

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 and 2018

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statements of Net Position	10
Statements of Activities	11
Fund Financial Statements	
Balance Sheets - Governmental Funds	13
Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Statements of Fiduciary Net Position	17
Statements of Changes in Fiduciary Net Position	19
Statement of Appropriations	21
Notes to the Financial Statements	23
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Contributions to NDPERS Pension Plan	71
Schedule of Contributions to the NDPERS OPEB Plan	72
Schedule of Employer's Proportionate Share of Net Pension Liability	73
Schedule of Employer's Proportionate Share of Net OPEB Liability	74
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Non-major Governmental Funds	75
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-major Governmental Funds	77
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 <i>GOVERNMENT AUDITING STANDARDS</i>	79
Independent Auditor's Comments Requested by the Legislative Audit and Fiscal Review Committee	81
Independent Auditor's Communication to Governor and Legislative Assembly	84

INDEPENDENT AUDITOR'S REPORT

State Land Board
The Legislative Assembly
State of North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, a department of the State of North Dakota, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the North Dakota Department of Trust Lands' 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 these financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audit 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, as of June 30, 2019 and 2018, and the respective changes in financial position and the statement of appropriations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of North Dakota Department of Trust Lands are intended to present the net position, revenues and expenses of only that portion of the financial statement of the State of North Dakota that is attributable to the transactions of the North Dakota Department of Trust Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2019 and 2018, the changes in its financial position or 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, the schedule of contributions to the NDPERS pension plan, schedule of contributions to the NDPERS OPEB plan, schedule of employer's proportionate share of net pension liability and schedule of employer's proportionate share of net OPEB liability as listed in the table of contents 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 opinions on the financial statements that collectively comprise the North Dakota Department of Trust Lands' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 and individual nonmajor fund financial statements 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 our report dated October 28, 2019 on our consideration of North Dakota Department of Trust Lands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

October 28, 2019

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018

As management of the Department of Trust Lands (the Department), our discussion and analysis of the Department's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2019 and 2018. Please read it in conjunction with the basic financial statements, which follow this discussion.

Financial Highlights

- The assets of the Department exceeded its liabilities as of June 30, 2019 and 2018 by \$6,165,096,555 and \$5,067,845,946, respectively.
- The Department's net position increased by \$1,097,250,609 for the year ending June 30, 2019 and increased by \$385,490,234 for the year ending June 30, 2018. The net position increase for fiscal year 2019 is due to increase in gross production and oil extraction taxes, and investment returns.
- Royalty revenues totaled \$321,908,210 in fiscal year 2019, an increase of \$28,557,619 over the amount earned in fiscal year 2018. Royalty revenues totaled \$293,350,591 in fiscal year 2018. The increase in fiscal year 2019 was due to increased crude production with relatively stable crude oil prices.
- Mineral lease bonus revenues totaled \$4,070,248 in fiscal year 2019, an increase of \$1,732,885 when compared to fiscal year 2018. Bonus revenues totaled \$2,337,363 in fiscal year 2018. This increase occurred because mineral acres in prime Bakken areas are expiring and being re-nominated for lease auction.
- Gross production tax revenues in fiscal year 2019 totaled \$435,343,880, an increase of \$400,672,648 compared to revenues of \$34,671,232 in fiscal year 2018.
 - Gross production tax revenues received by the Strategic Investment and Improvements fund totaled \$433,343,880 in fiscal year 2019. The Strategic Investment and Improvements fund did not receive any oil extraction tax revenues in fiscal year 2018. Gross production tax revenues are deposited into the Strategic Investment and Improvements fund as directed by the legislature, which results in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year.
 - Gross production tax revenues received by the oil and gas impact grant fund total \$2,000,000 in fiscal year 2019, compared to \$34,671,232 in fiscal year 2018. The revenue changes from year to year are a result of a change in the gross production tax formula as directed by the legislature for the biennium.
- Oil extraction tax revenues received in fiscal year 2019 totaled \$433,293,019, an increase of \$336,819,398 over the \$96,473,621 earned in fiscal year 2018.
 - Oil extraction tax revenues received by the Common School Trust fund totaled \$100,523,292 in fiscal year 2019, compared to \$82,449,521 in fiscal year 2018. These tax revenue changes are primarily due to increased production and stable crude oil prices as compared to fiscal year 2018.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

- Oil extraction tax revenues received by the Strategic Investment and Improvements fund totaled \$332,769,727 in fiscal year 2019, compared to \$14,024,100 in fiscal year 2018. Oil extraction tax revenues are deposited into the Strategic Investment and Improvements fund as directed by the legislature, which results in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year.
- Investment income totaled \$150,398,696 in fiscal year 2019, an increase of \$30,421,924 over fiscal year 2018. Investment income totaled \$119,976,772 in fiscal year 2018. Permanent investment income grew by more than 25%, driven by combination of trust growth and a volatile market leading to realizing some portfolio gains. Investment income includes loan income and securities lending income.
- The change in fair value of investments, otherwise known as capital gains/loss, totaled \$74,790,910 in net gains for fiscal year 2019, a decline of \$93,218,786 compared to the \$168,009,696 of net gains earned during fiscal year 2018. The decline is directly related to a more volatile market that saw significant drops during the last three quarters of the fiscal year.

Overview of the Financial Statements

This report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and a supplementary section that presents combining statements for non-major government funds. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements. The *government-wide financial statements* provide broad information about the Department's financial condition.

The *statement of net position* presents information on all assets and deferred inflows of resources and liabilities and deferred inflows of resources managed by the Department with the difference between these reported as net position. Changes in net position may at times, serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *statement of activities* presents information showing how the net position managed by the Department changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements. A *fund* is a grouping of related accounts used to maintain control of resources that have been segregated for specific objectives. The Department uses fund accounting to provide a relevant financial statement format for users and to demonstrate compliance with constitutional and legislative requirements. All funds of the Department are governmental funds except for two funds that are private purpose trust funds, Indian Cultural Education Trust and Theodore Roosevelt Presidential Library and Museum Endowment.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Common Schools Trust fund, Coal Development Trust fund, Department of Trust Lands General fund, Oil and Gas Impact Grant fund including the Flood-Impacted Political Subdivision Infrastructure grants and Energy Impact fund, and the Strategic Investment and Improvements fund.

Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these is provided in the *combining statements* immediately following the notes to the financial statements.

Activities of the private purpose trust fund and an endowment are presented separately in the statement of fiduciary net position and statement of changes to fiduciary net position for the Indian Cultural Education Trust and the Theodore Roosevelt Presidential Library and Museum Endowment.

The Department is appropriated a biennial budget from the North Dakota Legislature for its General fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements and Other Information. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, changes in net position may, at times, serve as a useful indicator of the Department's financial position. As of June 30, 2019, the Department's total net position was \$6,165,096,555. As of June 30, 2018, the Department's total net position was \$5,067,845,946. The largest portion of the Department's net position is represented by investments in financial securities. The Department uses this net position to provide distributions to educational entities and general government.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

The following is a comparative summary statement of net position:

Condensed Statement of Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 6,423,453,973	\$ 5,304,627,971	\$ 4,896,805,154
Capital assets	<u>7,808,336</u>	<u>7,751,801</u>	<u>7,755,857</u>
Total assets	<u>6,431,262,309</u>	<u>5,312,379,772</u>	<u>4,904,561,011</u>
Deferred outflows of pension resources	1,268,258	1,626,412	710,051
Deferred outflows of other post-employment benefits resources	<u>34,834</u>	<u>35,873</u>	<u>-</u>
Total deferred outflows of resources	<u>1,303,092</u>	<u>1,662,285</u>	<u>710,051</u>
Long-term liabilities	3,219,895	3,528,278	2,109,611
Other liabilities	<u>263,845,783</u>	<u>242,569,739</u>	<u>220,693,335</u>
Total liabilities	<u>267,065,678</u>	<u>246,098,017</u>	<u>222,802,946</u>
Deferred inflows of pension resources	379,020	88,766	112,404
Deferred inflows of other post-employment benefits resources	<u>24,148</u>	<u>9,328</u>	<u>-</u>
Total deferred inflows of resources	<u>403,168</u>	<u>98,094</u>	<u>112,404</u>
Net Position:			
Net position invested in capital assets	7,808,336	7,751,801	7,755,857
Restricted net position			
Nonexpendable	70,213,873	69,538,620	68,887,821
Expendable	4,925,726,600	4,591,825,365	4,183,723,624
Unrestricted net position	<u>1,161,347,746</u>	<u>398,730,160</u>	<u>421,988,410</u>
Total net position	<u>\$ 6,165,096,555</u>	<u>\$ 5,067,845,946</u>	<u>\$ 4,682,355,712</u>

During fiscal year 2019, the Department's net position increased by \$1,097,250,609. The main change relates to the oil extraction and gross production taxes deposited into the Strategic Investment and Improvements fund during the year.

During fiscal year 2018, the Department's net position increased by \$385,490,234. The main change relates to gains in investment income and royalty revenues during the year.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

The following provides a comparative statement of the Department's operations:

Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues			
General Revenues:			
Interest on investments	\$ 15,236,714	\$ 5,287,149	\$ 5,671,891
Change in fair value of investments	10,016,548	41,798	(536,525)
Royalties	128,227,190	106,904,748	67,956,040
Bonuses	2,601,964	1,022,818	5,229,065
Rents	268,279	241,496	269,240
Interest on loans	684,490	729,146	1,774,078
Contributions to perpetual funds	11,014,244	4,393,122	11,895,026
Taxes	870,213,807	132,803,328	243,036,900
Gain on Sale of Capital Asset - Land	-	-	306
Total General Revenue	<u>1,038,263,236</u>	<u>251,423,605</u>	<u>335,296,021</u>
Program Revenues:			
Interest on loans	753,945	555,442	633,805
Interest on investments	133,723,547	113,405,035	94,317,381
Change in fair value of investments	64,774,362	167,967,898	270,910,795
Royalties	193,681,020	186,445,843	124,083,408
Bonuses	1,468,284	1,314,545	3,493,604
Rents	13,295,252	11,920,713	12,859,385
Fees to Maintenance fund	4,567,222	4,693,054	5,532,792
Total Program Revenue	<u>412,263,632</u>	<u>486,302,530</u>	<u>511,831,170</u>
Total Revenues	<u>1,450,526,868</u>	<u>737,726,135</u>	<u>847,127,191</u>
Expenses			
Governmental Activities:			
General government	3,433,657	2,023,380	1,430,446
Intergovernmental	34,160,869	39,519,718	26,674,859
Education	23,306,092	21,224,673	19,274,511
Total Expenses	<u>60,900,618</u>	<u>62,767,771</u>	<u>47,379,816</u>
Excess before transfer	1,389,626,250	674,958,364	799,747,375
Transfers	(292,375,641)	(289,318,596)	(462,387,180)
Increase(decrease) in net position	<u>1,097,250,609</u>	<u>385,639,768</u>	<u>337,360,195</u>
Net position - beginning	5,067,845,946	4,682,355,712	4,346,135,622
Change in statement presentation	-	(149,534)	(1,140,105)
Net position - beginning of year restated	<u>5,067,845,946</u>	<u>4,682,206,178</u>	<u>4,344,995,517</u>
Net position - ending	<u>\$ 6,165,096,555</u>	<u>\$ 5,067,845,946</u>	<u>\$ 4,682,355,712</u>

During the fiscal year ending June 30, 2019, the Department's revenues increased by a total of \$712,800,733. Royalty revenues increased by \$28,557,619 as commodity prices were higher. Mineral lease bonus revenue increased by \$1,732,885 as some mineral acreage leases were expiring in the area of the Bakken formation. Oil extraction and gross production tax revenues increased by \$336,819,398 and \$400,672,648, respectively, due primarily to the tax distribution formula, which resulted in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year. The change in fair value of

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

investments decreased by \$93,218,786 during fiscal year 2019 compared to previous fiscal year due to lower gains in the capital markets.

During the fiscal year ending June 30, 2018, the Department's revenues decreased by a total of \$109,401,056. Royalty revenues increased by \$101,311,143 as both production and crude prices were higher. Increased royalty revenues were offset by a decline in fair value of investment assets of \$102,364,574. In addition, the oil extraction and gross production tax revenues decreased by \$39,075,586 and \$69,674,194, respectively, due to the tax distribution formula, which results in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year.

Financial Analysis of the Government's Funds

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related constitutional and legislative requirements.

Governmental funds. The focus of the Department's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Department's financing requirements.

Capital Asset

The Department's capital assets for its governmental funds as of June 30, 2019, 2018 and 2017 are \$7,808,336, \$7,751,801 and \$7,755,857 (net of accumulated depreciation for equipment), respectively. These capital assets include land and equipment. See Note 15 to Financials Statements for additional details on capital assets.

Economic Factors

During fiscal year 2019, trust assets experienced an increase primarily as a result of gross production and oil extraction taxes allocated to the Strategic Investment and Improvements fund and higher investment returns as compared to prior fiscal years. While crude production increased during the fiscal year, crude oil pricing remained relatively stable affecting oil royalties, mineral leasing and bonuses. During the Sixty-sixth Legislative assembly, several bills with emergency clauses transferred a total of \$37.4 million from the Strategic Investment and Improvements fund to various State agencies as part of their appropriations or special project needs.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the ND Department of Trust Lands, 1707 N 9th St., Bismarck, ND, 58501.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
<u>Assets</u>	Governmental	Governmental
	Activities	Activities
Cash	\$ 152,842,159	\$ 95,762,227
Investments	5,818,936,091	4,826,663,561
Interest receivable	15,376,736	13,818,117
Accounts receivable	35,159,033	34,568,610
Invested securities lending collateral	244,581,091	222,613,436
Loans		
Farm loans	9,229,153	7,106,931
Energy construction loans	979,447	1,040,078
School loans	41,707,151	44,321,823
Energy impact loans	11,269,205	11,973,940
Capital asset - land	7,740,063	7,740,063
Due from other state agencies	93,373,907	31,343,649
Equipment (net of accumulated depreciation)	68,273	11,738
Restricted assets:		
Cash and cash equivalents	-	15,415,599
Total Assets	<u>6,431,262,309</u>	<u>5,312,379,772</u>
<u>Deferred Outflows of Resources</u>		
Deferred pension outflows	1,268,258	1,626,412
Deferred OPEB outflows	34,834	35,873
Total deferred outflows of resources	<u>1,303,092</u>	<u>1,662,285</u>
<u>Liabilities</u>		
Accrued payroll	261,495	203,252
Accounts payable	2,252,347	2,035,993
Securities lending collateral	244,581,091	222,613,436
Due to other state agencies	199,246	206,157
Claimant liability	16,551,604	17,510,901
Long-term liabilities:		
Compensated absences due within one year	10,527	9,153
Compensated absences due in more than one year	186,582	162,217
Pension liability	2,895,903	3,207,938
OPEB liability	126,883	148,970
Total Liabilities	<u>267,065,678</u>	<u>246,098,017</u>
<u>Deferred Inflows of Resources</u>		
Deferred pension inflows	379,020	88,766
Deferred OPEB inflows	24,148	9,328
Total deferred inflows of resources	<u>403,168</u>	<u>98,094</u>
<u>Net Position</u>		
Net investment in capital assets	7,808,336	7,751,801
Restricted		
Nonexpendable	70,213,873	69,538,620
Expendable	4,925,726,600	4,591,825,365
Unrestricted	1,161,347,746	398,730,160
Total Net Position	<u>\$ 6,165,096,555</u>	<u>\$ 5,067,845,946</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs of Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 3,433,657	\$ -	\$ -	\$ (3,433,657)
Intergovernmental	34,160,869	-	-	(34,160,869)
Education	23,306,093	4,567,223	407,696,410	388,957,540
Total	\$ 60,900,619	\$ 4,567,223	\$ 407,696,410	351,363,014
Net revenue				351,363,014
General revenues:				
Taxes:				
Coal severance				1,576,908
Oil extraction				433,293,019
Gross production				435,343,880
Contributions from special revenue fund				11,014,244
Unrestricted investment earnings				15,136,269
Net increase (decrease) in fair value of investments				10,016,548
Royalties				128,227,190
Bonuses				2,601,964
Rents				268,279
Loan income				684,490
Interest Income				100,445
Transfers:				
To/from other state agencies				(139,436,289)
Educational institutions				(152,939,352)
Total general revenues and transfers				745,887,595
Total change in net position				1,097,250,609
Net position - beginning of year				5,067,845,946
Net position - ending				\$ 6,165,096,555

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs of Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 2,023,380	\$ -	\$ -	\$ (2,023,380)
Intergovernmental	39,519,718	-	-	(39,519,718)
Education	21,224,671	4,693,054	481,609,476	465,077,859
Total	\$ 62,767,769	\$ 4,693,054	\$ 481,609,476	423,534,761
Net revenue				423,534,761
General revenues:				
Taxes:				
Coal severance				1,658,475
Oil extraction				96,473,621
Gross production				34,671,232
Contributions from special revenue fund				4,393,122
Unrestricted investment earnings				5,117,846
Net increase (decrease) in fair value of investments				41,798
Royalties				106,904,748
Bonuses				1,022,818
Rents				241,494
Loan income				729,146
Interest Income				169,303
Transfers:				
To/from other state agencies				(136,379,246)
Educational institutions				(152,939,350)
Total general revenues and transfers				(37,894,993)
Total change in net position				385,639,768
Net position - beginning				4,682,206,178
Net position - ending				\$ 5,067,845,946

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

Assets:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Funds	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Cash	\$ 5,269,369	\$ 30,119,671	\$ 174,455	\$ 29,191,524	\$ 86,006,046	\$ 2,081,094	\$ 152,842,159
Investments	-	4,577,288,430	16,926,845	-	956,254,442	268,466,374	5,818,936,091
Interest receivable	-	10,863,663	154,655	-	3,601,845	756,573	15,376,736
Accounts receivable	-	21,208,823	-	-	11,919,068	2,031,142	35,159,033
Invested securities lending collateral	-	140,628,570	1,613,262	-	93,636,717	8,702,542	244,581,091
Loans							
Farm	-	8,501,335	-	-	-	727,818	9,229,153
Energy construction	-	979,447	-	-	-	-	979,447
School	-	-	41,707,151	-	-	-	41,707,151
Energy impact	-	-	11,269,205	-	-	-	11,269,205
Due from other state agencies	-	18,323,356	218,911	-	74,831,640	-	93,373,907
Due from other funds	-	2,744,946	-	-	1,891,596	258,033	4,894,575
Total Assets	\$ 5,269,369	\$ 4,810,658,241	\$ 72,064,484	\$ 29,191,524	\$ 1,228,141,354	\$ 283,023,576	\$ 6,428,348,548
Liabilities:							
Accrued payroll	\$ 190,361	\$ 17,446	\$ -	\$ 2,711	\$ 50,977	\$ -	\$ 261,495
Accounts payable	98,227	1,920,242	1,633	22	123,978	108,244	2,252,346
Securities lending collateral	-	140,628,570	1,613,262	-	93,636,717	8,702,542	244,581,091
Due to other state agencies	14,269	24,542	153,238	1,506	3,664	2,027	199,246
Due to other funds	4,894,575	-	-	-	-	-	4,894,575
Claimant liability	-	16,551,604	-	-	-	-	16,551,604
Total Liabilities	5,197,432	159,142,404	1,768,133	4,239	93,815,336	8,812,813	268,740,357
Fund Balance:							
Fund Balance:							
Permanent funds							
Nonspendable	-	-	70,213,873	-	-	-	70,213,873
Committed	-	-	82,478	-	-	-	82,478
Special revenue funds							
Restricted	-	4,651,515,837	-	-	-	274,210,763	4,925,726,600
Committed	-	-	-	29,187,285	905,000,969	-	934,188,254
Assigned	-	-	-	-	229,325,049	-	229,325,049
Unassigned	71,937	-	-	-	-	-	71,937
Total Fund Balance	71,937	4,651,515,837	70,296,351	29,187,285	1,134,326,018	274,210,763	6,159,608,191
Total Liabilities and Fund Balances	\$ 5,269,369	\$ 4,810,658,241	\$ 72,064,484	\$ 29,191,524	\$ 1,228,141,354	\$ 283,023,576	\$ 6,428,348,548

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position**

Total fund balances - governmental funds	\$ 6,159,608,191
Capital asset - land	7,740,063
Net book value of equipment	68,273
Liability for compensated absences	(197,110)
Net OPEB liability	(126,883)
Deferred OPEB outflows	34,834
Deferred OPEB inflows	(24,148)
Net pension liability	(2,895,903)
Deferred pension outflows	1,268,258
Deferred pension inflows	(379,020)
Net position of governmental activities	<u>\$ 6,165,096,555</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

Assets:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Funds	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Cash	\$ 6,022,590	\$ 18,576,400	\$ 188,638	\$ 61,356,613	\$ 8,761,149	\$ 856,837	\$ 95,762,227
Investments	-	4,260,158,841	12,954,137	-	300,631,852	252,918,731	4,826,663,561
Interest receivable	-	11,927,515	82,671	-	1,015,132	792,799	13,818,117
Accounts receivable	-	19,664,271	-	-	12,892,368	2,011,970	34,568,609
Invested securities lending collateral	-	158,678,574	2,137,396	-	51,748,782	10,048,684	222,613,436
Loans							
Farm	-	6,546,330	-	-	-	560,601	7,106,931
Energy construction	-	1,040,078	-	-	-	-	1,040,078
School	-	-	44,321,823	-	-	-	44,321,823
Energy impact	-	-	11,973,940	-	-	-	11,973,940
Due from other state agencies	-	17,077,893	241,656	-	14,024,100	-	31,343,649
Due from other funds	-	3,363,435	-	-	2,038,060	386,799	5,788,294
Restricted assets:							
Cash and cash equivalents	-	-	-	-	15,415,599	-	15,415,599
Total Assets	\$ 6,022,590	\$ 4,497,033,337	\$ 71,900,261	\$ 61,356,613	\$ 406,527,042	\$ 267,576,421	\$ 5,310,416,264
Liabilities:							
Accrued payroll	\$ 196,571	\$ -	\$ -	\$ 6,682	\$ -	\$ -	\$ 203,253
Accounts payable	13,666	1,837,340	2,414	13	76,247	106,313	2,035,993
Securities lending collateral	-	158,678,574	2,137,396	-	51,748,782	10,048,684	222,613,436
Due to other state agencies	16,136	16,794	169,159	1,765	916	1,387	206,157
Due to other funds	5,788,294	-	-	-	-	-	5,788,294
Claimant liability	-	17,510,901	-	-	-	-	17,510,901
Total Liabilities	6,014,667	178,043,609	2,308,969	8,459	51,825,945	10,156,384	248,358,033
Fund Balance:							
Fund Balance:							
Permanent funds							
Nonspendable	-	-	69,538,620	-	-	-	69,538,620
Committed	-	-	52,672	-	-	-	52,672
Special revenue funds							
Restricted	-	4,318,989,728	-	-	15,415,599	257,420,037	4,591,825,364
Committed	-	-	-	61,348,154	109,960,449	-	171,308,603
Assigned	-	-	-	-	229,325,049	-	229,325,049
Unassigned	7,923	-	-	-	-	-	7,923
Total Fund Balance	7,923	4,318,989,728	69,591,292	61,348,154	354,701,097	257,420,037	5,062,058,231
Total Liabilities and Fund Balances	\$ 6,022,590	\$ 4,497,033,337	\$ 71,900,261	\$ 61,356,613	\$ 406,527,042	\$ 267,576,421	\$ 5,310,416,264

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

Total fund balances - governmental funds	\$ 5,062,058,231
Capital asset - land	7,740,063
Net book value of equipment	11,738
Liability for compensated absences	(171,369)
Net OPEB liability	(148,970)
Deferred OPEB outflows	35,873
Deferred OPEB inflows	(9,328)
Net pension liability	(3,207,938)
Deferred pension outflows	1,626,412
Deferred pension inflows	(88,766)
Net position of governmental activities	<u>\$ 5,067,845,946</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

Revenues:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Funds	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Investment income	\$ -	\$ 122,280,427	\$ 304,019	\$ -	\$ 12,619,439	\$ 7,286,316	\$ 142,490,201
Interest Income	-	-	-	-	100,445	-	100,445
Loan income	-	-	-	-	-	-	-
Farm loans	-	651,418	-	-	-	55,717	707,135
Energy construction	-	46,810	-	-	-	-	46,810
School loans-Coal	-	-	684,490	-	-	-	684,490
Net increase (decrease) in fair value of investments	-	61,342,482	201,143	-	9,731,091	3,516,194	74,790,910
Securities lending income	-	4,066,409	34,825	-	2,021,332	247,049	6,369,615
Royalties	-	180,821,535	-	-	126,255,533	14,831,142	321,908,210
Bonuses	-	1,423,851	-	-	2,593,964	52,433	4,070,248
Rental income	-	12,214,906	-	-	100,038	1,248,587	13,563,531
Coal severance tax	-	-	1,576,908	-	-	-	1,576,908
Gross production tax	-	-	-	2,000,000	433,343,880	-	435,343,880
Oil extraction tax	-	100,523,292	-	-	332,769,727	-	433,293,019
Unclaimed property collections	-	11,014,244	-	-	-	-	11,014,244
Indirect recovery costs	4,567,223	-	-	-	-	-	4,567,223
Total revenues	4,567,223	494,385,374	2,801,385	2,000,000	919,535,449	27,237,438	1,450,526,869
Expenditures:							
Current	-	-	39,819	-	3,055,746	38,742	3,134,307
General government	-	-	39,819	-	3,055,746	38,742	3,134,307
Intergovernmental	-	-	-	34,160,869	-	-	34,160,869
Education	4,503,209	17,727,265	-	-	-	1,075,618	23,306,092
Total expenditures	4,503,209	17,727,265	39,819	34,160,869	3,055,746	1,114,360	60,601,268
Excess of revenue over (under) expenditures	64,014	476,658,109	2,761,566	(32,160,869)	916,479,703	26,123,078	1,389,925,601
Other Financing Sources (Uses):							
Transfer to Public Instruction	-	(144,132,000)	-	-	-	-	(144,132,000)
Transfer to Educational Institutions	-	-	-	-	-	(8,807,352)	(8,807,352)
Transfer to Lignite Research Fund	-	-	(1,103,835)	-	-	-	(1,103,835)
Transfer to State General Fund	-	-	(952,672)	-	(124,000,000)	-	(124,952,672)
Transfer to Facilities Management	-	-	-	-	-	(525,000)	(525,000)
Transfer to Health Department	-	-	-	-	(211,048)	-	(211,048)
Transfer to Adjutant General	-	-	-	-	(300,000)	-	(300,000)
Transfer to State Highway Patrol	-	-	-	-	(358,000)	-	(358,000)
Transfer to Secretary of State	-	-	-	-	(8,200,000)	-	(8,200,000)
Transfer to Department of Commerce	-	-	-	-	(4,000,000)	-	(4,000,000)
Transfer from NDSU - Veterinary Diagnostic Lab	-	-	-	-	214,266	-	214,266
Total other financing sources (uses)	-	(144,132,000)	(2,056,507)	-	(136,854,782)	(9,332,352)	(292,375,641)
Net Change in Fund Balance	64,014	332,526,109	705,059	(32,160,869)	779,624,921	16,790,726	1,097,549,960
Fund balance - beginning	7,923	4,318,989,728	69,591,292	61,348,154	354,701,097	257,420,037	5,062,058,231
Fund balance - ending	\$ 71,937	\$ 4,651,515,837	\$ 70,296,351	\$ 29,187,285	\$ 1,134,326,018	\$ 274,210,763	\$ 6,159,608,191

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance to the Statement of Activities**

Net change in fund balance	\$ 1,097,549,960
Depreciation expense on equipment	(5,911)
Office equipment additions	62,446
Increase in compensated absences liability	(25,740)
Decrease in net OPEB liability	22,086
Changes in deferred outflows and inflow resources related to net OPEB liability	(15,859)
Increase in net pension liability	312,035
Changes in deferred outflows and inflow resources related to net pension liability	(648,408)
Change in net position of governmental activities	<u>\$ 1,097,250,609</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

Revenues:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Funds	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Investment income	\$ -	\$ 103,677,155	\$ 129,425	\$ -	\$ 3,663,628	\$ 6,981,283	\$ 114,451,491
Interest Income	-	-	-	-	169,303	-	169,303
Loan income	-	-	-	-	-	-	-
Farm loans	-	465,404	-	-	-	39,806	505,210
Energy construction	-	50,232	-	-	-	-	50,232
School loans-Coal	-	-	729,146	-	-	-	729,146
Net increase (decrease) in fair value of investments	-	158,554,951	1,429	-	37,488	9,415,828	168,009,696
Securities lending income	-	2,996,043	35,201	-	852,257	187,889	4,071,390
Royalties	-	174,041,820	-	-	105,209,078	14,099,693	293,350,591
Bonuses	-	1,082,347	-	-	1,014,498	240,518	2,337,363
Rental income	-	10,896,325	-	-	62,246	1,203,638	12,162,209
Coal severance tax	-	-	1,658,475	-	-	-	1,658,475
Gross production tax	-	-	-	34,671,232	-	-	34,671,232
Oil extraction tax	-	82,449,521	-	-	14,024,100	-	96,473,621
Unclaimed property collections	-	4,393,122	-	-	-	-	4,393,122
Indirect recovery costs	4,693,054	-	-	-	-	-	4,693,054
Total revenues	4,693,054	538,606,920	2,553,676	34,671,232	125,032,598	32,168,655	737,726,135
Expenditures:							
Current	-	-	40,820	-	1,636,069	39,848	1,716,737
General government	-	-	40,820	-	1,636,069	39,848	1,716,737
Intergovernmental	-	-	-	39,519,718	-	-	39,519,718
Education	4,658,224	15,600,180	-	-	-	966,268	21,224,672
Total expenditures	4,658,224	15,600,180	40,820	39,519,718	1,636,069	1,006,116	62,461,127
Excess of revenue over (under) expenditures	34,830	523,006,740	2,512,856	(4,848,486)	123,396,529	31,162,539	675,265,008
Other Financing Sources (Uses):							
Transfer to Public Instruction	-	(144,132,000)	-	-	-	-	(144,132,000)
Transfer to Educational Institutions	-	-	-	-	-	(8,807,350)	(8,807,350)
Transfer to Lignite Research Fund	-	-	(1,160,932)	-	-	-	(1,160,932)
Transfer to State General Fund	-	-	(841,579)	(2,695,240)	(124,000,000)	-	(127,536,819)
Transfer to Facilities Management	-	-	-	-	-	(2,650,000)	(2,650,000)
Transfer to Department of Public Service Commission	-	-	-	-	(100,000)	-	(100,000)
Transfer to Department of Agriculture	-	-	-	-	(1,000,000)	-	(1,000,000)
Transfer to Energy Impact Fund	-	-	-	-	(3,000,000)	-	(3,000,000)
Transfer to Department of Industrial Commission	-	-	-	-	(4,000,000)	-	(4,000,000)
Transfer to Department of Corrections	-	-	-	-	(935,907)	-	(935,907)
Transfer to Department of Commerce	-	-	-	-	(600,000)	-	(600,000)
Transfer to Department of Attorney General	-	-	-	-	(16,022,000)	-	(16,022,000)
Transfer from State Historical Society	-	-	-	-	22,105	-	22,105
Transfer from Legal Counsel of Indigents	-	-	-	-	189,000	-	189,000
Transfer from Department of Industrial Commission	-	-	-	-	329,290	-	329,290
Transfer from Department of Commerce	-	-	-	-	100,000	-	100,000
Transfer from Political Subdivision Allocation	-	-	-	8,000,000	7,660,518	-	15,660,518
Transfer from Strategic Investment & Improvement fund	-	-	-	3,000,000	-	-	3,000,000
Transfer from State General Fund	-	-	-	1,325,500	-	-	1,325,500
Total other financing sources (uses)	-	(144,132,000)	(2,002,511)	9,630,260	(141,356,995)	(11,457,350)	(289,318,596)
Net Change in Fund Balance	34,830	378,874,740	510,345	4,781,774	(17,960,466)	19,705,189	385,946,412
Fund balance - beginning	(26,907)	3,940,114,988	69,080,947	56,566,380	372,661,563	237,714,848	4,676,111,819
Fund balance - ending	\$ 7,923	\$ 4,318,989,728	\$ 69,591,292	\$ 61,348,154	\$ 354,701,097	\$ 257,420,037	\$ 5,062,058,231

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

Net change in fund balance	\$ 385,946,412
Depreciation expense on equipment	(11,790)
Office equipment additions	7,735
Decrease in compensated absences liability	48,877
Decrease in net OPEB liability	564
Changes in deferred outflows and inflow resources related to net OPEB liability	26,545
Increase in net pension liability	(1,318,574)
Changes in deferred outflows and inflow resources related to net pension liability	939,999
Change in net position of governmental activities	\$ 385,639,768

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
<u>Assets</u>	Indian Cultural Education Trust	Indian Cultural Education Trust
Cash	\$ 470	\$ 3,390
Investments	1,283,149	1,264,300
Interest receivable	2,170	2,552
Invested securities lending collateral	39,457	47,203
Total Assets	<u>1,325,246</u>	<u>1,317,445</u>
<u>Liabilities</u>		
Accounts payable	524	535
Securities lending collateral	39,457	47,203
Total Liabilities	<u>39,981</u>	<u>47,738</u>
<u>Net Position</u>		
Net position restricted for Indian Cultural Education	1,285,265	1,269,707
Total Net Position	<u>\$ 1,285,265</u>	<u>\$ 1,269,707</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENTS OF FIDUCIARY NET POSITION - CONTINUED
JUNE 30, 2019 AND 2018

	2019
	Theodore Roosevelt Presidential Library and Museum Endowment
	<hr/>
<u>Assets</u>	
Cash	\$ 15,050,748
Total Assets	<hr/> <hr/> 15,050,748
<u>Net Position</u>	
Net position, restricted for library	15,050,748
Total Net Position	<hr/> <hr/> \$ 15,050,748

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
	Indian Cultural Education Trust	Indian Cultural Education Trust
Additions		
Investment income:		
Net change in fair value of investments	\$ 16,210	\$ 50,746
Interest	34,288	31,921
Less investment expense	3,160	3,792
Net Investment Income	<u>47,338</u>	<u>78,875</u>
Securities Lending Activity:		
Securities lending income	1,141	891
Net Securities Lending Income	<u>1,141</u>	<u>891</u>
Miscellaneous Income	2,957	2,940
Total Additions	<u>51,436</u>	<u>82,706</u>
Deductions		
Payments in accordance with Trust agreement	34,676	34,676
Administrative expenses	1,202	2,154
Total Deductions	<u>35,878</u>	<u>36,830</u>
Change in net position held in Trust for:		
Private-Purpose	15,558	45,876
Total Change in Net Position	<u>15,558</u>	<u>45,876</u>
Net Position - Beginning of Year	1,269,707	1,223,831
Net Position - End of Year	<u>\$ 1,285,265</u>	<u>\$ 1,269,707</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019
	Theodore Roosevelt Presidential Library and Museum Endowment
Additions	
Contributions:	
Donations	\$ 15,000,000
Total Contributions	15,000,000
Miscellaneous Income	50,748
Total Additions	15,050,748
Change in net position held in Endowment for:	
Presidential Library and Museum	15,050,748
Total Change in Net Position	15,050,748
Net Position - Beginning of Year	-
Net Position - End of Year	\$ 15,050,748

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF APPROPRIATIONS
FOR THE BIENNIUM ENDING JUNE 30, 2019

	Approved 2017-19 Biennial Appropriation	Final Adjusted Appropriation	2018 Expenditures	2019 Expenditures	Unexpended Appropriation
General Fund Appropriated Expenditures:					
Salaries and Wages	\$ 6,005,550	\$ 6,005,550	\$ 2,692,587	\$ 2,614,898	\$ 698,065
Operating Expenses	1,775,723	1,775,723	451,620	738,221	585,882
Capital Assets	3,600,000	3,600,000	-	210,471	3,389,529
Contingencies	400,000	100,000	-	-	100,000
Mineral Revenue Repayments	187,000,000	187,000,000	-	-	187,000,000
	<u>\$ 198,781,273</u>	<u>\$ 198,481,273</u>	<u>\$ 3,144,207</u>	<u>\$ 3,563,590</u>	<u>\$ 191,773,476</u>

Continuing Appropriations:

Investments			\$ 23,782,949	\$ 23,226,071	
Land Management - Grant and Non-Grant			224,941	121,096	
County Services - Roads & Bridges			121,439	124,292	
In Lieu of Property Taxes			116,557	123,939	
Strategic Investment and Improvements fund			93,127	146,207	
Uniform Unclaimed Property			241,117	177,479	
Total*			<u>\$ 24,580,130</u>	<u>\$ 23,919,084</u>	

*This total represents the Department's expenditures through the State Treasurer's Office using the State's PeopleSoft system with the exception of investments. Investment manager fees are generally paid through the Payden & Rygel cash account on a quarterly basis, although some managers withhold fees directly from the mutual or commingled fund investments.

See Note 21 to the Financial Statements on the Department's continuing appropriation authority of funding.

	Approved 2017-19 Biennial Appropriation	Final Adjusted Appropriation	2018 Expenditures	2019 Expenditures	Unexpended Appropriation
Oil and Gas Impact Grant Fund:					
Energy Infrastructure and Impact Grants	\$ 40,000,000	\$ 101,152,792	\$ 29,161,747	\$ 32,949,644	\$ 39,041,401
Energy Infrastructure and Impact Operating	-	400,000	127,095	114,063	158,842
Flood Infrastructure Development Grants	-	1,325,500	1,325,425	-	75
	<u>\$ 40,000,000</u>	<u>\$ 102,878,292</u>	<u>\$ 30,614,267</u>	<u>\$ 33,063,707</u>	<u>\$ 39,200,318</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF APPROPRIATIONS - CONTINUED
FOR THE BIENNIUM ENDING JUNE 30, 2019

	Approved 2017-19 Biennial Appropriation	2018 Expenditures	2019 Expenditures	2019-21 Biennial Emergency Clause (66th Legislative Assembly)	Unexpended Appropriation
Strategic Investment and Improvements Fund:					
ND Attorney General (SB 2191)	\$ 150,000	150,000	\$ -	-	\$ -
ND Attorney General (HB 1024)	15,872,000	15,872,000	-	-	-
ND Commerce Department (SB 2018)	4,600,000	600,000	4,000,000	-	-
ND Department of Agriculture (HB 1009)	1,000,000	1,000,000	-	-	-
ND Department of Corrections & Rehabilitation (SB 2015)	935,907	935,907	-	-	-
ND Department of Health (SB 2004)	500,000	-	211,048	-	288,952
ND Department of Veterans Affairs - Adjutant General (HB 1016)	300,000	-	300,000	-	-
ND Highway Patrol (SB 2011)	358,000	-	358,000	-	-
ND Industrial Commission (SB 2014)	4,000,000	4,000,000	-	-	-
ND Public Service Commission (HB 1008)	100,000	100,000	-	-	-
ND State Treasurer (SB 2013)	3,000,000	3,000,000	-	-	-
Office of Management & Budget (HB 1015)	248,000,000	124,000,000	124,000,000	-	-
Information Technology Department (HB 1435)	-	-	-	20,000,000	20,000,000
ND Secretary of State (SB 2002)	-	-	8,200,000	8,200,000	-
ND Department of Human Services (SB 2012)	-	-	-	6,770,665	6,770,665
ND Department of Veteran Affairs - Adjutant General (SB 2016)	-	-	-	2,502,253	2,502,253
	<u>\$ 278,815,907</u>	<u>\$ 149,657,907</u>	<u>\$ 137,069,048</u>	<u>\$ 37,472,918</u>	<u>\$ 29,561,870</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Reporting Entity

The North Dakota Department of Trust Lands (Department) is an agency of the State of North Dakota. The Board of University and School Lands (Board) was created under Article IX, Section 3 of the North Dakota State Constitution, and operates through the legislative authority of the N.D.C.C. Title 15, Chapters 47-30.1 and 57-62. The Board is the governing authority of the Department. As a state agency, the Department is considered to be a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, the Department has included all funds and has considered all potential component units for which the Department is financially accountable, and other organizations for which the nature and significance of their relationship with the Department are such that exclusion would cause the Department's financial statements to be misleading or incomplete.

The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board. Based upon these criteria, there are no component units to be included within the Department's statements and the Department is a reporting entity within the State of North Dakota as a reporting entity.

Fund Accounting Structure

The Department uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate constitutional and legislative compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund balance is classified on a hierarchy that shows, from the highest to the lowest, the level or form of constraints on fund balance and accordingly, the extent to which the Department is bound to honor them: nonspendable, restricted, committed, assigned and unassigned.

The following fund types and funds are used to account for the Department's activities.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

General Fund – include operating fund activities financed by the trusts that are legislatively assigned for specified purposes.

The Department maintenance fund is used to pay operating expenses of the department. The Department maintenance fund is the general fund.

Permanent Fund – report resources that are constitutionally committed for distribution purposes as described in Article X of the State Constitution and N.D.C.C. Chapter 57-61.

The Coal Development Trust fund receives a portion of the coal severance tax. The Trust transfers a portion of the coal severance tax to the lignite research fund for lignite research and clean coal projects as enacted by the legislative assembly for future distribution. As described in N.D.C.C. Chapters 15.1-36 and 57-62, the Trust also makes loans to coal development impacted counties, cities and school districts and low interest loans to school districts for new construction. Interest earned on moneys in the Trust is distributed to the State general fund.

Special Revenue Funds - include fund activities financed by specific revenue sources that are constitutionally and legislatively restricted, committed or assigned to expenditures for specified purposes.

The Perpetual Education Trust funds account for all assets and proceeds as described in Section 11 through 19 of the Enabling Act of 1889, Article IX of the State Constitution and N.D.C.C. Chapter 15-01-02. The beneficiaries of the Common Schools Trust are publicly funded schools, grades K-12. Other beneficiaries of the Educational Trust funds are the North Dakota State University, School for the Blind, School for the Deaf, State Hospital, Valley City State University, Mayville State University, Youth Correctional Center, State School of Science, Veterans Home, and the University of North Dakota. Income from the assets held by the Ellendale Trust are allocated equally among Dickinson State University, Minot State University, Dakota College at Bottineau, School for the Blind, Veterans Home, State Hospital, and State College of Science. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota. The Trusts own assets in the form of rangeland, producing and non-producing mineral interests, investment securities, farm and energy construction loans and an office building. The Common Schools Trust fund is also used to account for unclaimed property collected under the authority of N.D.C.C. Chapter 47-30.1-23.

The Strategic Investment and Improvements fund (SIIF) accounts for producing and non-producing mineral interests formerly owned by the Bank of North Dakota (BND) and State Treasurer, and acres located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state. The Fund receives revenues from mineral bonuses, mineral royalties and a portion of the State's share of gross production and oil extraction taxes once certain thresholds are met. In accordance with NDCC 15-08.1-08, the SIIF may be expended as the legislature provide for one-time expenditures related to improving state infrastructure or for initiatives to improve the efficiency and effectiveness of state government.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The Energy Infrastructure and Impact Office manages the following grant fund programs:

Energy Infrastructure and Impact Grants provides assistance to counties, cities, school districts and other political subdivisions impacted by oil or gas development through the oil and gas impact grant fund. The program is funded with a percentage of the oil and gas gross production tax as enacted by the legislative assembly.

Flood-Impacted Political Subdivision Infrastructure Development Grant program provides grants to infrastructure development in flood-impacted political subdivisions. The program is funded with one-time State general fund moneys and expired on June 30, 2019.

Energy Impact Fund was enacted by the legislative assembly to provide grants to the Williston Airport as federal funding is committed and available for the new airport construction project. Funding was provided from the Political Subdivision Allocation Fund and the Strategic Investment and Improvements Fund.

The Capitol Building Trust fund was created by the Enabling Act for the benefit of "public buildings at the capital..." The Trust receives revenues from mineral bonuses, mineral royalties and surface rental income.

The Department reports the Common Schools Trust fund, Coal Development Trust fund, Department's General fund, Oil and Gas Impact Grant fund, and Strategic Investment and Improvements Trust fund as major governmental funds.

Private Purpose Trust Fund – accounts for resources of trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

The Indian Cultural Educational Trust "is established for the purpose of generating income to benefit Indian culture." The beneficiary of the Indian Cultural Educational Trust is the Mandan, Hidatsa and Arikara Nation Cultural Education Foundation. The Trust receives revenues from surface rental income.

The Theodore Roosevelt Presidential Library and Museum Endowment fund is created for the purpose of generating income to be used for the operations and maintenance of the library and museum, but only after the Theodore Roosevelt Presidential Library Foundation has raised or secured binding pledges of \$100 million.

Basis for Accounting

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers tax revenues to be available if they are collected within one year of the end of the fiscal period.

All revenues in the perpetual funds except for taxes and unclaimed property revenue are presented as program revenues.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Budgetary Policies and Procedures

The Department operates through a biennial appropriation provided by the State Legislature and other continuing appropriations. The Department prepares a biennial budget which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor may veto any specific appropriation, subject to legislative override. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. Unexpended appropriations lapse at the end of the biennium.

Due to the lack of a formal revenue budget, a Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual statement cannot be prepared as required by GAAP. In its place, a Statement of Appropriations has been presented. The Statement of Appropriations has been prepared using the modified accrual basis and encumbrance accounting is not used.

Cash Deposits and Investments

Cash includes all funds deposited with the Bank of North Dakota.

Investments are reported at fair value. All investment income, including changes in the fair value, is recognized in the statements of revenues, expenditures and changes in fund balance.

Cash for all funds is pooled and invested to the extent possible. Income earned from pooled investments is allocated to each of the funds based on the fund's total contribution to the pool.

Accounts Receivable

Accounts receivable represents accrued amounts on royalty revenue and interest on investments not available on June 30, 2019 and 2018 for funding of current operations. A majority of the accrued royalty revenue is expected to be collected within the first 90 days following June 30, 2019 and 2018. All receivables are considered collectible.

Claimant Liability

Claimant liability represents the value of property escheated to the Department and expected to be repaid to the rightful owners or their heirs. Escheated property can be reclaimed into perpetuity and thus is a liability for the amounts expected to be reclaimed and paid.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Capital Assets

Capital assets includes original grant, pre-1980 acquired properties and cancelled contract lands valued at \$10.00 per acre, and post-1980 acquired properties valued at historical cost or fair value, and equipment valued at historical cost or at estimated historical cost if actual cost is not available. Donated capital assets are valued at their acquisition value on the date of donation.

All other capital assets with an original cost of \$5,000 or more per unit and an estimated useful life in excess of one year are capitalized and reported in the applicable governmental activities columns in the government-wide financial statements in accordance with N.D.C.C. Chapter 54-27-21. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Capital assets in Governmental Funds are recorded as expenditures in the funds used to acquire or construct them in the governmental fund financial statements. Capital assets, along with equipment, accumulated depreciation and depreciation expense, are reported in the applicable governmental activities columns in the government-wide financial statements.

Land is not depreciated. Other capital assets are depreciated using the straight-line method over 3 to 10 years for all furniture and equipment.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post- Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Department has two items reported on the statement of net position as *cost sharing defined benefit pension plan and cost sharing defined benefit OPEB*, which represents actuarial differences within the NDPERS pension plans. See Notes 23 and 24 to financial statements for additional details on Department's Pension Plan and OPEB Plan.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will *not* be recognized as an inflow of resources (revenue) until that time. The Department has two types of items, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. See Notes 23 and 24 to financial statements for additional details on Department's Pension Plan and OPEB Plan.

Compensated Absences Payable

N.D.C.C. Chapter 54-06-14 allows employees to accrue annual leave at a varying rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at the rate of one day per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the State is liable for ten percent of the employee's accumulated unused sick leave.

Assets of the maintenance fund are used to pay off these liabilities.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Department is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

NOTE 3 – CASH

Custodial Credit Risk

State law generally requires that all state funds be deposited in the BND. N.D.C.C. Chapter 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the BND. Also, N.D.C.C. Chapter 6-09-07 states, “[a]ll state funds ... must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provision.

The carrying amount of deposits with the Bank of North Dakota as of June 30, 2019 was \$152,842,159, and the bank balance was \$131,197,799. As of June 30, 2018, the carrying amount of deposits with the Bank of North Dakota was \$92,632,180 while Northern Trust was \$18,545,646 and the bank balance was \$25,616,946. These differences result from timing differences of deposits processed by the Bank at year-end. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, deposits held at the BND are guaranteed by the State of North Dakota through N.D.C.C. Chapter 6-09-10.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 – FUND BALANCE CLASSIFICATION

The following fund balance classifications describe the spending constraints placed on the purpose for which resources can be used:

Nonspendable: this classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact as directed by legislation or the state constitution.

The Coal Development Trust fund was established by Article X of the State Constitution. This fund is held in trust and administered by the Board for loans to coal impacted counties, cities and school districts and for loans to school districts throughout the state. The Coal Development Trust fund balance includes the corpus (or principal) of this fund and the long-term portion of loans receivable, therefore is not in spendable form.

Restricted: this classification includes amounts for which constraints have been placed on the use of the resources either (a) imposed by the beneficiary of the assets or (b) imposed by law through constitutional provisions or enabling legislation.

The Common School and other Perpetual Education trust funds were created under the State Constitution to support school and public institutions. All revenue resources are restricted for the purpose of distributions to the beneficiaries.

The Capitol Building fund was created under the State Constitution for the construction and maintenance of public buildings at the capital. The entire balance of the trust is subject to legislative appropriation each biennium.

The Strategic Investment and Improvements fund has restricted funds to cover the possible default of loans for the Fuel Production Facilities program that is administered by the Bank of North Dakota.

Committed: this classification includes amounts that can be used only for the specific purpose imposed by formal action of the legislative assembly or the Board.

The Coal Development Trust fund was established by Article X of the State Constitution. Any changes to the fund balance commitment would require a referendum and vote of the people of the State of North Dakota. Interest earned on the moneys held in this trust will first replace uncollectable loans made from this trust, and any remaining balance will be transferred to the State general fund.

The Oil and Gas Impact Grant fund holds funds appropriated by the state legislature to assist local political subdivisions in dealing with problems arising from oil and gas development. Any changes to the fund balance commitment would require an appropriation bill action of the legislative assembly.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The Flood-Impacted Political Subdivision Infrastructure Development Grant program is administered by the Energy Infrastructure and Impact Office and allocates funds appropriated by the state legislature to provide infrastructure development grants to flood-impacted political subdivisions. This funding is considered a one-time funding item from the State general fund and expires June 30, 2019. Any changes to the fund balance commitment would require appropriation bill action of the legislative assembly.

The Strategic Investment and Improvements fund was established by legislation and consists of mineral acres formerly owned by the BND and State Treasurer, minerals located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state, and various financial assets. The balance of this fund is subject to appropriation by the legislature. Any changes to the fund balance commitment would require action of the legislative assembly to change the North Dakota century code.

Assigned: this classification includes amounts that can be used only for the specific purpose imposed by formal action of the legislative assembly or the Board, but do not meet the criteria to be classified as restricted or committed.

The Strategic Investment and Improvements fund has assigned funds by the Board to indicate that these funds should not be transferred out of this fund until potential title disputes related to riverbed leases have been resolved.

Unassigned: the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, the Department's preference is to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, the Department's preference is to use resources in the following order; 1) restricted, 2) committed, 3) assigned, and 4) unassigned.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Fiscal Year Ended June 30, 2019	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Fund Balances							
Permanent Funds:							
<u><i>Nonspendable</i></u>			\$70,213,873				70,213,873
<u><i>Committed</i></u>			82,478				82,478
Designated for transfer to State general fund							
Special Revenue Funds:							
<u><i>Restricted</i></u>		\$4,651,515,837				\$267,662,156	4,919,177,993
Distribution to educational beneficiaries						6,548,607	6,548,607
Capitol building maintenance							
<u><i>Committed</i></u>				\$29,187,285			29,187,285
Designated for transfer to(from):							
General Fund of North Dakota					124,000,000		124,000,000
ND Commerce Department					4,000,000		4,000,000
ND Department of Health					211,048		211,048
Adjutant General					300,000		300,000
ND State Highway Patrol					358,000		358,000
ND Secretary of State					8,200,000		8,200,000
NDSU - Veterinary Diagnostic Lab					(214,266)		(214,266)
Operating Expenses					768,146,187		768,146,187
Potential mineral title disputes					229,325,049		229,325,049
<u><i>Assigned</i></u>							
<u><i>Unassigned</i></u>	\$71,937						71,937
Operating Expenses							
Total Fund Balances:	\$71,937	\$4,651,515,837	\$70,296,351	\$29,187,285	1,134,326,018	274,210,763	\$ 6,159,608,191

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Fiscal Year Ended June 30, 2018

	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Fund Balances							
Permanent Funds:							
<i>Nonspendable</i>			\$69,538,620				\$69,538,620
<i>Committed</i>			52,672				52,672
Designated for transfer to State general fund							
Special Revenue Funds:							
<i>Restricted</i>		\$4,318,989,728				\$252,696,554	4,571,686,282
Distribution to educational beneficiaries						4,723,483	4,723,483
Capitol building maintenance							
Fuel production facility - BND				\$15,415,599			15,415,599
<i>Committed</i>				\$61,348,154			61,348,154
Designated for transfer to (from):							
ND Attorney General					16,022,000		16,022,000
General Fund of North Dakota					124,000,000		124,000,000
ND Commerce Department					600,000		600,000
ND Department of Agriculture					1,000,000		1,000,000
ND Department of Corrections & Rehabilitation					935,907		935,907
ND Industrial Commission					4,000,000		4,000,000
ND Public Service Commission					100,000		100,000
ND State Treasurer					3,000,000		3,000,000
ND State Historical Society					(22,105)		(22,105)
Legal Counsel of Indigents					(189,000)		(189,000)
Political Subdivision Allocation					(7,660,518)		(7,660,518)
ND Commerce Department					(100,000)		(100,000)
ND Industrial Commission					(329,290)		(329,290)
Operating Expenses					(31,396,545)		(31,396,545)
Potential mineral title disputes					229,325,049		229,325,049
<i>Assigned</i>							
<i>Unassigned</i>							
Operating Expenses	\$7,923						7,923
Total Fund Balances:	\$7,923	4,318,989,728	\$69,591,292	\$61,348,154	354,701,097	257,420,037	\$ 5,062,058,231

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 5 – INVESTMENTS

The Board's investment policy is to invest trust assets in a manner that balances the growth of the portfolio with the need to meet constitutionally required distributions. This is accomplished by investing in a widely diversified portfolio.

N.D.C.C. Chapter 15-03-04 requires that the Board apply the prudent investor rule in investing the funds under its control. Application of the prudent investor rule dictates that investments of the Board should be made using the same judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Board manages its interest rate risk by maintaining a diversified portfolio that contains a wide variety of maturity dates for the debt securities held. The Board has adopted an asset allocation schedule and approves the hiring of all managers within the various asset classes.

The following tables show the investments by investment type, amount, and maturity as of June 30, 2019 and 2018. When callable, maturity is calculated with the first call date.

Fiscal Year 2019		Weighted Average
Investment Type	Maturity Amount	Maturity (Years)
Asset Backed Securities	\$ 130,588,526	8.16
Commercial Mortgage-Backed	30,314,382	19.29
Corporate Bonds	460,310,844	4.15
TIPS Fund	96,326,467	8.15
Brandywine Fund	175,994,389	11.15
Low Duration Fund	66,010,056	2.08
JP Morgan Mortgage Back	125,014,036	4.95
Funds - Short Term	120,204,149	
Government Agencies	123,810,428	2.06
Government Bonds	351,950,852	4.40
Government Mortgage Backed Securities	88,102,138	21.55
Gov't-issued Commercial Mortgage-Backed	17,859,261	5.94
Index Linked Government Bonds	1,384,751	5.55
Municipal/Provincial Bonds	32,823,580	3.48
Non-Government Backed CMOs	41,266,961	20.26
Other Fixed Income	3,368	
Short Term Bills and Notes	443,675,931	0.14
Funds - Corporate Bond	55,705	
Funds - Government Agencies	51,685	
Funds - Municipal/Provincial Bond	11,068	
Total	<u>\$ 2,305,758,577</u>	
Weighted Average Maturity		<u>5.16</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Fiscal Year 2018

Investment Type	Maturity Amount	Weighted Average Maturity (Years)
Asset Backed Securities	\$ 31,443,083	7.44
Commercial Mortgage-Backed	4,417,651	24.94
Corporate Bonds	477,800,404	6.89
TIPS Fund	89,457,706	8.40
Brandywine Fund	128,296,491	7.79
Low Duration Fund	2,205,183	2.24
JP Morgan Mortgage Back	112,877,430	5.59
Funds - Short Term	45,081,677	
Government Agencies	63,036,987	1.92
Government Bonds	306,918,602	5.53
Government Mortgage Backed Securities	78,315,993	16.76
Gov't-issued Commerical Mortgage-Backed	15,178,792	6.45
Index Linked Government Bonds	1,325,842	6.54
Municipal/Provincial Bonds	13,823,518	5.74
Non-Government Backed CMOs	10,422,286	22.44
Other Fixed Income	26,330	0.33
Short Term Bills and Notes	122,242,676	0.30
Funds - Corporate Bond	12,520	
Funds - Fixed Income ETF	106	
Funds - Other ETF	16	
Total	<u>\$ 1,502,883,293</u>	
Weighted Average Maturity		<u>6.40</u>

The tables above include the fair value of inflation indexed bonds. The principal balances of these bonds are adjusted every six months based on the inflation index for the period.

Other investments included above, such as variable rate collateralized mortgage obligations (CMOs), have a high degree of sensitivity to interest rate changes. As of June 30, 2019 and 2018, the Board held \$51,805,924 and \$52,246,018, respectively, in variable rate CMOs.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings, including securities identified as U.S. Government in the tables below, which are U.S. Treasury and Agency debt securities that are either explicitly or implicitly guaranteed by the U.S. government and thus are considered to have no credit risk. Each fixed income securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The following tables present the Board's ratings as of June 30, 2019 and 2018, respectively.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Fiscal Year 2019

	AAA	AA	A	BBB	BB	B	CCC	Not Rated	US Government	TOTAL
Asset Backed Securities	\$62,260,482	\$7,007,730	\$7,308,392	\$4,420,150	\$738,782		\$2,421,089	\$46,431,901		\$130,586,526
Commercial Mortgage-Backed	1,520,508			2,140,246	1,110,903			25,542,725		30,314,382
Corporate Bonds	1,243,536	75,622,815	216,053,709	163,588,501	945,676			2,856,606		460,310,844
Funds - Government Agencies*upd plus									\$ 96,378,152	96,378,152
Funds - Other Fixed Income*upd plus	29,446							367,021,849		367,021,849
Funds - Short Term Investment*upd plus	4,992,750	117,853,159		592,440				120,174,703		120,204,149
Government Agencies									372,079	372,079
Government Bonds		712,195		2,324,943				12,807,000	336,106,713	351,950,852
Government Mortgage Backed Securities		1,501,523		1,973,386		\$ 703,262		715,613	83,208,354	88,102,138
Gov't-issued Commercial Mortgage-Backed									17,859,261	17,859,261
Index Linked Government Bond									1,384,751	1,384,751
Municipal/Provincial Bonds	7,895,189	19,915,516	1,115,903	-	1,052,378			3,896,972		32,823,580
Non-Government Backed C.M.O.s	1,924,655	7,310,817	7,895,764	1,525,485			917,298	20,640,564	443,675,931	41,266,961
Short Term Bills and Notes										
Funds - Corporate Bond*upd								55,705		55,705
Funds - Municipal/Provincial Bond*upd								11,068		11,068
	\$79,866,566	\$229,923,755	\$232,373,767	\$176,565,150	\$3,847,739	\$703,262	\$3,338,387	\$600,154,708	\$978,985,242	\$2,305,758,577

Fiscal Year 2018

	AAA	AA	A	BBB	BB	B	CCC	Not Rated	US Government	TOTAL
Asset Backed Securities	\$19,178,375	\$414,732	\$200,165	\$3,082,165				\$8,567,645		\$31,443,083
Commercial Mortgage-Backed								4,417,651		4,417,651
Corporate Bonds	6,599,478	57,873,743	128,692,790	169,494,300	\$ 83,776,189	\$ 28,204,351		3,159,552		477,800,404
Funds - Government Agencies									\$ 89,457,706	89,457,706
Funds - Other Fixed Income								243,379,104		243,379,104
Funds - Short Term Investment	45,070,974			10,703						45,081,677
Government Agencies	13,592,080	48,129,922		832,694					482,291	63,036,987
Government Bonds	13,402,427	6,160,423	14,550,323	5,406,552	6,318,433			39,138,090	221,942,354	306,918,602
Government Mortgage Backed Securities		1,966,309						236,067	76,113,617	78,315,993
Gov't-issued Commercial Mortgage-Backed									15,178,792	15,178,792
Index Linked Government Bond									1,325,842	1,325,842
Municipal/Provincial Bonds	2,495,757	5,449,199	3,172,060					2,706,502		13,823,518
Non-Government Backed C.M.O.s	1,028,823	1,199,039	974,503					7,219,921		10,422,286
Other Fixed Income								26,330		26,330
Short Term Bills and Notes									122,242,676	122,242,676
Funds - Corporate Bond								12,520		12,520
Funds - Fixed Income ETF								106		106
Funds - Other ETF								16		16
	\$101,367,914	\$121,193,367	\$147,589,841	\$177,983,018	\$90,094,622	\$28,204,351	#####	\$526,743,279	\$1,502,883,293	\$1,502,883,293

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board treats currency exposure in two different ways, depending on the type of investment. For the Board's international equity portfolio, the currency exposure is not hedged as currency exposure is one of the items that add diversity to the overall portfolio. In the case of foreign bonds, the Board fully hedges the currency exposure as the purpose of this portfolio is to generate more consistent returns. The Board's exposure to foreign currency risk is presented in the following tables:

Fiscal Year 2019

Currency	Debt	Equity	Total
Australian Dollar	\$ 18,092,223	\$ 43,296,013	\$ 61,388,236
Brazilian Real	8,641,325	12,761,035	21,402,360
British Pound Sterling	23,237,298	104,220,538	127,457,836
Canadian Dollar	3,581,349	48,047,835	51,629,184
Chilean Peso	11,351,638	1,221,299	12,572,937
Chinese Renminbi	-	20,306,144	20,306,144
Columbian Peso	8,676,523	443,213	9,119,736
Czech Republic Koruna	3,484,689	1,154,469	4,639,158
Danish Krone	-	11,038,570	11,038,570
Egyptian Pounds	-	59,095	59,095
European Euro	9,275,587	182,522,907	191,798,494
Hong Kong Dollar	-	40,562,103	40,562,103
Hungarian Forint	-	384,118	384,118
Indian Rupee	-	18,331,532	18,331,532
Indonesian Rupiah	8,130,941	6,123,531	14,254,472
Israel Shekel	-	3,124,687	3,124,687
Japanese Yen	-	150,116,060	150,116,060
Kenyan Shilling	-	1,283,142	1,283,142
Malaysian Ringgit	11,210,843	2,925,207	14,136,050
Mexican Peso	22,932,069	5,530,889	28,462,958
New Zealand Dollar	7,022,176	1,749,459	8,771,635
Norwegian Krone	16,649,069	6,795,335	23,444,404
Peruvian Nuevo Sol	-	137,889	137,889
Philippines Peso	-	1,260,695	1,260,695
Polish Zloty	9,714,890	1,428,132	11,143,022
Russian Rubles	2,287,927	1,674,361	3,962,288
Singapore Dollar	-	7,236,221	7,236,221
South African Rand	457,585	11,483,601	11,941,186
South Korean Won	6,934,179	20,367,564	27,301,743
Swedish Krona	14,695,532	18,263,200	32,958,732
Swiss Franc	-	48,773,597	48,773,597
Taiwan Dollar	-	22,283,803	22,283,803
Thai Baht	-	5,184,053	5,184,053
Turkish Lira	-	975,069	975,069
UAE Dirham	-	296,110	296,110
	<u>\$ 186,375,843</u>	<u>\$ 801,361,476</u>	<u>\$ 987,737,319</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Fiscal Year 2018

Currency	Debt	Equity	Total
Australian Dollar	10,442,428	34,954,765	45,397,193
Brazilian Real	5,458,087	6,698,503	12,156,590
British Pound Sterling	18,422,395	93,490,581	111,912,976
Canadian Dollar	10,748,806	42,159,102	52,907,908
Chilean Peso	-	1,065,766	1,065,766
Chinese Renminbi	-	3,714,391	3,714,391
Columbian Peso	6,209,550	392,650	6,602,200
Czech Republic Koruna	-	901,106	901,106
Danish Krone	18,896	9,244,258	9,263,154
Egyptian Pounds	-	48,080	48,080
European Euro	290,485	156,391,519	156,682,004
Hong Kong Dollar	-	46,892,485	46,892,485
Hungarian Forint	-	641,667	641,667
Indian Rupee	(53,574)	13,878,047	13,824,473
Indonesian Rupiah	4,708,415	4,274,058	8,982,473
Israel Shekel	-	2,738,160	2,738,160
Japanese Yen	9,134,710	127,886,364	137,021,074
Kenyan Shilling	-	998,008	998,008
Malaysian Ringgit	8,557,376	2,548,222	11,105,598
Mexican Peso	17,175,751	4,543,357	21,719,108
New Romanian Leu	(21,365)	-	(21,365)
New Taiwan Dollar	3,784,747	1,017,686	4,802,433
New Zealand Dollar	33,053	417,212	450,265
Norwegian Krone	7,314,556	5,059,599	12,374,155
Peruvian Nuevo Sol	(169,926)	8,013	(161,913)
Philippines Peso	-	881,460	881,460
Polish Zloty	7,224,048	1,129,872	8,353,920
Russian Rubles	-	1,113,845	1,113,845
Singapore Dollar	(172,753)	7,083,145	6,910,392
South African Rand	2,531,807	10,174,301	12,706,108
South Korean Won	(5,798)	16,954,166	16,948,368
Swedish Krona	15,126,156	15,190,898	30,317,054
Swiss Franc	-	36,795,228	36,795,228
Thai Baht	-	19,812,339	19,812,339
Turkish Lira	(73,907)	3,335,104	3,261,197
Turkish Lira	-	862,939	862,939
UAE Dirham	-	562,787	562,787
	<u>\$ 126,683,943</u>	<u>\$ 673,859,683</u>	<u>\$ 800,543,626</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or “derived” from, the performance of some agreed upon benchmark. The investment policies of the Board allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statement of Net Position. At June 30, 2019 and 2018, the Board had one type of derivative security: currency forwards.

Currency Forwards

Currency forwards represent forward exchange contracts that are obtained to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Position with losses of \$1,608,867 and \$33,356 for fiscal years 2019 and 2018, respectively. At June 30, 2019 and 2018, the Board's investment portfolio included the currency forwards balances shown below.

Currency	Cost	Purchases	Sales	Fair Value June 30, 2019	Fair Value June 30, 2018
Australian Dollar	\$ -	\$ -	\$ -	\$ -	\$ (14,456,611)
Brazilian Real	-	-	-	-	(3,002,470)
Canadian Dollar	-	-	-	-	(9,752,768)
Danish Krone	-	-	-	-	(5,162,608)
European Euro	-	-	-	-	(17,573,408)
Great Britian Pound Sterling	474,746	475,586	-	475,586	(7,073,132)
Indian Rupee	-	-	-	-	(2,447,121)
Indonesian Rupiah	-	-	-	-	(2,327,727)
Mexican Peso	-	-	-	-	(5,728,197)
New Zealand Dollar	-	-	-	-	(6,127,370)
Norwegian Krone	-	-	-	-	(6,497,436)
Peruvian Nuevo Sol	-	-	-	-	(2,722,951)
Polish Zloty	-	-	-	-	(6,064,819)
Romanian Leu	-	-	-	-	(1,363,173)
Singapore Dollar	-	-	-	-	(4,849,011)
South Africa Rand	-	-	-	-	(3,293,281)
Thai Baht	-	-	-	-	(5,372,306)
United Kingdom Pound	-	-	-	-	(2,833,407)
United States Dollar	(474,746)	-	(474,746)	(474,746)	107,094,609
Total forwards subject to currency risk				\$ 840	\$ 446,813

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 – SECURITIES LENDING

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions* establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as both an asset and a liability. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. In all cases the borrower provides more collateral than the value of securities lent. Therefore, there is no credit risk related to security lending transactions. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of North Dakota Board of University & School Lands loans was approximately 50 days as of June 30, 2019 and 64 days as of June 30, 2018.

Cash open collateral is invested in a short-term investment pool, the NDLAN Custom fund, which had an interest sensitivity of 31 days as of this statement date.

There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

Securities lending collateral is invested in investment pools and is not exposed to custodial credit risk.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The following represents the Board's balances related to securities lending transactions at June 30, 2019 and 2018.

Fiscal Year 2019	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non- Cash Collateral	Non-Cash Collateral
GLOBAL Agencies	\$ 2,708,479	\$ 2,845,738	\$ 43,991	\$ 47,056
US Agencies	12,687,100	12,971,822	-	-
US Corporate Fixed	49,184,179	50,258,509	172,100	174,094
US Equities	39,663,430	40,342,726	4,788,601	4,846,822
US Government Fixed	135,593,775	138,201,753	431,463,836	440,014,691
	<u>\$ 239,836,963</u>	<u>\$ 244,620,548</u>	<u>\$ 436,468,528</u>	<u>\$ 445,082,663</u>
Market Value of Securities on Loan against Cash Collateral				\$ 239,836,963
Market Value of Securities on Loan against Non Cash Collateral				436,468,528
Total Market Value of Securities on Loan				<u>\$ 676,305,491</u>

Fiscal Year 2018	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non- Cash Collateral	Non-Cash Collateral
GLOBAL Agencies	\$ 2,365,695	\$ 2,056,426	\$ -	\$ -
GLOBAL Equities	43,292	45,897	8,545,868	9,114,967
US Agencies	18,639,126	19,093,089	-	-
US Corporate Fixed	59,575,827	61,042,730	-	-
US Equities	37,913,514	38,896,625	4,504,191	4,605,190
US Government Fixed	98,831,512	101,075,873	48,784,878	49,915,340
	<u>\$ 217,368,966</u>	<u>\$ 222,210,640</u>	<u>\$ 61,834,937</u>	<u>\$ 63,635,497</u>
Market Value of Securities on Loan against Cash Collateral				\$ 217,368,966
Market Value of Securities on Loan against Non Cash Collateral				61,834,937
Total Market Value of Securities on Loan				<u>\$ 279,203,903</u>

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following investments are reported at fair value, which represents stated market prices. Actual gains and losses realized by the Department will be determined at the time of the sale and will be based on market conditions on that date.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Fair Value Hierarchy

In accordance with GASB Statement No. 72, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Determination of Fair Value

In accordance with GASB Statement No. 72, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Department's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

The equity, fixed income and other investment assets classified as Level 1 of the fair value hierarchy are either individual securities, mutual funds or ETFs that are valued using prices quoted in active markets for those securities or funds. The short-term bills and notes, equity, fixed income and other investment assets classified as Level 2 of the fair value hierarchy are primarily debt instruments and funds whose pricing is determined by pricing vendors using quoted prices for similar assets in active markets. Level two assets also include some low traded equities in the unclaimed property account, as well as currencies and forward foreign currency exchange contracts held in the portfolio that are used to hedge certain portions of the fixed income portfolio.

Assets classified as being measured by NAV include certain investments in six different equity common trust funds that have either daily or monthly liquidity, investments in two different bond funds, both of which have daily liquidity, and investments in five different open ended real estate funds/partnerships that are priced quarterly by the general partner and which have redemption notice requirements of 90 days. Items classified as being valued at other than FV include cash held in money markets accounts at Northern Trust as well as adjustments to cash for pending sales and purchases.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The table below present the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2019.

	Fair Value at 6/30/19	Fair Value Measures Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments, at fair value				
Short Term Securities				
Short Term Bills and Notes	\$ 443,705,377	\$ 143,721,577	\$ 299,983,800	\$ -
Total Short Term Securities	<u>443,705,377</u>	<u>143,721,577</u>	<u>299,983,800</u>	<u>-</u>
Equity Investments				
Common Stock	219,643,984	219,632,856	1,594	9,534
Equity Funds/EFTs	235,633,394	235,633,394	-	-
Convertible Equity	1,889,050	1,889,050	-	-
Preferred Stock	16,417,748	16,417,748	-	-
Total Equity Investments	<u>473,584,176</u>	<u>473,573,048</u>	<u>1,594</u>	<u>9,534</u>
Fixed Income Investments				
Asset Backed Securities	113,553,916	-	113,553,916	-
Bond Funds/EFTs	191,145,918	191,145,918	-	-
Collateralized Mortgage	41,484,435	-	41,484,435	-
Commercial Mortgage Backed	48,173,642	-	45,858,464	2,315,178
Corporate Bonds	460,310,844	-	460,310,844	-
Government Agencies	39,988,756	-	39,988,756	-
Government Bonds	384,774,433	-	384,774,433	-
Government Mortgage Backed	171,706,336	-	171,706,336	-
Index Linked Government Bonds	1,384,751	-	1,384,751	-
Collateralized Debt	17,034,610	-	17,034,610	-
Total Fixed Income Investments	<u>1,469,557,641</u>	<u>191,145,918</u>	<u>1,276,096,545</u>	<u>2,315,178</u>
Other Investment Assets				
Currency	20,438,897	20,438,897	-	-
FX Contracts	839	839	-	-
Global Tactical Asset Allocation MF	826,882,966	826,882,966	-	-
Master Limited Partnership	94,989,215	94,989,215	-	-
REITs	8,267,930	8,267,930	-	-
Rights/Warrants	184	184	-	-
Total Other Investment Assets	<u>950,580,031</u>	<u>950,580,031</u>	<u>-</u>	<u>-</u>
Total Investments at Fair Value	<u>\$ 3,337,427,225</u>	<u>\$ 1,759,020,574</u>	<u>\$ 1,576,081,939</u>	<u>\$ 2,324,712</u>
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV:				
Commingled Funds - Equities	\$ 1,381,897,852		Daily, Monthly	< 5 days
Commingled Funds - Fixed Income	272,320,857		Daily	< 5 days
Real Estate Funds	715,770,515		Quarterly	90 days
Private Debt Fund	61,356,246	91,500,000		
Total Investments measured at NAV	<u>\$ 2,431,345,470</u>	<u>\$ 91,500,000</u>		
Investments at other than fair value				
Cash and adjustments to cash	\$ 50,862,258			
Total Investments at other than fair value	<u>\$ 50,862,258</u>			
Total Investments	<u>\$ 5,819,634,953</u>			

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The table below present the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2018.

	Fair Value at 6/30/18	Fair Value Measures Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments, at fair value				
Short Term Securities				
Short Term Bills and Notes	\$ 122,242,676		\$ 122,242,676	
Total Short Term Securities	<u>122,242,676</u>		<u>122,242,676</u>	
Equity Investments				
Common Stock	285,342,922	\$ 285,258,671	74,495	\$ 9,756
Equity Funds/EFTs	155,195,716	155,195,716	-	-
Convertible Equity	5,986,962	5,989,962	-	-
Preferred Stock	16,949,014	16,949,014	-	-
Total Equity Investments	<u>463,474,614</u>	<u>463,393,363</u>	<u>74,495</u>	<u>9,756</u>
Fixed Income Investments				
Asset Backed Securities	19,114,619	-	19,114,619	-
Bond Funds/EFTs	115,095,238	115,095,238	-	-
Collateralized Mortgage	10,755,796	-	10,755,796	-
Commercial Mortgage Backed	31,924,907	-	31,924,907	-
Commercial Paper	-	-	-	-
Corporate Bonds	477,826,734	-	477,826,734	-
Government Agencies	17,058,592	-	17,058,592	-
Government Bonds	320,742,120	-	320,742,120	-
Government Mortgage Backed	123,960,879	-	123,960,879	-
Index Linked Government Bonds	1,325,843	-	1,325,843	-
Total Fixed Income Investments	<u>1,117,804,728</u>	<u>115,095,238</u>	<u>1,002,709,490</u>	<u>-</u>
Other Investment Assets				
Currency	11,023,272	-	11,023,272	-
Currency ETF	16	16	-	-
FX Contracts	488,299	-	488,299	-
Global Tactical Asset Allocation MF	603,936,693	603,936,693	-	-
Master Limited Partnership	136,909,066	136,909,066	-	-
REITs	20,123,400	20,123,400	-	-
Rights/Warrants	247	247	-	-
Total Other Investment Assets	<u>772,480,993</u>	<u>760,969,422</u>	<u>11,511,571</u>	<u>-</u>
Total Investments at Fair Value	<u>\$ 2,476,003,011</u>	<u>\$ 1,339,458,023</u>	<u>\$ 1,136,538,232</u>	<u>\$ 9,756</u>
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV:				
Commingled Funds - Equities	\$ 1,307,672,412		Daily, Monthly	< 5 days
Commingled Funds - Fixed Income	217,754,198		Daily	< 5 days
Real Estate Funds	679,650,478		Quarterly	90 days
Total Investments measured at NAV	<u>\$ 2,205,077,088</u>			
Investments at other than fair value				
Cash and adjustments to cash	\$ 145,010,297			
Total Investments at other than fair value	<u>\$ 145,010,297</u>			
Total Investments	<u>\$ 4,826,090,396</u>			

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

In addition, the Department holds unclaimed mutual funds and other securities for owners. Actual gains and losses realized will be determined at the time of the sale and will be based on market conditions at that date. As of June 30, 2019 and 2018 the Board held \$156,277 and \$1,353,613, respectively in unclaimed mutual funds.

The Common Schools Trust Fund owns the building occupied by the Department. For the period ending June 30, 2019 and 2018, the book value of the building was \$428,010 and \$483,851, respectively. The book value of the building is included in the investments line of the balance sheet.

NOTE 8 – INVESTMENT EXPENSES

The following is a summary of investment expenses as of June 30, 2019 and 2018.

	2019	2018
Investment managers' fees:		
Large cap equity	\$ 59,370	\$ 65,893
Mid cap equity	23,439	22,057
Small cap equity	647,785	646,429
International equity	845,991	421,169
Emerging markets equity	1,408,060	1,213,856
Core fixed income	1,647,968	1,362,949
Non-core fixed income	1,854,609	1,119,552
US investment grade fixed income	49,364	-
Core real estate	3,621,408	3,208,141
Non-core real estate	3,007,972	5,928,262
Inflation protected	2,445,248	2,405,113
Global tactical	7,051,943	6,755,896
Total investment managers' fees	22,663,157	23,149,317
Custody fees	159,687	183,019
Investment consultant fees	163,058	148,625
Miscellaneous expenses	240,169	3,430,832
Total investment expenses	\$23,226,071	\$26,911,793

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The following is a reconciliation of investment expense to the financial statements.

	<u>2019</u>	<u>2018</u>
Investments expenses as reflected in the financial statements	\$ 12,047,496	\$ 14,227,931
Large cap equity	9,712	8,295
Small cap equity	(13)	-
International equity	6,461	5,946
Emerging markets equity	1,408,060	1,213,856
Core fixed income	470,174	327,415
Non-core fixed income	845,682	-
Loan pools	2,498	-
Non-core real estate	3,007,972	5,928,262
Inflation protected	-	690
Global tactical	5,428,029	5,199,398
Investment expenses per schedule	<u>\$ 23,226,071</u>	<u>\$ 26,911,793</u>
 BND loan pool management expenses:		
Expenses as reflected in the financial statements	\$ 46,867	\$ 35,707
Plus expenses as reflected in interest income	2,497	2,645
Total loan pool expenses	<u>\$ 49,364</u>	<u>\$ 38,352</u>

NOTE 9 – FARM LOAN POOL AND FARM REAL ESTATE

N.D.C.C. Chapter 15-03 authorizes the Board to invest in first mortgage farm loans. All purchased loans are credited to the pool and the investments, repayments, interest and income are credited to the various trusts in proportion to their participation. The pool is administered by the BND in accordance with standard banking practices, including executing all instruments on behalf of the Board and handling foreclosures.

As of June 30, 2019, the non-current and current portions of the loans were \$8,276,625 and \$952,528, respectively. As of June 30, 2018, the non-current and current portions of the loans were \$6,361,470 and \$745,461, respectively.

As of June 30, 2019, and 2018, the pool had a net position of \$14,745,136 and \$7,584,867. For the same period, the pool earned net income of \$660,268 and \$469,504.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 10 – ENERGY CONSTRUCTION LOAN PROGRAM

The Board approved participation in an energy construction loan program with the BND for the purpose of new construction loans in areas of North Dakota impacted by oil development. The primary focus of the loan program is for multi-family housing and commercial loans. The Board will participate in up to 50% of a first mortgage at market rates; loans must be amortized over 20 years or less. The Board authorized the Commissioner to allocate up to \$20,000,000 to this program. The Common School Trust fund is the only trust participating in this program.

The loan program meets the “exclusive benefit” rule, whereby any investment decision made must be for the sole benefit of the Common School Trust fund. The loan program is administered by the BND who charges an annual fee of one-quarter percent on all outstanding loans.

As of June 30, 2019, the non-current and current portions of the loans were \$948,850 and \$30,597, respectively. As of June 30, 2018, the non-current and current portions of the loans were \$1,009,481 and \$30,597, respectively.

As of June 30, 2019, and 2018 the program had a net position of \$1,005,399 and \$1,068,589, respectively. For the same period, the program earned net income of \$46,810 and \$50,232.

NOTE 11 - COAL WARRANTS

The Board is authorized to make loans to coal development impacted counties, cities and school districts from the Coal Development Trust fund. A warrant is executed by the governing body as evidence of the loan. The loans bear interest at 3, 3.2 or 3.75 percent annually, depending on the loan date. The coal warrants are payable only from the borrowing entities share of coal severance tax payments and do not constitute a general obligation of the entity. No losses are anticipated on the warrants and an allowance has not been provided.

As of June 30, 2019, the non-current and current portions of the loans were \$10,538,555 and \$730,650, respectively. The same amounts as of June 30, 2018, were \$11,267,958 and \$705,982, respectively.

NOTE 12 - SCHOOL CONSTRUCTION LOAN PROGRAM

The school construction loan program, fund by the Coal Development Trust Fund, is governed by N.D.C.C. Chapter 15.1-36-02, authorizing the Board to fund low-interest school construction loans; of which the outstanding principal balance of loans made from this fund may not exceed fifty million dollars.

A proposed construction project must be submitted and approved by the superintendent of public instruction. The application may be submitted before or after authorization of a bond issue in accordance with N.D.C.C. Chapter 21-03. The superintendent determines the loan amount, the term of the loan, and the interest rate to be paid. To be eligible for a loan, the school district must have an existing indebtedness equal to at least fifteen percent of the school district's taxable valuation. The interest rate discount on a loan must be at least one percent, but cannot exceed four percent of the interest rate charged on comparable tax-exempt bond rates.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

For all regular school construction loans the BND processes and services all loans. BND receives payments of principal and interest from the school districts and remits these payments to the Department for deposit in the Coal Development Trust fund.

In 2013, the legislature changed the program to allow certain school districts in oil producing areas to use a portion of the gross production tax due to the district under N.D.C.C. Chapter 57-51 to repay school loans. For gross production tax backed school loans, the amount of the loan does not count as debt for the borrowing entity and repayment of the loan will be accomplished by the State Treasurer capturing a school district's gross production tax payments each month and remitting those funds to appropriate trust fund until such time that year's scheduled loan payment has been captured. As of June 30, 2017, there was one gross production tax backed school construction loan processed with Coal Development Trust funding.

As of June 30, 2019, the non-current and current portions of loans from the Coal Development Trust Fund were \$38,826,387 and \$2,880,764, respectively. The same amounts as of June 30, 2018, were \$41,463,869 and \$2,857,954, respectively.

NOTE 13 – FUEL PRODUCTION FACILITIES LOAN GUARANTEE PROGRAM

The Fuel Production Facility Loan Guarantee Program is governed under N.D.C.C. Chapter 6-09.7. Under this Program the Bank of North Dakota may request up to \$25 million of the Strategic Investment and Improvements fund to guarantee loans to facilities that use grain-related and biomass farm products for agriculturally derived fuel production. The guarantee is limited to 30% of the debt needed to build the project.

In March 2014, \$18,000,000 was transferred from the Strategic Investment and Improvements fund to the Bank of North Dakota to guarantee \$60 million of loans to Dakota Spirit AgEnergy. The loan guarantee closed in May 2014. The guaranteed funds were held at the Bank of North Dakota, on behalf of the Strategic Investment and Improvements fund, in an income earning account.

In January 2019, the Bank of North Dakota closed the loan guarantee with the Dakota Spirit AgEnergy as the loan was paid in full and no other guaranteed loans were outstanding. At the loan closing, the Bank of North Dakota moved all funds and securities to the Strategic Investment and Improvement fund.

NOTE 14 - OFFICE LEASE COMMITMENT

The Board's administrative agent, the Department rents office space owned by the Common Schools Trust Fund. The Department's commitment to rent its office space from the Common Schools Trust is continuous, with periodic adjustments made in accordance with acceptable accounting practices and market conditions.

For the periods ending June 30, 2019 and 2018, rent of \$49,320 was paid by the non-Common Schools Trusts funds.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 15 - CAPITAL ASSETS

Governmental Activities:	<u>7/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/19</u>
Land	\$ 7,740,063	\$ -	\$ -	\$ 7,740,063
Equipment	50,867	62,446	(29,601)	83,712
Less accumulated depreciation:				
Equipment	<u>(39,129)</u>	<u>(5,911)</u>	<u>29,601</u>	<u>(15,439)</u>
Net capital assets	<u>\$ 7,751,801</u>	<u>\$ (56,535)</u>	<u>\$ -</u>	<u>\$ 7,808,336</u>
Governmental Activities:	<u>7/1/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/18</u>
Land	\$ 7,740,063	\$ -	\$ -	\$ 7,740,063
Equipment	43,132	7,735	-	50,867
Less accumulated depreciation:				
Equipment	<u>(27,338)</u>	<u>(11,791)</u>	<u>-</u>	<u>(39,129)</u>
Net capital assets	<u>\$ 7,755,857</u>	<u>\$ (4,056)</u>	<u>\$ -</u>	<u>\$ 7,751,801</u>

Under the provisions of the Enabling Act, land was granted to the State for the support of the common schools and other institutions. Under Constitutional authority, no grant land may be sold for less than ten dollars an acre which is the value per acre used for statement of net position purposes. In fiscal years 2019 and 2018, no acres were acquired or sold.

All lands held by the Department are considered capital assets, except lands acquired through foreclosure that the Board intends to sell. Land is not depreciable according to GASB 34.

A total of \$5,911 and \$11,791 in equipment depreciation expense for fiscal years ending June 30, 2019 and 2018 was charged to the education fund.

NOTE 16 - DUE FROM (TO) OTHERS

The following detail shows amounts that are due from and to other trust funds managed by the Department at June 30, 2019 and 2018:

<u>Fund</u>	<u>2019</u>		<u>2018</u>	
	<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ -	\$ 4,894,575	\$ -	\$ 5,788,294
Strategic Investment and Improvements fund	1,891,596	-	2,038,060	-
Non-major perpetual funds	258,033	-	386,799	-
Common Schools Trust fund	<u>2,744,946</u>	<u>-</u>	<u>3,363,435</u>	<u>-</u>
	<u>\$ 4,894,575</u>	<u>\$ 4,894,575</u>	<u>\$ 5,788,294</u>	<u>\$ 5,788,294</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

As stated in Note 1 of these financial statements, the Department is a state agency of North Dakota, as such, the other state agencies of the State and political subdivision are related parties. The following is detail of amounts due from and to other state agencies as of June 30, 2019 and 2018.

Fund	2019		2018	
	Due from other state agencies	Due to other state agencies	Due from other state agencies	Due to other state agencies
General fund				
Attorney General	\$ -	\$ 4,106	\$ -	\$ 3,260
Dept. of Transportation	-	7,768	-	5,105
Information Technology Department	-	-	-	7,477
Central Services	-	2,077	-	-
Office of Management and Budget	-	318	-	294
	<u>-</u>	<u>14,269</u>	<u>-</u>	<u>16,136</u>
Common School Trust Fund:				
State Treasurer	18,323,356	-	17,077,893	-
Central Services	-	36	-	-
Bank of North Dakota	-	23,693	-	16,194
Information Technology Department	-	621	-	600
Office of Management and Budget	-	192	-	-
	<u>18,323,356</u>	<u>24,542</u>	<u>17,077,893</u>	<u>16,794</u>
Perpetual funds:				
Bank of North Dakota	-	2,027	-	1,387
	<u>-</u>	<u>2,027</u>	<u>-</u>	<u>1,387</u>
Strategic Investment & Improvements fund:				
State Treasurer	74,831,640	-	14,024,100	-
Attorney General	-	3,664	-	916
	<u>74,831,640</u>	<u>3,664</u>	<u>14,024,100</u>	<u>916</u>
Coal Development Trust fund:				
State Treasurer	218,911	153,238	241,656	169,159
	<u>218,911</u>	<u>153,238</u>	<u>241,656</u>	<u>169,159</u>
Oil and Gas Impact fund:				
Information Technology Department	-	1,448	-	1,447
Office of Management and Budget	-	-	-	13
Attorney General	-	58	-	280
Department of Transportation	-	-	-	25
	<u>-</u>	<u>1,506</u>	<u>-</u>	<u>1,765</u>
Total Due From/Due To	<u>\$ 93,373,907</u>	<u>\$ 199,246</u>	<u>\$ 31,343,649</u>	<u>\$ 206,157</u>

NOTE 17 – PERPETUAL FUND DISTRIBUTION POLICY

According to Section 2 of Article IX of the North Dakota State Constitution, biennial distributions from the perpetual trust funds must be ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. The average value of trust assets is determined by using the ending net value of each trusts' financial assets for the fiscal year that ends one year before the beginning of the biennium and the assets' ending value for the four preceding fiscal years. Equal amounts must be distributed during each year of the biennium.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 18 – TRANSFERS FROM (TO) OTHER AGENCIES

The following detail represents amounts transferred to beneficiaries and other state agencies as of June 30, 2019 and 2018.

Fund	2019		2018	
	Transfers from other agencies	Transfers to other agencies	Transfers from other agencies	Transfers to other agencies
Perpetual Funds:				
Department of Public Instruction	\$ -	\$ 144,132,000	\$ -	\$ 144,132,000
Ellendale	-	965,944	-	965,944
Industrial School	-	400,408	-	400,406
Mayville State University	-	271,000	-	271,000
ND State University	-	2,369,000	-	2,369,000
School of Mines	-	722,000	-	722,000
School of Science	-	630,000	-	630,000
School of the Blind	-	327,000	-	327,000
School of the Deaf	-	799,000	-	799,000
State Hospital	-	592,000	-	592,000
University of ND	-	1,109,000	-	1,109,000
Valley City State University	-	404,000	-	404,000
Veterans Home	-	218,000	-	218,000
	<u>-</u>	<u>152,939,352</u>	<u>-</u>	<u>152,939,350</u>
Strategic Investment and Improvements:				
Adjutant General	-	300,000	-	-
General Fund of North Dakota	-	124,000,000	-	124,000,000
Legal Counsel of Indigents	-	-	189,000	-
ND Attorney General	-	-	-	16,022,000
ND Commerce Department	-	4,000,000	100,000	600,000
ND Department of Agriculture	-	-	-	1,000,000
ND Department of Corrections	-	-	-	935,907
ND Department of Health	-	211,048	-	-
ND State Highway Patrol	-	358,000	-	-
ND Secretary of State	-	8,200,000	-	-
ND Industrial Commission	-	-	329,290	4,000,000
ND Public Service Commission	-	-	-	100,000
ND State Historical Society	-	-	22,105	-
ND State University	214,266	-	-	-
Office of ND State Treasurer	-	-	-	3,000,000
Political Subdivision Allocation	-	-	7,660,518	-
	<u>214,266</u>	<u>137,069,048</u>	<u>8,300,913</u>	<u>149,657,907</u>
Oil & Gas Impact Grant Fund				
Political Subdivision Allocation	-	-	8,000,000	-
Strategic Investments & Improvement Fund	-	-	3,000,000	-
State General Fund	-	-	1,325,500	2,695,240
	<u>-</u>	<u>-</u>	<u>12,325,500</u>	<u>2,695,240</u>
Coal Development Trust:				
Lignite Research Fund	-	1,103,835	-	1,160,932
General Fund of ND	-	952,672	-	841,579
	<u>-</u>	<u>2,056,507</u>	<u>-</u>	<u>2,002,511</u>
Capitol Building Trust:				
Facilities Management	-	525,000	-	2,650,000
	<u>-</u>	<u>525,000</u>	<u>-</u>	<u>2,650,000</u>
Total Transfers	<u>\$ 214,266</u>	<u>\$ 292,589,907</u>	<u>\$ 20,626,413</u>	<u>\$ 309,945,008</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 19 – ASSIGNED FUND BALANCE

On July 27, 2019 the Board of University and School Lands classified \$229,325,049 of the Strategic Investment and Improvements fund as an assigned fund balance for fiscal year 2019 financial statement purposes. This commitment was made by the Board to indicate that these funds should not be transferred out of this fund until potential title disputes related to certain riverbed leases have been resolved.

NOTE 20 – LITIGATION

The Board of University and School Lands (Board) is currently involved in litigation relating to mineral ownership, royalty payments, and unclaimed property payments. The following is a list of pending lawsuits:

William S. Wilkinson, et al. v. Board of University and School Lands, Brigham Oil & Gas, LLP, and EOG Resources, Inc.

On January 10, 2012, the Wilkinson family filed a suit in state court asserting that they own shore zone minerals in about 200 acres west of Williston. In July 2014, Plaintiffs filed an Amended Complaint and added claims of unconstitutional takings, conversion, constructive trust and unjust enrichment, civil conspiracy and deprivation of rights under 42 U.S.C. § 1983. The plaintiffs allege that the Board should be issuing leases on the west side of the Highway 85 Bridge pursuant to the Phase II delineation study which determined the location of the historic Missouri River channel, prior to the Garrison Dam project. The district court granted a summary judgment motion brought by the State and found in the State's favor determining that the minerals under the property in question are owned by the State of North Dakota and dismissing the remaining counts in the complaint. Plaintiffs and two of the defendants appealed the decision to the North Dakota Supreme Court and the Supreme Court remanded the case to district court. The district court issued an order dated December 4, 2017 staying these proceedings until such time as final review findings under N.D.C.C. § 61-33.1-03 are adopted by the North Dakota Industrial Commission. The Court issued its Order on December 12, 2018, denying the Motion for Continued Stay. Plaintiffs' filed a Motion for Summary Judgment and the defendants responded. A hearing was held on July 30, 2019. The Order Granting Plaintiffs' Motion for Summary Judgment was entered on September 6, 2019.

Whitetail Wave LLC v. XTO Energy, Inc., Board of University and School Lands, and the State of North Dakota

This case is also challenging the State's determination of the ordinary high watermark but the tract is located on the east side of the Highway 85 Bridge where the Department has currently leased only the historic channel of the Missouri River. Plaintiffs are requesting that title to the minerals be quieted and have alleged claims of unconstitutional takings, trespass, slander of title and constructive trust/unjust enrichment against the State. The Complaint also makes a number of claims against XTO individually. The district court issued an order dated August 21, 2017 staying these proceedings until such time as final review findings under N.D.C.C. § 61-33.1-03 are adopted by the North Dakota Industrial Commission. A continued stay was affirmed on November 27, 2018.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Mary K. Starin, as Personal Representative of the Estate of Bruno Herman Weyrauch v. Kelly Schmidt, State Treasurer, et. al.

This is a quiet title action. A deed previously issued by the Department of Trust Lands was lost without being recorded, the plaintiff is seeking a judgment to cure the defect in the chain of title.

The tract, however, is located under Lake Sakakawea. The Board has filed an answer claiming any interest in any minerals located below the ordinary high watermark. The district court issued an order dated July 10, 2017 staying these proceedings until such time as final review findings under N.D.C.C. § 61-33.1-03 are adopted by the North Dakota Industrial Commission with the exception that the plaintiff may submit a motion for summary judgment on issues other than the location of the ordinary high watermark. A motion for continued stay was filed and the stay was granted. Trial is currently scheduled for February 2020.

Whiting Oil and Gas Corporation v. Arlen A. Dean, et. al.

Whiting filed an interpleader for the lands underlying a spacing unit located near the Montana border for which the Yellowstone River runs through. Whiting is requesting the Court determine the property interests for the spacing unit so that Whiting can correctly distribute the proceeds from the well located in the unit. The court trial (no jury) scheduled for August 6-10, 2018 was postponed to April 22 - 26, 2019. The initial scheduling order was amended for the State to conduct field work that could not be completed in the winter. Due to property flooding from high flows on the Yellowstone River, the State has been unable to conduct field work. At an August 16, 2018 status conference, the court suspended any interim deadlines and set a scheduling conference for January 2019 to set a new trial date. An Amended Notice of Court Trial was filed, reflecting the April 20-24, 2020 trial date. On July 9, 2019, the State Engineer brought an action to Quiet Title to the property involved in this case. The State Defendants filed an Amended Answer in September 2019.

Continental Resources, Inc. v. North Dakota Board of University and School Lands, United States

This is an interpleader action filed by Continental Resources, Inc. for certain lands underlying Continental operated wells located in McKenzie, Mountrail, and Williams Counties which are being claimed by both the State of North Dakota and the United States. Continental is requesting the Court determine the property interests for the lands so that Continental can correctly distribute the proceeds from the wells. The United States filed a motion to dismiss. The Board and Continental filed oppositions to the motion and the parties are awaiting a decision on the motion from the court. An Amended Complaint was filed by Plaintiffs and Defendants filed their Answers to the Amended Complaint. A Status Conference is set for October 11, 2019.

North Dakota Office of the State Engineer and North Dakota Board of University & School Lands v. Bureau of Land Management (Office of Hearings and Appeals, Board of Land Appeals)

In 2014, the Bureau of Land Management (BLM) resurveyed land along the Missouri River to locate the boundary between public domain land owned by the United States and the riverbed owned by the State of North Dakota. In identifying the boundary, the BLM applied federal law rather than state law. The BLM uses these surveys as the basis for leasing minerals. In certain areas, the new surveys overlap with minerals currently leased by the Board. The Board of University and School Lands and State Engineer challenged the BLM's resurvey but the BLM's Montana Office rejected the challenged. The Board and State Engineer then appealed that decision to the Office of Hearings and Appeals, Board of Land Appeals (IBLA). The Board and State Engineer, and BLM have both filed briefs with the IBLA regarding their respective positions and are awaiting a decision from the IBLA. On June 24, 2019, the BLM submitted its Request to Take Judicial Notice of North Dakota Law.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

State of Arkansas, et al. v. State of Delaware (United States Supreme Court)

This case is an attempt to have the United States Supreme Court assume jurisdiction over a lawsuit involving unclaimed property brought by 30 states, including the state of North Dakota, against the state of Delaware. The substantive issue involved is whether sums payable on unclaimed and abandoned checks sold by Moneygram Payments Systems, Inc. should be remitted to Plaintiff States, as the states of purchase, or to Defendant Delaware, as Moneygram's state of incorporation. Texas and Arkansas are the lead states on behalf of the other Plaintiff states. The parties have exchanged discovery and are in the process of resolving issues regarding depositions of certain states. The parties have agreed to stipulate as to the authenticity of the documents produced in discovery rather than undertake depositions. Dispositive motions have been filed.

Paul Sorum, et al. v. State of North Dakota, et al.

In January 2018, Plaintiffs brought an action against the State of North Dakota, the Board of University and School Lands, the North Dakota Industrial Commission, Governor Burgum and Attorney General Stenehjem (Defendants) seeking to declare N.D.C.C. ch. 61-33.1 unconstitutional, and to enjoin Defendants from implementation or enforcement of N.D.C.C. ch. 61-33.1. Plaintiffs argue that the Legislature, by passing Senate Bill 2134, codified at N.D.C.C. ch. 61-33.1, has violated the public trust doctrine and the anti-gift (see N.D. Const. art. X, § 18), "equal protection" (see N.D. Const. art. I, § 21), and special laws (see N.D. Const. art. IV, § 13) clauses of the North Dakota Constitution. Plaintiffs are claiming that the legislation results in the unlawful transfer of "approximately \$1.96 billion in cash and State-owned sovereign lands from the citizens of the State ... to a small group of private parties in western North Dakota." Plaintiffs allege N.D.C.C. ch. 61-33.1 "disclaims [the State's] perpetual rights to all minerals under Lake Sakakawea, a total of about 108,000 mineral acres." A summary judgment hearing was held January 4, 2019. Judgment was entered in April 26, 2019. The parties appealed the Judgment to the North Dakota Supreme Court. Plaintiffs then brought a Motion for Attorneys Fees and a hearing was held on July 18, 2019. On July 19, 2019, the Supreme Court temporarily remanded the case to the trial court for determination of the attorneys fees issue. The amended Judgment was entered on July 31, 2019, and both parties have appealed to the North Dakota Supreme Court.

Continental Resources, Inc. v. North Dakota Board of University & School Lands and North Dakota Department of Trust Lands

Continental is seeking a Declaratory Judgment that it is currently paying royalties properly under the Board's lease. Specifically, Continental is asking the Court to order that Continental is allowed to deduct certain costs from royalty payments and that it does not owe the Defendants any additional royalty payments based on previous deductions. A Complaint and Answer with Counterclaims have been filed. Continental filed an Answer to Counterclaims. The parties both completed discovery. The parties filed a Joint Motion for Stay, requesting the Court stay all proceedings pending the North Dakota Supreme Court's resolution of the petition for rehearing in the Newfield lawsuit and the Court granted this request.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Newfield Exploration Company, Newfield Production Company, and Newfield RMI LLC v. State of North Dakota, ex rel. the North Dakota Board of University and School Lands and the Office of the Commissioner of University and School Lands, a/k/a the North Dakota Department of Trust Lands

Plaintiff is seeking a Declaratory Judgment that it is currently paying gas royalties properly under the Board's lease. Specifically, Plaintiff is asking the Court to order that gas royalty payments made by the Plaintiff be based on the gross amount received by the Plaintiff from an unaffiliated third-party purchaser, not upon the gross amount paid to a third party by a downstream purchaser, and that Plaintiff does not owe the Defendants any additional gas royalty payments based on previous payments. A Complaint and Answer with Counterclaims have been filed. Newfield filed an Answer to Counterclaims. A Scheduling conference was held July 27, 2018 and a trial was scheduled for September 10 & 11, 2019 at the McKenzie County Courthouse. Newfield filed a Motion for Summary Judgment and supporting documents on August 13, 2018. Defendants' filed their response and Cross Motion for Summary Judgment on September 12, 2018. A hearing on the Motion for Summary Judgment was held in January 2019 and the Judgment was entered March 1, 2019. Defendant appealed to the North Dakota Supreme Court. On July 11, 2019, the Supreme Court entered its Judgment reversing the Judgment of the McKenzie County District Court. On July 25, 2019 Newfield filed Appellee's Petition for Rehearing and Amicus Curiae Briefs were filed by Western Energy Alliance and the North Dakota Petroleum Council. The North Dakota Supreme Court requested Defendants file a Response to the Petition for Rehearing and the two Amicus Curiae Briefs and that was filed September 4, 2019.

XTO Energy, Inc., and XTO Holdings, LLC v. North Dakota Board of University and School Lands and the United States of America

In April 2019, XTO Energy, Inc. and XTO Holdings, LLC (XTO), brought an interpleader action against the Board of University and School Lands and the United States regarding certain lands underlying XTO operated wells located in McKenzie and Williams Counties. This case addresses overlapping ownership claims by the State and the United States of minerals underlying the Missouri River. XTO is requesting the Court determine the property interests for the disputed lands so that XTO can correctly distribute the proceeds from the affected wells. The Board and the United States file Answers on August 1, 2019.

Vitesse Oil, LLC; Vitesse Energy, LLC; and Iron Oil Operating LLC v. State of North Dakota; North Dakota Board of University and School Lands; and Jodi A. Smith, Commissioner of University and School Lands

On June 7, 2019, the Attorney General's Office was served with a complaint in the above referenced case. This case is requesting a judgment be entered under Chapter 32-12 of the North Dakota Century Code quieting title in Leases in favor of Plaintiffs; a judgment be entered under Chapter 32-12 of the North Dakota Century Code declaring that the Leases remain valid and in effect with respect to all of the Subject Lands based on the force majeure provision of the Board's lease; that the Court enter a temporary restraining order, preliminary injunction, and permanent injunction, prohibiting Defendants from selling or attempting to sell new leases covering the oil and gas in and under the Subject Lands or otherwise interfering with Plaintiffs exclusive right to explore for and produce the same; and that Plaintiffs be awarded their costs and reasonable attorney fees. The State filed its answer on June 28, 2019.

The State's estimated loss contingency on the above litigation cases cannot be made at this time.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 21 – CONTINUING APPROPRIATIONS

The following information discloses the Department's continuing appropriation authority.

NDCC 15-03-16 Investments. To pay costs related to investments controlled by the Board, including investment management fees, trustee fees, consulting fees, custodial fees, and the cost of capitalized building repairs and renovations.

NDCC 15-04-23 County Services. This statute requires the Board to pay a fee to counties in which the state retains original grant lands for roads and bridges.

NDCC 15-04-24 Grant Land. To pay expenses for trust lands controlled by the Board, including appraisal fees, survey costs, surface lease refunds, weed and insect control costs, clean-up costs, capital improvement rent credits, and expenses necessary to manage, preserve, and enhance the value of the trust asset.

NDCC 15-05-19 Mineral Leases. To pay expenses for minerals controlled by the Board, including appraisal fees, consulting fees, refunds, and expenses necessary to manage, preserve, and enhance the value of the trust asset.

NDCC 15-06-22 Grant Land. This statute allows the Board to pay expenses relating to the sale of original grant land including appraisal fees.

NDCC 15-07-22 Non-Grant Land. To pay expenses for trust lands controlled by the Board, including appraisal fees, survey costs, clean-up or demolition costs, weed and insect control costs, rural fire district reimbursements for fire protection, and expenses necessary to manage, preserve, and enhance the value of the trust asset.

NDCC 15-08-04 Land Surveys. To pay all expenses to ascertain the true boundaries of any tract of land, or to describe or dispose of the same in suitable and convenient lots.

NDCC 15-68-06 Indian Cultural Education Trust. To pay expenses for lands donated under this chapter including survey costs, surface lease refunds, weed and insect control, cleanup costs, capital improvement rent credits, in lieu of tax payments, or expenses necessary to manage, preserve, and enhance the value of the trust asset.

NDCC 57-02.3-07 In Lieu Property Taxes. This statute requires the Board to pay counties in which State property is located in lieu of property taxes.

NDCC 47-30.1-23 Uniform Unclaimed Property Act. To pay all expense deductions under this section.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 22 – LONG TERM LIABILITIES

Compensated Absences Payable

The Department employees can earn annual leave at a varying rate based on years of service. The amount of annual leave earned ranges from one to two days per month, and accrued annual leave cannot exceed 30 days as of April 30th of each year. The Department employees earn sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. At 10 years of continuous service, the State is liable for 10 percent of the employee’s accumulated unused sick leave.

	Balance 7/1/18	Additions	Reductions	Balance 6/30/19	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities- Other long-term liabilities: Compensated absences	\$171,370	\$122,388	\$96,649	\$197,109	\$10,527	\$186,582
	Balance 7/1/17	Additions	Reductions	Balance 6/30/18	Amounts Due Within One Year	Amounts Due Thereafter
Other long-term liabilities: Compensated absences	\$220,247	\$124,751	\$173,628	\$171,370	\$9,153	\$162,217

The reported liabilities for compensated absences were \$197,109 and \$171,370 at June 30, 2019 and 2018, respectively. This balance includes the employer’s share of FICA taxes.

NOTE 23 – PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to N.D.C.C. Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death, and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees, and two members of the legislative assembly appointed by the chairman of the legislative management.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019 and 2018, the Department reported a liability of \$2,895,903 and \$3,207,938 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on the Department's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the Department's proportion was 0.171598 percent which was a decrease of 0.027984 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Department recognized pension expense of \$454,578. At June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 7,665	\$ (98,524)
Changes in actuarial assumptions	1,045,361	(41,333)
Difference between projected and actual investment earnings	-	(14,089)
Changes in proportion and differences between employer contributions and proportionate share of contributions	86,417	(225,074)
Contributions paid to PERS subsequent to the measurement date	128,815	-
Total	<u>\$ 1,268,258</u>	<u>\$ (379,020)</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The \$128,815 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2020	\$ 274,897
2021	236,331
2022	189,242
2023	73,267
2024	(13,314)

For the year ended June 30, 2018, the Department recognized pension expense of \$514,236. At June 30, 2017, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,068	\$ (15,630)
Changes in actuarial assumptions	1,315,471	(72,354)
Difference between projected and actual investment earnings	43,144	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	114,797	(782)
Contributions paid to PERS subsequent to the measurement date	133,932	-
Total	<u>\$ 1,626,412</u>	<u>\$ (88,766)</u>

The \$133,932 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2019	\$ 308,315
2020	367,514
2021	322,657
2022	268,320
2023	136,908

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Actuarial assumptions. The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	12.00%
	1	9.50%
	2	7.25%
	Age:	
	Under 30	7.25%
	31 - 39	6.50%
	40 - 49	6.25%
	50 - 59	5.75%
	60+	5.00%

*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members, and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Fiscal Year Ended June 30, 2019

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	30%	6.05%
International equity	21%	6.71%
Private equity	7%	10.20%
Domestic fixed income	23%	1.45%
Global real assets	19%	5.11%

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Actuarial assumptions. The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age:	
	Under 36	8.00%
	36 – 40	7.50%
	41 - 49	6.00%
	50+	5.00%
	*Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

For active members, inactive members, and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table for the year ending June 30, 2017:

Fiscal Year Ended June 30, 2018

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	31%	6.05%
International equity	21%	6.70%
Private equity	5%	10.20%
Domestic fixed income	17%	1.43%
International fixed income	5%	-0.45%
Global real assets	20%	5.16%
Cash equivalents	1%	0.00%

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Discount rate. For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease in Discount Rate (5.32%)	Current Discount Rate (6.32%)	1% Increase in Discount Rate (7.32%)
Employer's proportionate share of the net pension liability:	\$ 3,934,994	\$ 2,895,903	\$ 2,028,815

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate for the year ending June 30, 2018:

	1% Decrease in Discount Rate (5.44%)	Discount Rate (6.44%)	1% Increase in Discount Rate (7.44%)
Employer's proportionate share of the net pension liability:	\$ 4,354,874	\$ 3,207,938	\$ 2,253,735

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

NOTE 24 – DEFINED BENEFIT OPEB PLAN

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision, and long-term care plan, and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS define benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees, and two members of the legislative assembly appointed by the chairman of the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS, and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision, and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the Department reported a liability of \$126,883 and \$148,970 for its proportionate share of the net OPEB liability, respectively. The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Department's proportion of the net OPEB liability was based on the Department's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Department's proportion was 0.161107 percent which was a decrease of 0.027222 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Department recognized OPEB expense of \$12,698. At June 30, 2019, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,799	\$ (2,622)
Changes in actuarial assumptions	10,410	-
Difference between projected and actual investment earnings on OPEB plan investment	-	(2,730)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(18,796)
Employer contributions subsequent to the measurement date	20,625	-
Total	<u>\$ 34,834</u>	<u>\$ (24,148)</u>

The \$20,625 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	<u>Pension Expense Amount</u>
2020	\$ (1,921)
2021	(1,921)
2022	(1,921)
2023	(716)
2024	(937)
Thereafter	(2,523)

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Actuarial assumptions. The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members, and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37.00%	5.80%
Small Cap Domestic Equities	9.00%	7.05%
International Equities	14.00%	6.20%
Core-Plus Fixed Income	40.00%	1.46%

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

For the year ended June 30, 2018, the Department recognized OPEB expense of \$17,947. At June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (3,633)
Changes in actuarial assumptions	14,429	-
Difference between projected and actual investment earnings on OPEB plan investment	-	(5,632)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(63)
Employer contributions subsequent to the measurement date	21,444	-
Total	\$ 35,873	\$ (9,328)

The \$21,444 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Pension Expense Amount
Year ended June 30:	
2019	\$ 272
2020	272
2021	272
2022	272
2023	1,680
2024	1,680
Thereafter	653

Actuarial assumptions. The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

For active members, inactive members, and healthy retirees, and mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37.00%	5.80%
Small Cap Domestic Equities	9.00%	7.05%
International Equities	14.00%	6.20%
Core-Plus Fixed Income	40.00%	1.46%

Discount rate. The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on these assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50 percent, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Employer's proportionate share of the net OPEB liability	<u>\$ 160,537</u>	<u>\$ 126,883</u>	<u>\$ 98,032</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following present the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50 percent, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net OPEB liability	\$ 186,493	\$ 148,970	\$ 116,807

OPEB plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

NOTE 25 – RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Department participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure 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 participate 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 Department pays an annual premium to the Fire and Tornado Fund (FTF) to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the FTF. The FTF is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve month period.

The State Bonding Fund currently provides the Department with blanket fidelity bond coverage in the amount of \$3,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

North Dakota Workforce Safety and Insurance is an enterprise fund of the State of North Dakota; it is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

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.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 26 – ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measureable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

Management has not yet determined what effect these statements will have on the entity's financial statements.

NOTE 27 – RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year presentation.

NOTE 28 – SUBSEQUENT EVENTS

No significant events occurred subsequent to Department's year end. Subsequent events have been evaluated through October 28, 2019, which is the date these financial statements were available to be issued

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
SCHEDULE OF CONTRIBUTIONS TO NDPERS PENSION PLAN
LAST 10 FISCAL YEARS*

Fiscal Year Ending	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Trust Land's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
June 30						
2015	PERS	\$ 118,962	\$ (120,360)	\$ (1,398)	\$ 1,566,160	7.60%
2016	PERS	141,442	(127,027)	14,415	1,953,665	7.24%
2017	PERS	147,464	(147,738)	(274)	2,037,416	7.25%
2018	PERS	133,932	(133,932)	-	1,881,070	7.12%
2019	PERS	128,815	(128,815)	-	1,809,201	7.12%

* Complete data for this schedule is not available prior to 2015.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
SCHEDULE OF CONTRIBUTIONS TO NDPERS OPEB PLAN
LAST 10 FISCAL YEARS*

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Trust Land's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
June 30, 2018	\$ 21,444	\$ (21,444)	\$ -	\$ 1,881,070	1.14%
2019	20,625	(20,625)	-	1,809,201	1.14%

*Complete data for this schedule is not available prior to 2018.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS*

For the Fiscal Year Ended June 30	Trust Land's Proportion of the Net		Trust Land's		Trust Land's		Proportionate Share of the Net		Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
	Pension Liability (Asset)	Liability of the Net Pension (Asset) (a)	Proportionate Share of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll	Covered- Employee Payroll	Percentage of its Covered- employee Payroll	Percentage of its Covered- employee Payroll		
2015 PERS	0.176238%	\$ 1,118,320	\$	1,484,586	75.33%	77.70%			
2016 PERS	0.175799%	1,195,403		1,566,160	76.33%	77.15%			
2017 PERS	0.193861%	1,889,364		1,953,665	96.71%	70.46%			
2018 PERS	0.199582%	3,207,938		2,037,416	157.45%	61.98%			
2019 PERS	0.171598%	2,895,903		1,762,859	164.27%	62.80%			

Notes to the Required Supplementary Information:

Changes of Assumptions

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET OPEB LIABILITY
LAST TEN FISCAL YEARS*

Fiscal Year Ending	Trust Land's Proportion of Net OPEB Liability (Asset)	Trust Land's Proportionate Share of the OPEB Liability (Asset) (a)		Trust Land's Covered- Employee Payroll	Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered- employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	
		Proportionate Share of the OPEB Liability (Asset)	Proportionate Share of the OPEB Liability (Asset)				
June 30, 2018	0.188329%	\$	148,970	\$	2,037,416	7.31%	59.78%
2019	0.161107%		126,883		1,762,859	7.20%	59.78%

* Complete data for this schedule is not available prior to 2018.

Notes to the Required Supplementary Information:

Changes of Assumptions

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, administrative expenses, salary scale, and percent married assumption.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	Special Revenue Funds											Trust Fund		Total			
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Youth Center	Correctional Center	School of Science	School of Mines	Veterans Home	U.N.D.		Total	Building	Capitol
Assets:																	
Cash	\$ 275,948	\$ 151,308	\$ 65,200	\$ 46,113	\$ 174,436	\$ 58,262	\$ 85,086	\$ 157,816	\$ 505,722	\$ 229,010	\$ 38,685	\$ 219,283	\$ 2,001,269	\$ 79,825	\$ 6,367,107	\$ 2,081,094	
Investments	71,124,377	12,347,672	21,050,903	14,425,316	21,511,217	12,764,827	7,890,966	23,851,351	17,155,818	21,343,359	5,263,207	33,630,254	262,099,267	6,367,107	288,466,374	288,466,374	
Interest receivable	183,235	31,570	53,104	56,788	36,477	36,233	24,603	67,377	53,793	58,271	27,667	85,027	714,145	42,428	756,573	756,573	
Accounts receivable	233,103	121,679	36,815	29,837	97,641	34,218	99,313	714,108	181,936	201,800	7,231	213,580	1,971,261	59,881	2,031,142	2,031,142	
Invested securities lending collateral	2,189,092	379,999	650,913	447,094	661,461	393,170	241,132	728,077	528,270	656,960	163,494	1,035,975	8,075,637	626,905	8,702,542	8,702,542	
Loans																	
Farm loans	183,467	35,415	50,287	51,524	33,023	41,798	30,085	71,199	52,430	52,910	41,493	84,187	727,818	-	727,818	727,818	
Due from other funds	75,608	-	3,848	-	8,177	6,731	26,492	-	3,540	7,533	-	126,104	258,033	-	258,033	258,033	
Total Assets	\$ 74,264,230	\$ 13,067,643	\$ 21,911,070	\$ 15,056,672	\$ 22,522,432	\$ 13,335,239	\$ 8,337,677	\$ 25,389,928	\$ 18,481,509	\$ 22,549,843	\$ 5,536,777	\$ 35,394,410	\$ 275,847,430	\$ 7,176,146	\$ 283,023,576	\$ 283,023,576	
Liabilities:																	
Accounts payable	\$ 29,171	\$ 5,063	\$ 8,673	\$ 5,957	\$ 8,814	\$ 5,239	\$ 3,213	\$ 9,702	\$ 7,040	\$ 8,755	\$ 2,178	\$ 13,805	\$ 107,610	\$ 634	\$ 108,244	\$ 108,244	
Securities lending collateral	2,189,092	379,999	650,913	447,094	661,461	393,170	241,132	728,077	528,270	656,960	163,494	1,035,975	8,075,637	626,905	8,702,542	8,702,542	
Due to other state agencies	510	99	140	143	92	117	84	198	146	147	116	235	2,027	-	2,027	2,027	
Total Liabilities	2,218,773	385,161	659,726	453,194	670,367	398,526	244,429	737,977	535,456	665,862	165,788	1,050,015	8,185,274	627,539	8,812,813	8,812,813	
Fund Balance:																	
Fund Balance:																	
Special revenue funds	72,045,457	12,682,482	21,251,344	14,603,478	21,852,065	12,936,713	8,093,248	24,651,951	17,946,053	21,883,981	5,370,989	34,344,395	267,662,156	6,548,607	274,210,763	274,210,763	
Restricted	72,045,457	12,682,482	21,251,344	14,603,478	21,852,065	12,936,713	8,093,248	24,651,951	17,946,053	21,883,981	5,370,989	34,344,395	267,662,156	6,548,607	274,210,763	274,210,763	
Total Fund Balance	\$ 74,264,230	\$ 13,067,643	\$ 21,911,070	\$ 15,056,672	\$ 22,522,432	\$ 13,335,239	\$ 8,337,677	\$ 25,389,928	\$ 18,481,509	\$ 22,549,843	\$ 5,536,777	\$ 35,394,410	\$ 275,847,430	\$ 7,176,146	\$ 283,023,576	\$ 283,023,576	
Total Liabilities and Fund Balances																	

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

Assets:	Special Revenue Funds										Trust Fund		Total		
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Youth Correctional Center	School of Science	School of Mines	Veterans Home	U.N.D.		Total	Capitol Building
Cash	\$ 147,733	\$ 94,079	\$ 20,422	\$ 29,778	\$ 176,116	\$ 40,410	\$ 9,756	\$ 69,073	\$ 32,286	\$ 72,849	\$ 8,566	\$ 51,113	\$ 752,183	\$ 104,654	\$ 856,837
Investments	67,637,997	10,994,606	20,575,299	14,208,166	20,152,018	12,080,001	7,382,941	22,175,197	16,387,660	20,190,473	5,210,388	31,419,747	248,414,403	4,504,328	252,918,731
Interest receivable	201,053	34,107	58,787	60,674	41,963	39,334	26,412	72,961	58,030	63,704	28,931	93,107	779,053	13,746	792,799
Accounts receivable	379,141	158,681	44,673	106,428	197,470	70,634	18,788	840,532	41,365	(90,146)	8,082	135,077	1,910,725	101,245	2,011,970
Invested securities lending collateral	2,525,553	410,537	771,719	533,054	751,039	451,111	276,564	828,470	614,289	751,972	196,123	1,173,736	9,284,167	764,517	10,048,684
Loans															
Farm loans	141,315	27,278	38,733	39,687	25,436	32,195	23,173	54,841	40,384	40,754	31,960	64,845	560,601	-	560,601
Due from other funds	101,394	-	7,125	2,652	9,621	33,611	7,075	3,052	6,648	87,817	1,724	125,718	386,437	362	386,799
Total Assets	\$ 71,134,186	\$ 11,719,288	\$ 21,516,758	\$ 14,980,439	\$ 21,353,653	\$ 12,747,296	\$ 7,744,611	\$ 24,044,126	\$ 17,180,662	\$ 21,117,423	\$ 5,485,784	\$ 33,063,943	\$ 262,087,569	\$ 5,488,852	\$ 267,576,421
Liabilities:															
Accounts payable	\$ 28,690	\$ 4,664	\$ 8,761	\$ 6,052	\$ 8,535	\$ 5,125	\$ 3,140	\$ 9,413	\$ 6,975	\$ 8,546	\$ 2,226	\$ 13,334	\$ 105,461	\$ 852	\$ 106,313
Securities lending collateral	2,525,553	410,537	771,719	533,054	751,039	451,111	276,564	828,470	614,289	751,972	196,123	1,173,736	9,284,167	764,517	10,048,684
Due to other state agencies	349	68	96	98	63	80	57	135	100	101	79	161	1,387	-	1,387
Total Liabilities	2,554,592	415,269	780,576	539,204	759,637	456,316	279,761	838,018	621,364	760,619	198,428	1,187,231	9,391,015	765,369	10,156,384
Fund Balance:															
Fund Balance:															
Special revenue funds	68,579,594	11,304,019	20,736,182	14,441,235	20,594,016	12,290,980	7,464,850	23,206,108	16,559,298	20,356,804	5,287,356	31,876,112	252,696,554	4,723,483	257,420,037
Restricted	68,579,594	11,304,019	20,736,182	14,441,235	20,594,016	12,290,980	7,464,850	23,206,108	16,559,298	20,356,804	5,287,356	31,876,112	252,696,554	4,723,483	257,420,037
Total Fund Balance	\$ 71,134,186	\$ 11,719,288	\$ 21,516,758	\$ 14,980,439	\$ 21,353,653	\$ 12,747,296	\$ 7,744,611	\$ 24,044,126	\$ 17,180,662	\$ 21,117,423	\$ 5,485,784	\$ 33,063,943	\$ 262,087,569	\$ 5,488,852	\$ 267,576,421
Total Liabilities and Fund Balances															

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Special Revenue Funds											Trust Fund		Total
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Youth Correctional Center	School of Science	School of Mines	Veterans Home	U.N.D.	Capitol Building	
Revenues:														
Investment income	\$ 1,837,885	\$ 331,903	\$ 580,957	\$ 400,700	\$ 594,321	\$ 348,569	\$ 210,343	\$ 636,506	\$ 466,682	\$ 578,981	\$ 146,630	\$ 909,718	\$ 143,121	\$ 7,286,316
Loan income														
Farm loans	14,045	2,711	3,850	3,944	2,528	3,200	2,303	5,451	4,014	4,050	3,176	6,445	-	55,717
Change in fair value of investments	932,069	168,211	268,369	179,548	280,357	166,988	104,036	313,280	221,541	280,968	64,975	451,538	84,314	3,516,194
Securities lending income	63,300	10,988	18,822	12,928	19,127	11,369	6,973	21,053	15,275	18,997	4,728	29,956	13,533	247,049
Royalties	2,874,800	1,178,056	420,111	188,005	1,340,400	501,513	562,757	902,622	1,282,929	1,392,732	64,737	2,150,823	1,971,657	14,831,142
Bonuses	(4,702)	4,000	20,940	(12,679)	5,560	2,080	(800)	(3,440)	24,454	44,433	-	9,020	8,000	52,433
Rental income	308,142	62,335	82,008	35,419	72,434	71,691	47,959	66,138	69,420	59,798	41,042	163,960	168,241	1,248,987
Total Revenues	6,125,539	1,758,204	1,395,057	807,865	2,314,727	1,106,410	933,571	1,941,610	2,084,315	2,335,626	325,288	3,721,460	2,388,866	27,237,438
Expenditures:														
Current														
General government	290,676	52,741	80,895	53,622	90,734	55,677	34,173	95,359	67,560	86,349	23,655	144,177	38,742	1,075,618
Education	290,676	52,741	80,895	53,622	90,734	55,677	34,173	95,359	67,560	86,349	23,655	144,177	38,742	1,114,360
Total Expenditures	5,834,863	1,705,463	1,314,162	754,243	2,223,993	1,049,733	899,398	1,846,251	2,016,755	2,249,177	301,633	3,577,263	2,350,124	26,123,078
Excess of revenue over expenditures	(2,369,000)	(327,000)	(799,000)	(592,000)	(665,944)	(404,000)	(271,000)	(400,408)	(630,000)	(722,000)	(218,000)	(1,109,000)	(595,000)	(8,807,352)
Other Financing Uses:														
Transfer to Educational Institutions	(2,369,000)	(327,000)	(799,000)	(592,000)	(665,944)	(404,000)	(271,000)	(400,408)	(630,000)	(722,000)	(218,000)	(1,109,000)	(595,000)	(8,807,352)
Transfer to Facilities Management														
Total Other Financing Uses	3,465,863	1,378,463	515,162	162,243	1,258,049	645,733	628,398	1,445,843	1,386,755	1,527,177	83,633	2,468,283	1,825,124	16,790,726
Increase (decrease) in net position	68,579,594	11,304,019	20,736,182	14,441,235	20,594,016	12,290,980	7,464,850	23,266,108	15,559,298	20,356,804	5,287,356	31,876,112	4,723,483	257,420,037
Net position - beginning	\$ -	\$ 12,682,482	\$ 21,251,344	\$ 14,603,478	\$ 21,852,065	\$ 12,936,713	\$ 8,693,248	\$ 24,651,951	\$ 17,946,053	\$ 21,863,981	\$ 5,370,989	\$ 34,344,385	\$ 6,548,607	\$ 274,210,763
Net position - ending														

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue Funds											Trust Fund Capitol Building	Total Non-major Govern- mental Funds		
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Youth Correctional Center	School of Science	School of Mines	Veterans Home			U.M.D.	Total
Revenues:															
Investment income	\$ 1,699,464	\$ 271,542	\$ 520,891	\$ 359,966	\$ 585,603	\$ 299,144	\$ 185,617	\$ 685,075	\$ 413,009	\$ 492,421	\$ 132,301	\$ 931,506	\$ 6,556,539	\$ 424,744	\$ 6,981,283
Loan income															
Farm loans	10,035	1,937	2,750	2,818	1,806	2,286	1,645	3,894	2,868	2,894	2,269	4,604	39,806	-	39,806
Change in fair value of investments	2,562,192	410,412	808,466	556,633	748,831	451,300	285,965	822,995	638,071	742,664	205,489	1,179,829	9,412,947	2,881	9,415,828
Securities lending income	47,685	7,751	14,571	10,065	14,181	8,518	5,222	15,643	11,599	14,198	3,703	22,162	175,298	12,590	187,888
Royalties	3,376,788	765,936	333,027	330,879	1,600,590	751,108	171,079	1,363,455	406,524	1,388,115	77,421	1,839,111	12,404,023	1,695,670	14,099,693
Bonuses	23,689	817	2,800	40,080	124,792	(81)	(81)	26,632	-	8,320	-	8,483	232,198	8,320	240,518
Rental income	255,704	60,193	80,926	35,364	69,730	67,827	49,998	67,544	67,323	59,455	39,024	171,500	1,024,388	179,250	1,203,638
Total Revenues	7,976,557	1,518,586	1,763,431	1,335,805	3,125,523	1,579,992	704,512	2,985,238	1,539,394	2,699,747	460,217	4,157,195	29,845,199	2,323,455	32,168,654
Expenditures:															
Current															
General government	268,570	47,538	73,821	49,377	76,502	50,369	30,572	86,617	61,303	78,114	21,732	121,953	966,267	39,848	966,267
Education	268,570	47,538	73,821	49,377	76,502	50,369	30,572	86,617	61,303	78,114	21,732	121,953	966,267	39,848	966,267
Total Expenditures	7,706,987	1,471,250	1,689,610	1,286,428	3,049,021	1,529,624	673,940	2,898,621	1,478,091	2,821,633	438,485	4,035,242	28,878,932	2,283,607	31,162,539
Excess of revenue over expenditures	(2,369,000)	(327,000)	(799,000)	(952,000)	(985,944)	(404,000)	(271,000)	(400,406)	(630,000)	(722,000)	(218,000)	(1,109,000)	(8,807,350)	(2,650,000)	(9,807,350)
Other Financing Uses:															
Transfer to Educational Institutions	(2,369,000)	(327,000)	(799,000)	(952,000)	(985,944)	(404,000)	(271,000)	(400,406)	(630,000)	(722,000)	(218,000)	(1,109,000)	(8,807,350)	(2,650,000)	(9,807,350)
Transfer to Facilities Management															
Total Other Financing Uses	5,337,987	1,144,250	890,610	694,428	2,083,077	1,125,624	402,940	2,488,215	846,091	1,899,633	220,485	2,926,242	20,071,892	(366,393)	19,705,189
Increase (decrease) in net position	63,241,607	10,159,789	19,846,572	13,746,807	18,510,939	11,165,366	7,061,910	20,707,893	15,711,207	18,457,171	5,066,871	28,949,870	239,624,872	5,089,876	237,714,848
Net position - beginning	\$ 68,579,594	\$ 11,304,019	\$ 20,736,182	\$ 14,441,235	\$ 20,594,016	\$ 12,290,980	\$ 7,464,850	\$ 23,206,108	\$ 16,559,298	\$ 20,356,804	\$ 5,287,366	\$ 31,876,112	\$ 252,696,554	\$ 4,723,483	\$ 257,420,037
Net position - ending	\$ 131,821,201	\$ 21,463,808	\$ 40,582,754	\$ 28,188,042	\$ 39,104,955	\$ 23,456,346	\$ 14,526,760	\$ 43,914,001	\$ 32,270,505	\$ 38,813,975	\$ 10,354,242	\$ 60,805,954	\$ 492,321,426	\$ 9,813,366	\$ 502,135,292

INDEPENDENT AUDITORS' 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

State Land Board
The Legislative Assembly
State of North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Department of Trust Lands, a department of the State of North Dakota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise North Dakota Department of Trust Lands' basic financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Department of Trust Lands' 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.



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

October 28, 2019

INDEPENDENT AUDITOR'S COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

State Land Board
The Legislative Assembly
State of 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. These items and our responses are as follows:

Audit Report Communications:

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

Unmodified opinion.

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

Yes-a review was made of the pertinent chapters of the North Dakota Century Code and we felt the Department operated within the statutes, laws, rules and regulations under which it was created.

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. Was action taken on prior audit findings and recommendations?

No prior year audit finding.

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

No.

Audit Committee Communications:

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

None.

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

Management's estimate of the fair value of investments is based on quoted market prices, estimates of fair value from investment managers, cash flow analysis, and yield currently available on comparable securities. We evaluated the key factors and assumptions used to develop the fair value estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the unclaimed property liability is based on the historical average payout percentage per subsequent year to determine the current year liability. The historical average is based on a ten year rolling average percentage of the total unclaimed property amounts collected during a specific fiscal year paid out in subsequent fiscal years. We evaluated the key factors and assumptions and checked the clerical accuracy of the spreadsheet used to determine the liability and determined that it is reasonable in relation to the financial statements taken as a whole.

9. Identify any significant audit adjustments.

There were no material audit adjustments detected during the audit.

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

None.

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

None.

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

None.

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

None.

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

The State Lands Information Management System (SLIMS) is a database application that supports the Department's business process over management of state lands, mineral and surface leases, royalties, investments, grants management, and general ledger

accounting. There were no exceptions identified that were directly related to the SLIMS data base application. There was a new software implemented to better monitor and track unclaimed property in the current year.

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



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

October 28, 2019

October 28, 2019

State Land Board
The Legislative Assembly
State of North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Department of Trust Lands, a department of the State of North Dakota, for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 11, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Department of Trust Lands 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 2019. We noted no transactions entered into by the department 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 fair value of investments is based on quoted market prices, estimates of fair value from investment managers, cash flow analysis, and yields currently available on comparable securities. We evaluated the key factors and assumptions used to develop the fair value estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the unclaimed property liability is based on the historical average payout percentage per subsequent year to determine the current year liability. The historical average is based on a ten year rolling average percentage of the total unclaimed property amounts collected during a specific fiscal year paid out in subsequent fiscal years. We evaluated the key factors and assumptions and checked the clerical accuracy of the spreadsheet used to determine the liability and determined that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 October 28, 2019.

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 North Dakota Department of Trust Lands' 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 North Dakota Department of Trust Lands' 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

We applied certain limited procedures to management's discussion and analysis, Schedule of Contributions to NDPERS Pension Plan, Schedule of Contributions to the NDPERS OPEB Plan, Schedule of Employer's Proportionate Share of Net Pension Liability and Schedule of Employer's Proportionate Share of Net Pension and OPEB Liability which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

Restrictions on Use

This information is intended solely for the use of the Governor, the Legislative Assembly, and management of North Dakota Department of Trust Lands, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

October 28, 2019