3,316,631	(1,018,788)
DAF refund provision, net of refunds	-	(258,183)
Changes in assets and liabilities:		
Due from other funds	91,198	(91,198)
Administrative fee receivable - BND	646,800	58,152
Department of Education receivable	-	4,360,000
Account maintenance fee receivable	-	90,732
Due to other funds	-	140,615
Due to BND	(128,003)	(96,776)
Payable to lenders	-	(2,052,520)
Collections payable	-	(316,679)
Federal Student Loan Reserve Fund, net of interest	-	(4,424,815)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ (1,526,626)</u>	<u>\$ (2,420,455)</u>



**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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**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.

On March 31, 2016, all Federal Family Education Loan Program guarantees were transferred to Great Lakes Higher Education. Subsequently, the Agency Operating Fund was transferred to the Alternative Loan Fund and the Federal Student Loan Reserve Fund was transferred to the Department of Education. Please note this transfer and dissolution of funds throughout the notes to the financial statements.

*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.

## NOTES TO FINANCIAL STATEMENTS

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### *Accounting Standards*

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

### *Fund Accounting*

The Agency Operating Fund 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 for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into 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. 72, *Fair Value Measurement and Application*. 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.

## NOTES TO FINANCIAL STATEMENTS

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### *Capital Assets*

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

### *Administrative Fee Revenue*

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

### *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 most defaulted loans. Due to a reconfiguration of the rehabilitation program, the Program no longer retains a portion of its collections of principal on rehabilitated 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.

### *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.

### *Credit Loss Expenses*

The Program estimates the allowance for future credit losses based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of outstanding loans guaranteed, current and anticipated economic conditions, and other pertinent factors.

### *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, their use has been restricted by the Federal Government, or they are contractually obligated to a third party.

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

## NOTES TO FINANCIAL STATEMENTS

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### *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.

### **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, 2017 and 2016, the Program had the following deposits:

	<u>2017</u>	<u>2016</u>
Cash and Savings Accounts	\$ 45,398,283	\$ 33,892,007
Time Deposits	<u>-</u>	<u>3,000,000</u>
	<u>\$ 45,398,283</u>	<u>\$ 36,892,007</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 – DEFAULT AVERSION FEES AND ESTIMATED FUTURE REFUNDS

Upon the transfer of all Federal guarantees to Great Lakes Higher Education, the Program agreed to pay Great Lakes \$354,143 for future refunds at the time of the transfer, with the potential of an additional transfer of up to \$167,900 reserved through September 30, 2024.

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 167,900	\$ 426,083
Refund provision	-	183,935
Refunds paid	-	(87,975)
Payment to Great Lakes	-	(354,143)
	<u>                    </u>	<u>                    </u>
Balance, end of year	<u>\$ 167,900</u>	<u>\$ 167,900</u>

### NOTE 4 – CREDIT LOSS EXPENSES

Changes in the allowance for future credit losses for the Alternative Loan Fund for the years ending September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 21,801,081	\$ 20,000,000
Credit loss expense	6,439,510	4,222,000
Recoveries	611,061	165,988
Claims paid	(4,357,293)	(2,586,907)
	<u>                    </u>	<u>                    </u>
Balance, end of year	<u>\$ 24,494,359</u>	<u>\$ 21,801,081</u>

The FSLRF is reimbursed by the Federal Government for a portion of claims paid on FFELP loans as discussed in Note 8.

Changes in the allowance for future losses for the FSLRF for the years ending September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ -	\$ 2,715,000
Credit loss expense, net of reversal	-	(19,121)
Claims paid, net of reversal	-	19,121
Reversal of credit loss expense	-	(2,715,000)
	<u>                    </u>	<u>                    </u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5 – NONCURRENT LIABILITIES

Long-term liability activity for the years ended September 30, 2017 and 2016 was as follows:

	Balance 2016	Additions	Reductions	Balance 2017	Amounts Due Within One Year
Allowance for future credit losses	\$ 21,801,081	\$ 7,050,571	\$ (4,357,293)	\$ 24,494,359	\$ 3,915,000
Estimated future refunds of default aversion fees	167,900	-	-	167,900	167,900
	<u>\$ 21,968,981</u>	<u>\$ 7,050,571</u>	<u>\$ (4,357,293)</u>	<u>\$ 24,662,259</u>	<u>\$ 4,082,900</u>
	Balance 2015	Additions	Reductions	Balance 2016	Amounts Due Within One Year
Allowance for future credit losses	\$ 22,715,000	\$ 4,407,109	\$ (5,321,028)	\$ 21,801,081	\$ 3,380,000
Estimated future refunds of default aversion fees	426,083	183,935	(442,118)	167,900	-
Federal Student Loan Reserve Fund	4,418,423	8,579,367	(12,997,790)	-	-
	<u>\$ 27,559,506</u>	<u>\$ 13,170,411</u>	<u>\$ (18,760,936)</u>	<u>\$ 21,968,981</u>	<u>\$ 3,380,000</u>

A reconciliation of the FSLRF for the years ending September 30, 2017 and 2016 is as follows:

	2017	2016
Federal Student Loan Reserve Fund, beginning of year	\$ -	\$ 4,418,423
Investment income	-	6,392
Loan revenues, net of remittance to Department of Education and AOF of \$1,237,361 in 2016	-	50,177
Credit loss expense/(recovery), net of reinsurance from Department of Education of \$7,120,546 in 2016	-	19,121
Default aversion fee	-	50,330
Reversal of credit loss expense	-	2,715,000
Return to Department of Education	-	(7,259,443)
Federal Student Loan Reserve Fund, end of year	<u>\$ -</u>	<u>\$ -</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6 – INTERFUND AND RELATED PARTY TRANSACTIONS

	<u>2017</u>	<u>2016</u>
<b>BANK OF NORTH DAKOTA</b>		
Cash and cash equivalents - unrestricted	\$ 45,230,383	\$ 33,724,107
Cash and cash equivalents - restricted	167,900	167,900
Investments - unrestricted	-	3,000,000
Interest receivable - unrestricted	-	4,167
Administrative fee receivable - unrestricted	236,925	883,725
Due to other funds	71,880	199,883
Payable to lenders	944,062	320,709
Transfer from North Dakota Student Loan Trust	10,000,000	-

During the years ended September 30, 2017 and 2016, the Program paid \$1,642,319 and \$2,664,646, respectively, to the Bank for reimbursement of expenses paid by the Bank on behalf of the Program, which includes \$668,933 in 2017 and \$743,401 in 2016 for indirect common costs that were allocated to the Program and \$973,386 in 2017 and \$1,921,245 in 2016 for direct costs specifically identifiable with the Program. The payable to the Bank for such expenses, amounting to \$71,880 and \$199,883 at September 30, 2017 and 2016, respectively, is included in "Due To Other Funds" on the statement of net position. The Program received administrative fees of \$1,049,319 in 2017 and \$5,215,226 in 2016 from the Bank. This decrease was due to the North Dakota Student Loan Trust covering in-state administrative fees for the calendar year 2017.

At September 30, 2017 and 2016, the Program has guaranteed approximately \$1.133 billion and \$1.187 billion of loans owned by the Bank and the North Dakota Student Loan Trust (Trust). The Program paid claims of approximately \$5.2 million and \$11.6 million to the Bank and the Trust for the years ended September 30, 2017 and 2016, respectively. Some of those loans were subsequently rehabilitated and sold to the Bank.

### NOTE 7 – 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. As of September 30, 2016, there were no federal guarantees outstanding to calculate the reserve ratio. The final recorded reserve ratio was 1.18%.

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 allowance for future loan loss and the fund balance by the outstanding principal balance. The Program had a ratio of 3.59% in 2017 and 3.32% in 2016, which is well above the Bank's current historical default rate on alternative student loans of 0.84%.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 – 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).

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%

\*With the passage of the Consolidated Appropriations Act, 2016, Pub. L. 114-113, effective December 1, 2015, the Department of Education changed the maximum reinsurance percentage for loans made on or after October 1, 1998 to 100%.

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 \$7,101,425 for the year ended September 30, 2016, of which there was no receivable due from the Federal Government at September 30, 2016. 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.

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. On March 31, 2016, all Federal Family Education Loan Program guarantees were transferred to Great Lakes Higher Education.



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9 – 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, 2017**

	<u>2017</u>
	<u>Alternative Loan Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	
Unrestricted	\$ 45,230,383
Restricted	<u>167,900</u>
Investments	
Unrestricted	<u>-</u>
Receivables	
Unrestricted	
Interest	-
Administrative fee	236,925
Other receivables	<u>-</u>
Total receivables	<u>236,925</u>
Capital Assets	
Computer software	3,819,514
Accumulated depreciation	<u>(3,819,514)</u>
Total capital assets	<u>-</u>
Total current assets	<u>45,635,208</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>-</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u><u>\$ 45,635,208</u></u>

**COMBINING STATEMENT OF NET POSITION – page 2**

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	<u>2017</u>
	<u>Alternative Loan Fund</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Due to other funds	\$ 71,880
Payable to lenders	944,062
Allowance for future credit losses	3,915,000
Estimated future refunds of default aversion fees	<u>167,900</u>
Total current liabilities	<u>5,098,842</u>
<b>NONCURRENT LIABILITIES</b>	
Allowance for future credit losses	20,579,359
Estimated future refunds of default aversion fees	<u>-</u>
Total noncurrent liabilities	<u>20,579,359</u>
Total liabilities	<u>25,678,201</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
	<u>-</u>
<b>NET POSITION</b>	
Unrestricted	<u>19,957,007</u>
Total net position	<u>19,957,007</u>
Total liabilities and net position	<u><u>\$ 45,635,208</u></u>

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**

	2016				Total
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	
<b>ASSETS</b>					
Cash and cash equivalents					
Unrestricted	\$ -	\$ 33,724,107	\$ -	\$ -	\$ 33,724,107
Restricted	-	167,900	-	-	167,900
Investments					
Unrestricted	-	3,000,000	-	-	3,000,000
Receivables					
Unrestricted					
Interest	-	4,167	-	-	4,167
Administrative fee	-	883,725	-	-	883,725
Other receivables	-	91,198	-	-	91,198
Total receivables	-	979,090	-	-	979,090
Total current assets	-	37,871,097	-	-	37,871,097
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	-	-	-	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ -</u>	<u>\$ 37,871,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,871,097</u>

**COMBINING STATEMENT OF NET POSITION – page 2**

	2016				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Due to other funds	\$ -	\$ 199,883	\$ -	\$ -	\$ 199,883
Payable to lenders	-	320,709	-	-	320,709
Allowance for future credit losses	-	3,380,000	-	-	3,380,000
Total current liabilities	-	3,900,592	-	-	3,900,592
<b>NONCURRENT LIABILITIES</b>					
Allowance for future credit losses	-	18,421,081	-	-	18,421,081
Estimated future refunds of default aversion fees	-	167,900	-	-	167,900
Total noncurrent liabilities	-	18,588,981	-	-	18,588,981
Total liabilities	-	22,489,573	-	-	22,489,573
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-	-	-	-
<b>NET POSITION</b>					
Unrestricted	-	15,381,524	-	-	15,381,524
Total net position	-	15,381,524	-	-	15,381,524
Total liabilities and net position	\$ -	\$ 37,871,097	\$ -	\$ -	\$ 37,871,097

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED SEPTEMBER 30, 2017**

	<u>2017</u>
	<u>Alternative Loan Fund</u>
<b>OPERATING REVENUES</b>	
Administrative fee	\$ 2,557,876
Grant income	48,327
Referral income	23,150
	<u>2,629,353</u>
<b>OPERATING EXPENSES</b>	
Service and administrative expense	1,594,768
Grant expenditures	48,327
Credit loss expense	6,439,510
	<u>8,082,605</u>
<b>OPERATING LOSS</b>	<u>(5,453,252)</u>
<b>NONOPERATING REVENUES</b>	
Interest income	28,735
	<u>28,735</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(5,424,517)</u>
<b>OPERATING TRANSFERS</b>	
Transfer from Student Loan Trust	10,000,000
	<u>10,000,000</u>
<b>CHANGE IN NET POSITION</b>	4,575,483
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>15,381,524</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 19,957,007</u>

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED SEPTEMBER 30, 2016**

	2016		
	Agency Operating Fund	Alternative Loan Fund	Total
<b>OPERATING REVENUES</b>			
Administrative fee	\$ -	\$ 6,713,116	\$ 6,713,116
Loan recoveries, net of remittance to Department of Education of \$670,105	132,699	-	132,699
Rehabilitated loans, net of remittance to Department of Education of \$567,256	32,577	-	32,577
Collection cost revenues net of remittance to Department of Education of \$174,501	228,781	-	228,781
Account maintenance fees	165,901	-	165,901
Default aversion fees	37,643	-	37,643
Grant income	291,241	655,487	946,728
Referral income	-	23,350	23,350
	<u>888,842</u>	<u>7,391,953</u>	<u>8,280,795</u>
<b>OPERATING EXPENSES</b>			
Service and administrative expense	433,587	1,304,462	1,738,049
Grant expenditures	291,241	655,487	946,728
Default prevention activities	1,078	-	1,078
Credit loss expense	-	4,222,000	4,222,000
DAF refund provision	16,035	167,900	183,935
	<u>741,941</u>	<u>6,349,849</u>	<u>7,091,790</u>
<b>OPERATING INCOME</b>	<u>146,901</u>	<u>1,042,104</u>	<u>1,189,005</u>
<b>NONOPERATING REVENUES</b>			
Interest income	1,998	38,117	40,115
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>148,899</u>	<u>1,080,221</u>	<u>1,229,120</u>
<b>OPERATING TRANSFERS</b>			
Transfer to Alternative Loan Fund	(3,869,423)	-	(3,869,423)
Transfer from Agency Operating Fund	-	3,869,423	3,869,423
<b>CHANGE IN NET POSITION</b>	<u>(3,720,524)</u>	<u>4,949,644</u>	<u>1,229,120</u>
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<u>3,720,524</u>	<u>10,431,880</u>	<u>14,152,404</u>
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ -</u>	<u>\$ 15,381,524</u>	<u>\$ 15,381,524</u>

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED SEPTEMBER 30, 2017**

	<u>2017</u>
	<u>Alternative Loan Fund</u>
<b>OPERATING ACTIVITIES</b>	
Loan recoveries received from borrowers	\$ 611,061
Credit loss claims paid to lenders - BND	(3,614,101)
Credit loss claims paid to other lenders	(119,839)
Grant receipts	139,525
Administrative fee received from borrowers	3,204,676
Referral fees received	23,150
Service and administrative expense paid - BND	<u>(1,771,098)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u>(1,526,626)</u>
<b>NON-CAPITAL FINANCING ACTIVITIES</b>	
Cash received from NDSLTL	<u>10,000,000</u>
<b>INVESTING ACTIVITIES</b>	
Proceeds from investment maturities - BND	3,000,000
Interest received	<u>32,902</u>
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<u>3,032,902</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	11,506,276
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>33,892,007</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 45,398,283</u></u>



COMBINING STATEMENT OF CASH FLOWS – page 2

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2017

Alternative  
Loan Fund

RECONCILIATION OF OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES

Operating loss	\$ (5,453,252)
Adjustments to reconcile operating loss to net cash used for operating activities	
Credit loss expense	3,316,631
Changes in assets and liabilities:	
Due from other funds	91,198
Administrative fee receivable - BND	646,800
Due to BND	<u>(128,003)</u>

NET CASH USED FOR OPERATING ACTIVITIES

\$ (1,526,626)

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED SEPTEMBER 30, 2016**

	2016				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
<b>OPERATING ACTIVITIES</b>					
Loan recoveries received from borrowers	\$ 117,270	\$ 166,491	\$ 710,961	\$ -	\$ 994,722
Loan recoveries remitted to DOE	-	-	(881,088)	-	(881,088)
Credit loss claims paid to lenders - BND	-	(2,637,481)	(8,070,430)	-	(10,707,911)
Credit loss claims paid to other lenders	-	(54,798)	(1,083,515)	-	(1,138,313)
Credit loss claims received from DOE	-	-	11,478,681	-	11,478,681
Rehab loan proceeds received from lenders - BND	129,933	-	596,051	-	725,984
Rehab loan proceeds remitted to DOE	-	-	(661,442)	-	(661,442)
Collections received from borrowers	123,163	-	-	-	123,163
Grant receipts	300,143	563,910	-	-	864,053
Account maintenance fees received from DOE	256,633	-	-	-	256,633
Default aversion fees received (paid) FFEL Program	(48,870)	-	48,870	-	-
Default aversion fees transferred to Great Lakes	(354,145)	-	-	-	(354,145)
Administrative fee received from borrowers	-	6,771,268	-	-	6,771,268
Referral fees received	-	23,350	-	-	23,350
Service and administrative expense paid - BND	(822,682)	(1,833,285)	-	-	(2,655,967)
Return of FSLRF to DOE	-	-	(7,259,443)	-	(7,259,443)
Transfer between funds	(3,869,423)	3,869,423	-	-	-
<b>NET CASH FROM (USED FOR) OPERATING ACTIVITIES</b>	<b>(4,167,978)</b>	<b>6,868,878</b>	<b>(5,121,355)</b>	<b>-</b>	<b>(2,420,455)</b>
<b>INVESTING ACTIVITIES</b>					
Proceeds from investment maturities - BND	500,000	3,000,000	2,000,000	-	5,500,000
Interest received	2,409	40,422	8,549	-	51,380
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>502,409</b>	<b>3,040,422</b>	<b>2,008,549</b>	<b>-</b>	<b>5,551,380</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,665,569)</b>	<b>9,909,300</b>	<b>(3,112,806)</b>	<b>-</b>	<b>3,130,925</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>3,665,569</b>	<b>23,982,707</b>	<b>3,112,806</b>	<b>-</b>	<b>30,761,082</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 33,892,007</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 33,892,007</b>

**COMBINING STATEMENT OF CASH FLOWS – page 2**

	2016				
	Agency Operating Fund	Alternative Loan Fund	Federal Student Loan Reserve Fund	Eliminations	Total
<b>RECONCILIATION OF OPERATING INCOME</b>					
<b>(LOSS) TO NET CASH FROM (USED FOR)</b>					
<b>OPERATING ACTIVITIES</b>					
Operating income	\$ 146,901	\$ 1,042,104	\$ -	\$ -	\$ 1,189,005
Adjustments to reconcile operating income to net cash from (used for) operating activities					
Credit loss expense (reversal)	-	1,696,212	(2,715,000)	-	(1,018,788)
DAF refund provision, net of refunds	(426,083)	167,900	-	-	(258,183)
Changes in assets and liabilities:					
Due from others	19,990	3,778,225	31,138	(3,920,551)	(91,198)
Administrative fee receivable - BND	-	58,152	-	-	58,152
Department of Education receivable	1,865	-	4,358,135	-	4,360,000
Account maintenance fee receivable	90,732	-	-	-	90,732
Default aversion fee receivable	1,460	-	-	(1,460)	-
Due to other funds	(19,218)	126,285	(17,580)	51,128	140,615
Due to BND	(96,776)	-	-	-	(96,776)
Payable to lenders	-	-	(2,052,520)	-	(2,052,520)
Collections payable	(17,426)	-	(299,253)	-	(316,679)
Federal Student Loan Reserve Fund	-	-	(4,424,815)	-	(4,424,815)
Default aversion fee payable	-	-	(1,460)	1,460	-
Other payables	(3,869,423)	-	-	3,869,423	-
<b>NET CASH FROM (USED FOR) OPERATING ACTIVITIES</b>	<b>\$ (4,167,978)</b>	<b>\$ 6,868,878</b>	<b>\$ (5,121,355)</b>	<b>\$ -</b>	<b>\$ (2,420,455)</b>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Dakota Guaranteed Student Loan Program, an enterprise fund of the State of North Dakota, as of and for the year ended September 30, 2017, 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 December 15, 2017.

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

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

Bismarck, North Dakota  
December 15, 2017

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

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

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

**Audit Report Communications:**

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

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

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

No

**Audit Committee Communications:**

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

None

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

Management's estimate of the allowance for future credit losses is based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of outstanding loans guaranteed, current and anticipated economic conditions, and other pertinent factors.

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

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.

**EXHIBIT A-2, cont.**

This information is intended solely for the information and use of the Governor of North Dakota and the Legislative Assembly, 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*

Bismarck, North Dakota  
December 15, 2017



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

We have audited the financial statements of North Dakota Guaranteed Student Loan Program as of and for the year ended September 30, 2017, and have issued our report thereon dated December 15, 2017. Professional standards require that we advise you of the following matters relating to our audit.

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

As communicated in our letter dated September 7, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of North Dakota Guaranteed Student Loan Program solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by North Dakota Guaranteed Student Loan Program is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

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

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the North Dakota Guaranteed Student Loan Program's financial statements related to Note 4 for Credit Loss Expenses.

## **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no corrected or uncorrected misstatements identified as a result of audit procedures.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management that are included in the management representation letter dated December 15, 2017.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with North Dakota Guaranteed Student Loan Program, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as North Dakota Guaranteed Student Loan Program's auditors.

**Modification of the Auditor's Report**

We have made the following modification to our auditor's report to add an Emphasis of Matter paragraph.

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, 2017 and 2016 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.

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



Bismarck, North Dakota  
December 15, 2017