

NORTH DAKOTA STUDENT LOAN TRUST

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NORTH DAKOTA STUDENT LOAN TRUST

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of the North Dakota Student Loan Trust as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Trust's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

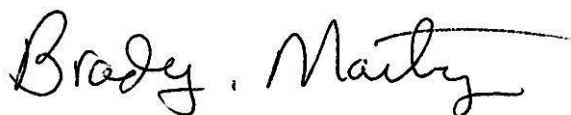
As discussed in Note 1, the financial statements present only the North Dakota Student Loan Trust and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Student Loan Trust as of June 30, 2012 and 2011, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2012, on our consideration of the North Dakota Student Loan Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements as a whole. The combining financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 financial statements 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.

September 10, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Student Loan Trust (Trust) that follows is meant to provide additional insight into the Trust's activities for the years ended June 30, 2012 and 2011. Please read it in conjunction with the Trust's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

During the current fiscal year, there were no sales or purchases of student loans.

The FFELP Stafford Loans interest rate is based on the T-bill rate which was .09 % on July 1, 2012. For the fiscal year beginning July 1, 2011 and 2010, FFELP Stafford student loan interest rates were based on a T-bill rate of .06% and .17% respectively. DEAL loans are available at either a fixed rate or a variable rate with the rates being adjusted quarterly. As of July 1, 2012, the fixed rate is 4.60% and the variable rate is 1.96% for ND residents and students attending school in ND; the fixed and variable rates for out-of-state students attending out-of-state schools are 5.60% fixed or 2.96% variable. As of July 1, 2011, the fixed rate is 6.02% and the variable rate is 1.75% for ND residents and students attending school in ND; the fixed and variable rates for out-of-state students attending out-of-state schools are 7.02% fixed or 2.75% variable. As of July 1, 2010, the fixed rate was 6.00% and the variable rate was 2.04% for ND residents and students attending school in ND; the fixed and variable rates for out-of-state students attending out-of-state schools were 7.46% fixed or 3.46% variable.

In the current fiscal year, there were no new bonds issued and there were principal payments of \$2,000 made on outstanding bonds. For the year ended June 30, 2011, there were no new bonds issued and there were principal payments of \$9,000 made on outstanding bonds. Of the \$9,000 principal repaid, \$8,000 was used to call the 2000 B Series Bonds on December 1, 2010. The 2000 Series B Bonds were fixed rate bonds issued at 5.85%. For the year ended June 30, 2010, there were no new bonds issued and there were principal payments of \$1,000 made on outstanding bonds.

The Trust 2012 balance sheet indicates that the Trust continues to have adequate resources to provide for bond repayment and continuing operations. There is \$16,328 of current assets, which includes \$5,913 of student loans receivable, available to meet the next fiscal year's obligations of approximately \$493. This amount includes the future obligations to the General Fund as explained under Economic Factors and Budgetary Information. The operating income of \$288 reflected in the statement of revenues, expenses, and changes in fund net assets also illustrates that the Trust has adequate resources to provide for bond repayment and continuing operations.

REQUIRED FINANCIAL STATEMENTS:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
CURRENT ASSETS - UNRESTRICTED	\$ 15,826	\$ 12,660	\$ 15,928
CURRENT ASSETS - RESTRICTED	502	502	1,013
NONCURRENT ASSETS - UNRESTRICTED	29,161	32,808	29,863
NONCURRENT ASSETS - RESTRICTED	<u>3,230</u>	<u>5,235</u>	<u>14,272</u>
TOTAL ASSETS	<u>\$ 48,719</u>	<u>\$ 51,205</u>	<u>\$ 61,076</u>
LIABILITIES			
CURRENT LIABILITIES	\$ 493	\$ 212	\$ 1,457
NONCURRENT LIABILITIES	<u>3,200</u>	<u>5,200</u>	<u>14,200</u>
TOTAL LIABILITIES	<u>3,693</u>	<u>5,412</u>	<u>15,657</u>
NET ASSETS			
RESTRICTED FOR DEBT SERVICE	431	424	766
UNRESTRICTED	<u>44,595</u>	<u>45,369</u>	<u>44,653</u>
TOTAL NET ASSETS	<u>45,026</u>	<u>45,793</u>	<u>45,419</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 48,719</u>	<u>\$ 51,205</u>	<u>\$ 61,076</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (In Thousands)

Cash, Cash Equivalents and Investments

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

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

Student Loans Receivable

The student loans receivable are included in current and noncurrent assets of the balance sheet. Student loans are either insured by the federal government (FISL) or guaranteed by the North Dakota Guaranteed Student Loan Program (GSL). All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts. Additional discussion can be found in Notes 1 and 3 to the financial statements.

Appropriation payable

The 2011 Legislature passed House Bill 1003 that provides for an appropriation of up to \$465 from the North Dakota Student Loan Trust to the State Board of Higher Education and \$540 for ConnectND Campus Solutions. The 2011 North Dakota Legislature also passed House Bill 1014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2011 and ending June 30, 2013. See Note 6 to the financial statements.

Bonds Payable

The Trust has issued bonds in order to facilitate the purchase of student loans. The bonds payable are included in the current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Trust and are secured by student loans purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Note 5 to the financial statements provide a detailed listing of all the bonds outstanding.

Net Assets

The Restricted Net Assets of the North Dakota Student Loan Trust are restricted by bond resolutions to the following: 1) for the repayment of bond interest and principal, and 2) to make arbitrage rebate and yield reduction payments. Moneys held in surplus accounts can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota, fund a guarantee agency's guarantee program.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES			
Interest on student loans	\$ 1,011	\$ 1,201	\$ 1,350
Special allowance and interest subsidy	130	166	221
	<u>1,141</u>	<u>1,367</u>	<u>1,571</u>
OPERATING EXPENSES			
Interest	83	292	559
Service fees	685	782	922
Benefit from arbitrage rebate and yield reduction	-	-	(93)
Other	85	141	96
	<u>853</u>	<u>1,215</u>	<u>1,484</u>
OPERATING INCOME	288	152	87
NONOPERATING REVENUE	<u>27</u>	<u>39</u>	<u>59</u>
INCOME BEFORE TRANSFERS	315	191	146
TRANSFERS	<u>(1,082)</u>	<u>183</u>	<u>(2,090)</u>
CHANGE IN NET ASSETS	(767)	374	(1,944)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>45,793</u>	<u>45,419</u>	<u>47,363</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 45,026</u>	<u>\$ 45,793</u>	<u>\$ 45,419</u>

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

Special Allowance and Interest Subsidy

The U.S. Department of Education provides a special allowance, which is a subsidy to lenders participating in the Guaranteed Student Loan Program. Also, the U.S. Department of Education pays the Trust the interest earned on subsidized student loans from the date of inception until the end of the grace or deferment period. These payments are included in the operating revenue of the Trust and further discussed in Note 4 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

ECONOMIC FACTORS AND BUDGETARY INFORMATION

The 2011 North Dakota Legislature passed House Bill 1003 that provides for an appropriation of up to \$465 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program and \$540 for the Connect ND Campus Solutions during the biennium beginning July 1, 2011 and ending June 30, 2013.

The 2011 North Dakota Legislature passed House Bill 1014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2011 and ending June 30, 2013.

On December 1, 2010, the Trust called \$8,000 of 2000 B Series bonds.

CONTACTING THE NORTH DAKOTA STUDENT LOAN TRUST'S FINANCIAL MANAGEMENT

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

NORTH DAKOTA STUDENT LOAN TRUST
BALANCE SHEETS
JUNE 30, 2012 AND 2011
(In Thousands)

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	\$ 533	\$ 1,097
Investments	9,014	4,896
Interest receivable	324	447
Due from other state agencies	12	11
Special allowance and interest subsidy receivable	30	31
Student loans receivable, net of allowance for loan losses	<u>5,913</u>	<u>6,178</u>
Total unrestricted current assets	<u>15,826</u>	<u>12,660</u>
CURRENT ASSETS - RESTRICTED		
Investments	500	500
Unamortized bond issue costs	<u>2</u>	<u>2</u>
Total restricted current assets	<u>502</u>	<u>502</u>
NONCURRENT ASSETS - UNRESTRICTED		
Student loans receivable, net of allowance for loan losses	<u>29,161</u>	<u>32,808</u>
NONCURRENT ASSETS - RESTRICTED		
Student loans receivable, net of allowance for loan losses	3,200	5,200
Unamortized bond issue costs	<u>30</u>	<u>35</u>
Total restricted noncurrent assets	<u>3,230</u>	<u>5,235</u>
Total assets	<u><u>\$ 48,719</u></u>	<u><u>\$ 51,205</u></u>

See Notes to Financial Statements

	2012	2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	\$ 2	\$ 4
Accrued fees payable	11	12
Accrued fees payable - related party	210	196
Appropriation payable	270	-
Total current liabilities	<u>493</u>	<u>212</u>
NONCURRENT LIABILITIES		
Bonds payable	<u>3,200</u>	<u>5,200</u>
Total noncurrent liabilities	<u>3,200</u>	<u>5,200</u>
Total liabilities	<u>3,693</u>	<u>5,412</u>
NET ASSETS		
Restricted for debt service	431	424
Unrestricted	<u>44,595</u>	<u>45,369</u>
Total net assets	<u>45,026</u>	<u>45,793</u>
Total liabilities and net assets	<u><u>\$ 48,719</u></u>	<u><u>\$ 51,205</u></u>

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011
(In Thousands)

	2012	2011
OPERATING REVENUES		
Interest on student loans	\$ 1,011	\$ 1,201
Special allowance and interest subsidy	130	166
	<u>1,141</u>	<u>1,367</u>
OPERATING EXPENSES		
Interest	83	292
Service fees	685	782
Administration fees	41	47
Amortization of bond issue costs	5	39
Broker dealer and auction agent fees	-	7
Provision for loan losses	4	9
Bond related expenses	35	39
	<u>853</u>	<u>1,215</u>
OPERATING INCOME	288	152
NONOPERATING REVENUE		
Investment income	27	39
	<u>27</u>	<u>39</u>
INCOME BEFORE TRANSFERS	<u>315</u>	<u>191</u>
TRANSFERS FROM (TO)		
State Board of Higher Education	(1,005)	183
North Dakota Industrial Commission	(77)	-
	<u>(1,082)</u>	<u>183</u>
CHANGE IN NET ASSETS	(767)	374
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>45,793</u>	<u>45,419</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 45,026</u>	<u>\$ 45,793</u>

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011
(In Thousands)

	2012	2011
OPERATING ACTIVITIES		
Receipts of student loan repayments	\$ 6,996	\$ 7,582
Receipts of special allowance and interest subsidy	130	196
Payments to state agency service providers	(751)	(855)
Payments to other service providers	(35)	(39)
NET CASH FROM OPERATING ACTIVITIES	6,340	6,884
NON-CAPITAL FINANCING ACTIVITIES		
Bond principal payments	(2,000)	(9,000)
Bond interest payments	(39)	(288)
Transfer to North Dakota Industrial Commission	(39)	(39)
Transfer to State Board of Higher Education	(735)	(955)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(2,813)	(10,282)
INVESTING ACTIVITIES		
Investment interest received	27	36
Purchase of investment securities	(11,260)	(6,662)
Proceeds from sale and maturity of investment securities	7,142	10,340
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	(4,091)	3,714
NET CHANGE IN CASH AND CASH EQUIVALENTS	(564)	316
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,097	781
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 533	\$ 1,097

(continued on next page)

STATEMENTS OF CASH FLOWS – Page 2
(In Thousands)

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME		
TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 288	\$ 152
Adjustments to reconcile operating income		
Provision for loan losses	4	9
Amortization of lender fees	45	44
Amortization of bond issue costs	5	39
Amortization of student loan premium	46	46
Reclassification of interest income and expense to other activities	37	295
Changes in assets and liabilities		
Student loans receivable	5,817	6,111
Interest receivable	123	224
Special allowance and interest subsidy receivable	1	30
Accrued interest payable	(2)	(40)
Accrued fees payable - related party	(24)	(26)
Arbitrage rebate payable	-	-
	<u>6,340</u>	<u>6,884</u>
NET CASH FROM OPERATING ACTIVITIES	\$ 6,340	\$ 6,884

NORTH DAKOTA STUDENT LOAN TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(In Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Trust should include all component units over which the Trust exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Trust.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Trust is included as part of the primary government in the State of North Dakota's reporting entity.

Accounting Standards and Adoptions of Accounting Policies

The Trust follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Trust follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Fund Accounting

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

NOTES TO FINANCIAL STATEMENTS

Basis of Accounting and Measurement Focus

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

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to arbitrage rebate and yield reduction payables.

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

Deposits and Investments

The Trust records deposits and investments in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments". Time deposits are carried at cost, as they are nonnegotiable certificates of deposits with redemption terms that do not consider market rates. Investment securities are carried at market value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

Bond Issue Costs, Bond Discounts, and Deferred Amounts on Refunding

Bond issue costs, bond discounts, and deferred amounts on refunding transactions are amortized over the period of time the bonds are outstanding using the bonds outstanding method. The unamortized discounts and deferred amount on refunding are shown on the balance sheet as a reduction of the bonds payable, and the amortization is included in the statements of revenues, expenses and changes in fund net assets as interest expense.

Interest and Premiums on Student Loans

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

NOTES TO FINANCIAL STATEMENTS

Premiums on student loans are amortized using the straight-line method over the estimated life of the loans acquired. The unamortized premiums are reflected on the balance sheet as an addition to student loans, and the amortization is included in the statement of revenues, expenses and changes in fund net assets as a reduction of interest income.

Allowance for Loan Losses

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

Restricted Assets and Restricted Net Assets

The assets and net assets of the North Dakota Student Loan Trust are restricted by bond resolutions to the following:

1. For the repayment of bond interest and principal.

Moneys held in surplus accounts (which are classified as unrestricted on the balance sheet) can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota (the Commission), fund a guarantee agency's guarantee program. As of June 30, 2012 and 2011, the surplus accounts consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 533	\$ 1,097
Investments	9,014	4,896
Interest receivable	324	447
Due from other state agencies	12	11
Special allowance and interest subsidy receivable	30	31
Student loans receivable, net of allowance for loan losses	35,074	38,986
Appropriation payable	<u>(270)</u>	<u>-</u>
	<u>\$ 44,717</u>	<u>\$ 45,468</u>

Expenses of the Trust are paid in accordance with the provisions of the General and Second General Bond Resolutions and the Series Resolutions. Expenses related to a specific bond series are paid from funds available within that particular resolution.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits

As of June 30, 2012 and 2011, the Trust had the following deposits (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Cash		
Bank of North Dakota	\$ 533	\$ 1,097
Time deposits		
Bank of North Dakota	<u>9,514</u>	<u>5,396</u>
	<u>\$ 10,047</u>	<u>\$ 6,493</u>

As of June 30, 2012, and 2011, the Trust had the following classification of deposits on the balance sheet:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 533	\$ 1,097
Investments	<u>9,514</u>	<u>5,396</u>
	<u>\$ 10,047</u>	<u>\$ 6,493</u>

Custodial and Concentration of Credit Risk

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - STUDENT LOANS RECEIVABLE

The Trust has outstanding loans with annual fixed and variable interest rates. Student loans are either insured by the federal government (FISL) or guaranteed by the North Dakota Guaranteed Student Loan Program (GSL). Loans made prior to October 1, 1993 are 100% insured. Loans made thereafter are 100% insured against borrowers' death, disability or bankruptcy, and 98% insured against borrowers' default.

At June 30, 2012 and 2011, student loans are categorized as follows:

	2012	2011
DEAL	\$ 3,913	\$ 4,614
GSL	34,286	39,406
	<u>38,199</u>	<u>44,020</u>
Unamortized premiums	124	214
Allowance for loan losses	(49)	(48)
	<u>38,274</u>	<u>44,186</u>
Total student loans receivable	38,274	44,186
Less current portion	5,913	6,178
	<u>32,361</u>	<u>38,008</u>
Noncurrent portion	\$ 32,361	\$ 38,008

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

At June 30, 2012, student loans receivable are categorized as follows:

	Subsidized	Unsubsidized	DEAL	Total
Student	\$ 142	\$ 192	\$ -	\$ 334
Deferred	2,558	2,903	961	6,422
Repayment	13,748	14,743	2,952	31,443
	<u>16,448</u>	<u>17,838</u>	<u>3,913</u>	<u>38,199</u>
Unamortized premiums	124	-	-	124
Allowance for loan losses	(31)	(18)	-	(49)
	<u>16,541</u>	<u>17,820</u>	<u>3,913</u>	<u>38,274</u>
Total	\$ 16,541	\$ 17,820	\$ 3,913	\$ 38,274

NOTES TO FINANCIAL STATEMENTS

At June 30, 2011, student loans receivable are categorized as follows:

	<u>Subsidized</u>	<u>Unsubsidized</u>	<u>DEAL</u>	<u>Total</u>
Student	\$ 317	\$ 436	\$ 8	\$ 761
Deferred	3,627	4,233	1,094	8,954
Repayment	15,222	15,571	3,512	34,305
	<u>19,166</u>	<u>20,240</u>	<u>4,614</u>	<u>44,020</u>
Unamortized premiums	174	-	40	214
Allowance for loan losses	<u>(30)</u>	<u>(18)</u>	<u>-</u>	<u>(48)</u>
Total	<u>\$ 19,310</u>	<u>\$ 20,222</u>	<u>\$ 4,654</u>	<u>\$ 44,186</u>

The composition of the allowance for loan losses for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Balance - beginning of year	\$ 48	\$ 55
Provision for loan losses	4	9
Loans charged off	<u>(3)</u>	<u>(16)</u>
Balance - end of year	<u>\$ 49</u>	<u>\$ 48</u>

NOTE 4 - SPECIAL ALLOWANCE AND INTEREST SUBSIDY

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - BONDS PAYABLE

Changes in Bonds Payable

The following is a summary of the changes in bonds payable for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 5,200	\$ 14,200
Issuance of bonds	-	-
Principal payments on bonds	<u>(2,000)</u>	<u>(9,000)</u>
Balance, end of year	<u>\$ 3,200</u>	<u>\$ 5,200</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>

Maturities of Bonds Payable

Bonds payable consists of the following at June 30, 2012 and 2011:

	<u>Maturity Dates</u>	<u>Interest Rate (%)</u>	<u>2012</u>	<u>2011</u>
General Bond Resolution Fund				
2004 Series A	June 1, 2029	0.95 (1)	\$ 1,000	\$ 1,000
2004 Subordinate Series	June 1, 2029	0.95 (1)	2,200	4,200
			<u>3,200</u>	<u>5,200</u>
Total bonds payable				
Less current portion			<u>-</u>	<u>-</u>
Noncurrent portion			<u>\$ 3,200</u>	<u>\$ 5,200</u>

(1) Variable on June 30, 2012.

NOTES TO FINANCIAL STATEMENTS

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 30	\$ 30
2014	-	30	30
2015	-	30	30
2016	-	30	30
2017	-	30	30
2018-2022	-	152	152
2023-2027	-	152	152
2028-2029	3,200	61	3,261
	<u>\$ 3,200</u>	<u>\$ 515</u>	<u>\$ 3,715</u>

The following is a more detailed description of the individual bond issues that remain outstanding at June 30, 2012 and 2011.

2004 SERIES A BONDS

Interest is payable semiannually on June 1 and December 1 of each year. The 2004 Series A Bonds are variable rate bonds. The rate of interest is determined based on the lesser of the one-month LIBOR plus .7% or Federal Home Loan Bank plus .7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. Section 2.2 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution has deemed these to be Federally Taxable Bonds. The Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

SUBORDINATE SERIES 2004 BONDS

Interest is payable semiannually on June 1 and December 1 of each year. The Subordinate Series 2004 Bonds are variable rate bonds and are Federally Taxable Bonds. The rate of interest is determined based on the lesser of the one-month LIBOR plus .7% or Federal Home Loan Bank plus .7%. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. The Subordinate Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - INTERFUND AND RELATED PARTY TRANSACTIONS

The North Dakota Student Loan Trust is related to the Bank of North Dakota through common management under the Industrial Commission of North Dakota. All cash and time deposits are deposited in the Bank of North Dakota. Interest receivable from the Bank of North Dakota totaled \$12 and \$11 as of June 30, 2012 and 2011 and is reflected as due from other state agencies on the balance sheet. Investment securities are held in safekeeping and all student loans are purchased from the Bank of North Dakota. The Bank of North Dakota also acts as the paying agent for the 2004 Subordinate Series Bonds and 2004 Series A Bonds. In addition, the Bank services the student loans held by the Trust, and maintains the accounting and other records for the Trust.

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

	<u>2012</u>	<u>2011</u>
Service fees	\$ 685	\$ 782
Administration fees	<u>41</u>	<u>47</u>
	<u>\$ 726</u>	<u>\$ 829</u>

Payables to the related parties for such fees amounting to \$210 and \$196 at June 30, 2012 and 2011 are included in "accrued fees payable - related party" on the balance sheet.

The transfer from the State Board of Higher Education of \$183 are monies appropriated from the Senate Bill 2003 for the professional student exchange program that the Board did not utilize during the biennium beginning July 1, 2009 and ending June 30, 2011.

The 2011 North Dakota Legislature passed House Bill 1003 that provides for an appropriation of up to \$465 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program and \$540 for the Connect ND Campus Solutions during the biennium beginning July 1, 2011 and ending June 30, 2013.

The 2011 North Dakota Legislature passed House Bill 1014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2011 and ending June 30, 2013.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RISK MANAGEMENT

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

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

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$750,000. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 8 – NEW PRONOUNCEMENTS

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve 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* will be 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 will eliminate 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.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* will be effective for financial statements for periods beginning after December 15, 2011 with early application encouraged. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

NOTES TO FINANCIAL STATEMENTS

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

SUPPLEMENTARY INFORMATION

NORTH DAKOTA STUDENT LOAN TRUST

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING BALANCE SHEET
JUNE 30, 2012
(In Thousands)

	<u>General Bond Resolution Fund</u>	<u>Second General Bond Resolution Fund</u>	<u>Combined</u>
ASSETS			
CURRENT ASSETS - UNRESTRICTED			
Cash and cash equivalents	\$ 524	\$ 9	\$ 533
Investments	-	9,014	9,014
Interest receivable	141	183	324
Due from other state agencies	-	12	12
Special allowance and interest subsidy receivable	7	23	30
Student loans receivable, net of allowance for loan losses	<u>2,172</u>	<u>3,741</u>	<u>5,913</u>
Total unrestricted current assets	<u>2,844</u>	<u>12,982</u>	<u>15,826</u>
CURRENT ASSETS - RESTRICTED			
Investments	500	-	500
Unamortized bond issue costs	<u>2</u>	<u>-</u>	<u>2</u>
Total restricted current assets	<u>502</u>	<u>-</u>	<u>502</u>
NONCURRENT ASSETS - UNRESTRICTED			
Student loans receivable, net of allowance for loan losses	<u>13,474</u>	<u>15,687</u>	<u>29,161</u>
NONCURRENT ASSETS - RESTRICTED			
Student loans receivable, net of allowance for loan losses	3,200	-	3,200
Unamortized bond issue costs	<u>30</u>	<u>-</u>	<u>30</u>
Total restricted noncurrent assets	<u>3,230</u>	<u>-</u>	<u>3,230</u>
Total assets	<u><u>\$ 20,050</u></u>	<u><u>\$ 28,669</u></u>	<u><u>\$ 48,719</u></u>

	<u>General Bond Resolution Fund</u>	<u>Second General Bond Resolution Fund</u>	<u>Combined</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accrued interest payable	\$ 2	\$ -	\$ 2
Accrued fees payable	11	-	11
Accrued fees payable - related party	88	122	210
Appropriation payable	<u>270</u>	<u>-</u>	<u>270</u>
Total current liabilities	<u>371</u>	<u>122</u>	<u>493</u>
NONCURRENT LIABILITIES			
Bonds payable	<u>3,200</u>	<u>-</u>	<u>3,200</u>
Total noncurrent liabilities	<u>3,200</u>	<u>-</u>	<u>3,200</u>
Total liabilities	<u>3,571</u>	<u>122</u>	<u>3,693</u>
NET ASSETS			
Restricted for debt service	431	-	431
Unrestricted	<u>16,048</u>	<u>28,547</u>	<u>44,595</u>
Total net assets	<u>16,479</u>	<u>28,547</u>	<u>45,026</u>
Total liabilities and net assets	<u>\$ 20,050</u>	<u>\$ 28,669</u>	<u>\$ 48,719</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING BALANCE SHEET
JUNE 30, 2011
(In Thousands)

	<u>General Bond Resolution Fund</u>	<u>Second General Bond Resolution Fund</u>	<u>Combined</u>
ASSETS			
CURRENT ASSETS - UNRESTRICTED			
Cash and cash equivalents	\$ 1,086	\$ 11	\$ 1,097
Investments	-	4,896	4,896
Interest receivable	183	264	447
Due from other state agencies	-	11	11
Special allowance and interest subsidy receivable	9	22	31
Student loans receivable, net of allowance for loan losses	<u>2,257</u>	<u>3,921</u>	<u>6,178</u>
Total unrestricted current assets	<u>3,535</u>	<u>9,125</u>	<u>12,660</u>
CURRENT ASSETS - RESTRICTED			
Investments	500	-	500
Unamortized bond issue costs	<u>2</u>	<u>-</u>	<u>2</u>
Total restricted current assets	<u>502</u>	<u>-</u>	<u>502</u>
NONCURRENT ASSETS - UNRESTRICTED			
Student loans receivable, net of allowance for loan losses	<u>13,504</u>	<u>19,304</u>	<u>32,808</u>
NONCURRENT ASSETS - RESTRICTED			
Student loans receivable, net of allowance for loan losses	5,200	-	5,200
Unamortized bond issue costs	<u>35</u>	<u>-</u>	<u>35</u>
Total restricted noncurrent assets	<u>5,235</u>	<u>-</u>	<u>5,235</u>
Total assets	<u>\$ 22,776</u>	<u>\$ 28,429</u>	<u>\$ 51,205</u>

	<u>General Bond Resolution Fund</u>	<u>Second General Bond Resolution Fund</u>	<u>Combined</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accrued interest payable	\$ 4	\$ -	\$ 4
Accrued fees payable	12	-	12
Accrued fees payable - related party	<u>97</u>	<u>99</u>	<u>196</u>
Total current liabilities	<u>113</u>	<u>99</u>	<u>212</u>
NONCURRENT LIABILITIES			
Bonds payable	<u>5,200</u>	<u>-</u>	<u>5,200</u>
Total noncurrent liabilities	<u>5,200</u>	<u>-</u>	<u>5,200</u>
Total liabilities	<u>5,313</u>	<u>99</u>	<u>5,412</u>
NET ASSETS			
Restricted for debt service	424	-	424
Unrestricted	<u>17,039</u>	<u>28,330</u>	<u>45,369</u>
Total net assets	<u>17,463</u>	<u>28,330</u>	<u>45,793</u>
Total liabilities and net assets	<u>\$ 22,776</u>	<u>\$ 28,429</u>	<u>\$ 51,205</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2012
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
OPERATING REVENUES			
Interest on student loans	\$ 417	\$ 594	\$ 1,011
Special allowance and interest subsidy	31	99	130
	<u>448</u>	<u>693</u>	<u>1,141</u>
OPERATING EXPENSES			
Interest	55	28	83
Service fees	348	337	685
Administration fees	20	21	41
Amortization of bond issue costs	5	-	5
Provision for loan losses	1	3	4
Bond related expenses	-	35	35
	<u>429</u>	<u>424</u>	<u>853</u>
OPERATING INCOME	19	269	288
NONOPERATING REVENUE			
Investment income	2	25	27
	<u>2</u>	<u>25</u>	<u>27</u>
INCOME BEFORE TRANSFERS	<u>21</u>	<u>294</u>	<u>315</u>
TRANSFERS TO			
State Board of Higher Education	(1,005)	-	(1,005)
North Dakota Industrial Commission	-	(77)	(77)
	<u>(1,005)</u>	<u>(77)</u>	<u>(1,082)</u>
CHANGE IN NET ASSETS	(984)	217	(767)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>17,463</u>	<u>28,330</u>	<u>45,793</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 16,479</u>	<u>\$ 28,547</u>	<u>\$ 45,026</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2011
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
OPERATING REVENUES			
Interest on student loans	\$ 477	\$ 724	\$ 1,201
Special allowance and interest subsidy	44	122	166
	<u>521</u>	<u>846</u>	<u>1,367</u>
OPERATING EXPENSES			
Interest	69	223	292
Service fees	385	397	782
Administration fees	22	25	47
Amortization of bond issue costs	4	35	39
Broker dealer and auction agent fees	-	7	7
Provision for loan losses	6	3	9
Bond related expenses	-	39	39
	<u>486</u>	<u>729</u>	<u>1,215</u>
OPERATING INCOME	35	117	152
NONOPERATING REVENUE			
Investment income	4	35	39
	<u>4</u>	<u>35</u>	<u>39</u>
INCOME BEFORE TRANSFERS	<u>39</u>	<u>152</u>	<u>191</u>
TRANSFERS FROM			
State Board of Higher Education	183	-	183
	<u>183</u>	<u>-</u>	<u>183</u>
CHANGE IN NET ASSETS	222	152	374
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>17,241</u>	<u>28,178</u>	<u>45,419</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 17,463</u>	<u>\$ 28,330</u>	<u>\$ 45,793</u>

NORTH DAKOTA STUDENT LOAN TRUST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012
(In Thousands)

EXHIBIT A-1

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program:		
Federal Family Education Loan Program	84.032	
Interest Subsidy		\$ 82
Special Allowance		47
Guaranteed Student Loans:		
Balance of guaranteed student loans at June 30, 2012		34,286
on which there are continuing compliance requirements		<u> </u>
TOTAL FEDERAL AWARDS		<u>\$ 34,415</u>

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the North Dakota Student Loan Trust and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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.

**NORTH DAKOTA STUDENT LOAN TRUST
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

EXHIBIT A-2

There are no findings and no questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**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 the financial statements of the North Dakota Student Loan Trust as of and for the year ended June 30, 2012, which collectively comprise the North Dakota Student Loan Trust's basic financial statements and have issued our report thereon dated September 10, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the North Dakota Student Loan Trust is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the North Dakota Student Loan Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Student Loan Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Student Loan Trust's internal control over financial reporting.

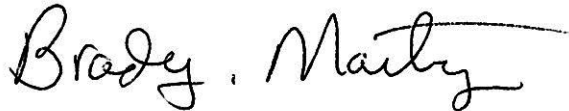
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Student Loan Trust's financial statements are free of 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*.

This report is intended solely for the information and use of management, North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, the U.S. Department of Education, others within the entity, and federal awarding agencies and pass-through entities 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 "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P.C.

September 10, 2012



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT A-4

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Compliance

We have audited the North Dakota Student Loan Trust'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 the North Dakota Student Loan Trust's major federal programs for the year ended June 30, 2012. The North Dakota Student Loan Trust's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the North Dakota Student Loan Trust's management. Our responsibility is to express an opinion on the North Dakota Student Loan Trust's compliance based on our audit.

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 types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the North Dakota Student Loan Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the North Dakota Student Loan Trust's compliance with those requirements.

In our opinion, the North Dakota Student Loan Trust, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2012.

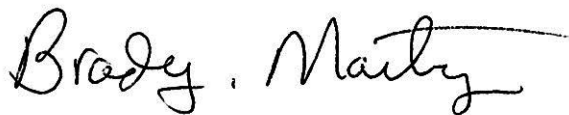
Internal Control over Compliance

Management of the North Dakota Student Loan Trust is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the North Dakota Student Loan Trust's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Student Loan Trust's internal control over compliance.

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

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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, the U.S. Department of Education, others within the entity, federal awarding agencies, and pass-through entities 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 "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P.C.

September 10, 2012

**NORTH DAKOTA STUDENT LOAN TRUST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

EXHIBIT A-5

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	<u> x </u> no
Significant deficiency(ies) identified?	_____ yes	<u> x </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u> x </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	<u> x </u> no
Significant deficiency(ies) identified?	_____ yes	<u> x </u> none reported

Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	_____ yes	<u> x </u> no
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<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.032	Federal Family Education Loan Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as a low-risk auditee?	<u> x </u> yes	_____ no
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SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS

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 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

There are no findings and no questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT A-6

**NORTH DAKOTA STUDENT LOAN TRUST
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA
LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2012**

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:

- 1. What type of opinion was issued on the financial statements?**
Unqualified.
- 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. Was 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 audit reports?**
As noted in the Summary Schedule of Prior Audit Findings (Exhibit A-2) on page 28, there were no prior findings.
- 6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.**
No.

Audit Committee Communications:

- 1. Identify and significant changes in accounting policies, any management conflicts or 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 loan losses was based on a provision for loan losses charged to expense. Loans are charged against the allowance when management believes the collectability of the principal balance is unlikely. Management's estimate of the allowance for amortization of bond issue costs is amortized over the period of time the bonds are outstanding using the bonds outstanding method.

- 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

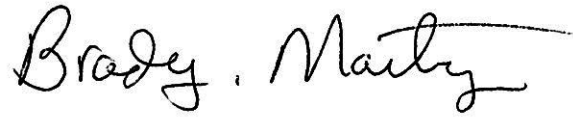
- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

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.**

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

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brady, Martz". The signature is written in a cursive style with a long horizontal flourish extending from the end of the word "Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

September 10, 2012



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT B-1

September 10, 2012

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

We have audited the financial statements of the North Dakota Student Loan Trust for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *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 to you in May 15, 2012. 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 the North Dakota Student Loan Trust are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. 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 financial statements were:

Management's estimate of the allowance for loan losses was based on a provision for loan losses charged to expense. Loans are charged against the allowance when management believes the collectibility of the principal balance is unlikely. Management's estimate of the allowance for amortization of bond issue costs is amortized over the period of time the bonds are outstanding using the bonds outstanding method. We evaluated the key factors and assumptions used to develop the allowance for loan losses and amortization of bond issue costs in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 2 Deposits and Investments, Note 3 Student Loans Receivable and Note 5 Bonds Payable. The disclosures in the financial statements 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 trivial, and communicate them to the appropriate level of management.

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 September 10, 2012.

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 and management of the North Dakota Student Loan Trust and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Brady Martz". The signature is written in black ink and is positioned below the word "Sincerely,".

BRADY, MARTZ & ASSOCIATES, P.C.