

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Governor of North Dakota
Legislative Audit and Fiscal Review Committee
North Dakota Department of Trust Lands
Bismarck, North Dakota

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 year ended June 30, 2015, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 and cash flows 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 or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also discussed in Note 1 to the financial statements, the North Dakota Department of Trust Lands adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 - 11 and the schedule of contributions and schedule of employer's proportionate share of net pension liability on pages 49-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

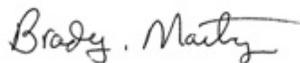
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's 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 related 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 taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
Bismarck, North Dakota
October 30, 2015

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

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, 2015 and 2014. Please read it in conjunction with the basic financial statements, which follow this discussion. Please note the 2014 data does not include the implementation of the new accounting principle, GASB Statement No. 68.

Financial Highlights

- The assets of the Department exceeded its liabilities as of June 30, 2015 and 2014 by \$4,640,705,011 and \$4,976,646,230, respectively.
- The Department's net position decreased by \$335,941,219 (including a prior period adjustment of \$1,293,787 for GASB 68) for the year ending June 30, 2015, and increased by \$1,289,104,759 for the year ending June 30, 2014. The net position decrease for fiscal year 2015 is due primarily to the emergency clause appropriations from the Strategic Investment and Improvements fund during the 64th Legislative Assembly.
- Royalty revenues totaled \$317,194,842 in fiscal year 2015, a decrease of \$54,434,918 over the amount earned in fiscal year 2014. Royalty revenues totaled \$371,629,760 in fiscal year 2014. The decrease in fiscal year 2015 was due to lower crude oil prices while the increases during fiscal year 2014.
- Mineral lease bonus revenues totaled \$17,672,240 in fiscal year 2015, a decrease of \$17,970,879 when compared to fiscal year 2014. Bonus revenues totaled \$35,643,119 in fiscal year 2014. This decrease occurred because mineral acres in prime Bakken areas are leased and new acreage being nominated for lease auction is now outside prime Bakken areas.
- Oil extraction tax revenues received in fiscal year 2015 total \$461,758,186, an increase of \$114,844,699 over the \$346,913,487 earned in fiscal year 2014.
 - Oil extraction tax revenues received by the Common School Trust fund totaled \$122,392,357 in fiscal year 2015, compared to \$157,030,229 in fiscal year 2014. These tax revenue changes are due to pricing fluctuations and increase in oil production over the past two years.
 - Oil extraction tax revenues received by the Strategic Investment and Improvements fund (SIIF) totaled \$339,365,829 in fiscal year 2015, compared to \$189,883,258 in fiscal year 2014. Oil extraction tax revenues are deposited into the SIIF in accordance with NDCC 57-51.1-07.5.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2015

- Gross production tax revenues received in fiscal year 2015 totaled \$413,903,005 an increase of \$112,713,052 over the \$301,189,953 in fiscal year 2014.
 - Gross production tax revenues received by the Strategic Investment and Improvements fund totaled \$339,065,159 in fiscal year 2015, compared to \$136,027,799 in fiscal year 2014. Gross production tax revenues are deposited into the SIIF in accordance with NDCC 57-51.1-07.5. The changes in deposits from fiscal year 2014 to fiscal year 2015 is a result of a distribution formula, which results in higher distributions to the SIIF 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 \$74,837,846 in fiscal year 2015, compared to \$165,162,154 in fiscal year 2014. The revenue changes from year to year are a result of tax deposit timing and funding caps as directed by the legislature for the biennium.
- Investment income totaled \$69,625,442 in fiscal year 2015, an increase of \$10,924,127 over fiscal year 2014. Investment income totaled \$58,701,315 in fiscal year 2014. The relatively stable amount of investment income generated over the past two years is a result of a growing asset base being invested during a time of historic low interest rates.
- The change in fair value of investments, otherwise known as capital gains/loss, totaled a loss of \$43,232,724 in fiscal year 2015, a decrease of \$367,185,181 over the \$323,952,457 of gains earned in fiscal year 2014. After two years of equities posting returns near 20%, fiscal year 2015 markets were more mixed. During fiscal year 2015, the portfolio posted a positive total return of approximately 0.81% with income component of the total return (\$65.5 million) more than offsetting negative change in value (\$43.23 million) of the securities held in the portfolio.

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 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.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2015

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

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

The *statement of activities* presents information showing how the net position managed by the Agency 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 Agency uses fund accounting to provide a relevant financial statement format for users and to demonstrate compliance with constitutional and legislative requirements. All of the funds of the Agency are governmental funds.

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, and the Strategic Investment and Improvements fund. Data from the other fourteen 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.

The Agency 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, 2015, the Department's total net position was \$4,640,705,011 (after the prior period GASB 68 adjustment). As of June 30, 2014, the Department's total net position was \$4,976,646,230. 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, 2015

The following is a comparative statement of net position:

Condensed Statement of Net Position

	<u>2015</u>	<u>2014*</u>
Current and other assets	\$4,829,286,000	\$5,176,096,114
Capital assets	<u>7,771,077</u>	<u>7,777,175</u>
Total assets	<u><u>4,837,057,077</u></u>	<u><u>5,183,873,289</u></u>
Deferred pension outflows	<u>224,667</u>	
Long-term liabilities	1,323,682	207,483
Other liabilities	<u>195,034,692</u>	<u>207,019,576</u>
Total liabilities	<u><u>196,358,374</u></u>	<u><u>207,227,059</u></u>
Deferred pension inflows	<u>218,359</u>	
Net Position:		
Net position invested in capital assets	7,771,077	7,777,175
Restricted net position		
Nonexpendable	67,050,990	66,116,742
Expendable	<u>3,667,477,541</u>	<u>3,324,485,567</u>
Unrestricted net position	<u>898,405,403</u>	<u>1,578,266,746</u>
Total net position	<u><u>4,640,705,011</u></u>	<u><u>4,976,646,230</u></u>

*2014 balances do not represent the effects of GASB 68.

During fiscal year 2015, the Department's net position decreased by \$335,941,219 (including a prior period GASB 68 adjustment). This change relates to a decrease in the amount of revenues as a result of smaller lease auctions, lower crude oil prices, emergency clause appropriations during the 64th Legislative Assembly and implementation of GASB 68. There was a decrease of \$346,816,212 in current and other assets.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2015

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

Changes in Net Position

	2015	2014*
<u>Revenues</u>		
<i>General Revenues:</i>		
Interest on investments	\$ 2,067,458	\$ 2,078,244
Change in fair value of investments	3,503	151,339
Interest income	212,266	26,123
Royalties	104,485,058	120,362,459
Bonuses	3,987,052	18,743,760
Rents	306,754	306,489
Donations	300,000	
Interest on loans	2,527,842	1,317,003
Contributions to perpetual funds	16,382,336	14,251,211
Taxes	878,902,344	651,329,483
Gain on Sale of Capital Asset - Land	444	120,577
Total General Revenue	1,009,175,057	808,686,688
 <i>Program Revenues:</i>		
Interest on loans	1,067,732	1,306,734
Interest on investments	63,750,144	53,973,211
Change in fair value of investments	(43,236,227)	323,801,118
Royalties	212,709,784	251,267,301
Bonuses	13,685,188	16,899,359
Rents	15,190,610	11,937,405
Fees to Maintenance fund	4,490,448	3,887,856
Total Program Revenue	267,657,679	663,072,984
Total Revenues	1,276,832,736	1,471,759,672
 <u>Expenses</u>		
<i>Governmental Activities:</i>		
General government	1,061,839	968,002
Intergovernmental	112,366,411	75,350,625
Education	13,009,400	16,491,344
Total Expenses	126,437,650	92,809,971
Excess before transfer	1,150,395,086	1,378,949,701
Transfers	(1,485,042,518)	(89,844,942)
Increase(decrease) in net position	(334,647,432)	1,289,104,759
Net position - beginning	4,976,646,230	3,687,541,471
GASB 68 Implementation	(1,293,787)	
Net position - beginning of year restated	4,975,352,443	
Net position - ending	\$ 4,640,705,011	\$4,976,646,230

*2014 balances do not represent the effects of GASB 68.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
June 30, 2015

During the fiscal year ending June 30, 2015, the Department's revenues decreased by a total of \$194,926,936. Royalty revenues declined by \$54,434,918 as crude prices plunged even though leased minerals continued to be placed into production. Mineral lease bonus revenue declined by \$17,970,879 as fewer minerals were available for lease. Oil extraction and gross production tax revenues increased by \$114,844,699 and \$112,713,052, respectively, due to legislative changes to the gross production and oil extraction tax distribution formulas. The change in fair value of investments decreased by \$367,185,181 from the previous year as capital markets produced lower gains during fiscal year 2015.

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, 2015 are \$7,771,077 (net of accumulated depreciation for equipment), respectively. These capital assets include land and equipment. For additional details reference Note 14 – Capital Assets.

Economic Factors

During fiscal year 2015, trust assets experienced a decline primarily due to the outflow of funding from SIIF approved during the Sixty-fourth Legislative assembly. Several bills with emergency clauses transferred a total of \$863 million from the SIIF to the State Treasurer's Office and the Department of Transportation during the fiscal year 2015. While crude production remained relatively stable, lower crude oil pricing affected oil and gas royalties, mineral leasing and bonuses, as well as production tax revenues. During the fiscal year 2015, the trusts also experienced lower investment returns as compared to the prior fiscal year.

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., PO Box 5523, Bismarck, ND, 58506-5523.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF NET POSITION
JUNE 30, 2015

	2015
	Governmental
	Activities
<u>Assets:</u>	
Cash	\$ 628,277,583
Investments	3,596,343,790
Interest receivable	7,564,380
Accounts receivable	44,113,305
Invested securities lending collateral	184,315,985
Loans	
Farm loans	12,906,196
Energy construction loans	1,358,040
School loans	192,877,241
Energy impact loans	6,930,883
Capital asset - land	7,742,201
Due from other state agencies	136,716,765
Equipment (net of accumulated depreciation)	28,876
Restricted assets:	
Cash and cash equivalents	17,881,832
Total Assets	4,837,057,077
 <u>Deferred Outflows of Resources</u>	
Deferred pension outflows	224,667
 <u>Liabilities:</u>	
Accrued payroll	231,086
Accounts payable	2,852,513
Securities lending collateral	184,315,985
Due to other state agencies	415,672
Claimant liability	7,207,867
Long-term liabilities:	
Compensated absences due within one year	11,569
Compensated absences due in more than one year	205,062
Pension liability	1,118,620
Total Liabilities	196,358,374
 <u>Deferred Inflows of Resources</u>	
Deferred pension inflows	218,359
 <u>Net Position:</u>	
Net investment in capital assets	7,771,077
Restricted	
Nonexpendable	67,050,990
Expendable	3,667,477,541
Unrestricted	898,405,403
Total Net Position	\$ 4,640,705,011

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

2015

Functions/Programs of Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 1,061,839			\$ (1,061,839)
Intergovernmental	112,366,410			(112,366,410)
Education	13,009,400	\$ 4,490,448	\$ 263,167,231	254,648,279
Total	\$ 126,437,649	\$ 4,490,448	\$ 263,167,231	\$ 141,220,030
Net revenue				\$ 141,220,030
General revenues:				
Taxes:				
Coal severance				3,241,152
Oil extraction				461,758,186
Gross production				413,903,005
Contributions to special revenue fund				16,382,336
Unrestricted investment earnings				2,067,458
Net increase (decrease) in fair value of investments				3,503
Royalties				104,485,058
Bonuses				3,987,052
Rents				306,754
Donations				300,000
Loan income				2,527,842
Interest Income				212,266
Gain on sale of capital asset – land				444
Transfers:				
To/from other state agencies				(1,415,700,520)
Educational institutions				(69,341,998)
Total general revenues and transfers				(475,867,462)
Total change in net position				(334,647,432)
Net position - beginning of year, as previously stated				4,976,646,230
GASB 68 Implementation				(1,293,787)
Net position – beginning of year, restated				\$ 4,975,352,443
Net position – ending				\$ 4,640,705,011

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

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	\$543,536	\$4,105,945	\$100,953	\$124,993,754	\$492,449,549	\$6,083,846	\$628,277,583
Investments		3,377,553,993	17,223,255			201,566,542	3,596,343,790
Interest receivable		6,743,437	130,483		216,667	473,793	7,564,380
Accounts receivable		28,228,825			13,357,395	2,527,086	44,113,306
Invested securities lending collateral		167,977,578	6,240,557			10,097,850	184,315,985
Loans							
Farm		11,888,656				1,017,540	12,906,196
Energy construction		1,358,040					1,358,040
School			42,877,241		150,000,000		192,877,241
Energy impact			6,930,883				6,930,883
Fuel production facilities							-
Due from other state agencies		16,446,409	501,997		119,768,358		136,716,764
Due from other funds		74,460			53,319	1,368	129,147
Restricted assets:							-
Cash and cash equivalents					17,881,832		17,881,832
Total Assets	\$543,536	\$3,614,377,343	\$74,005,369	\$124,993,754	\$793,727,120	\$221,768,025	\$4,829,415,147
Liabilities:							
Accrued payroll	\$213,346				\$17,740		\$231,086
Accounts payable	36,628	\$1,164,826	\$42,074	1,538,880	\$125	\$69,980	2,852,513
Securities lending collateral		167,977,578	6,240,557			10,097,850	184,315,985
Due to other state agencies	30,868	29,070	351,398	1,848		2,488	415,672
Due to other funds	129,147						129,147
Claimant liability		7,207,867					7,207,867
Total Liabilities	\$409,989	\$176,379,341	\$6,634,029	\$1,558,468	\$125	\$10,170,318	\$195,152,270
Equity:							
Fund Balance:							
Permanent funds							
Nonspendable			\$67,050,990				\$67,050,990
Committed			320,350				320,350
Special revenue funds							
Restricted		\$3,437,998,002			\$17,881,832	\$211,597,707	3,667,477,541
Committed				\$123,435,286	\$891,491,395		1,014,926,681
Unassigned	\$133,547				(115,646,232)		(115,512,685)
Total Fund Balance	133,547	3,437,998,002	67,371,340	123,435,286	793,726,995	211,597,707	4,634,262,877
Total Liabilities and Fund Balances	\$543,536	\$3,614,377,343	\$74,005,369	\$124,993,754	\$793,727,120	\$221,768,025	\$4,829,415,147

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

Total fund balances - governmental funds	\$4,634,262,877
Capital Asset - Land	7,742,201
Net book value of office equipment	28,876
Liability for compensated absences	(216,631)
Net pension liability	(1,118,620)
Net difference between projected and actual earnings and contributions paid	224,667
Difference between projected and actual investment earnings	(218,359)
Net position of governmental activities	<u>\$4,640,705,011</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, 2015

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		\$ 59,786,742	\$ 258,423		\$ 1,757,968	\$ 3,699,914	\$ 65,503,047
Interest Income					212,266		212,266
Loan income							
Farm		918,298				78,545	996,843
Energy construction		70,889					70,889
School			645,264		1,874,245		2,519,509
Medical facility infrastructure loan program					8,333		8,333
Net increase (decrease) in fair value of investments		(40,786,635)	15,946			(2,462,035)	(43,232,724)
Securities lending income		277,913	19,935			16,707	314,555
Royalties		196,808,384			102,646,334	17,740,124	317,194,842
Bonuses		12,809,340			3,985,532	877,368	17,672,240
Rental income		14,281,695			134,895	1,080,774	15,497,364
Donations						300,000	300,000
Coal severance tax			3,241,152				3,241,152
Gross production tax				74,837,846	339,065,159		413,903,005
Oil extraction tax		122,392,357			339,365,829		461,758,186
Unclaimed property collections		7,659,695					7,659,695
Indirect recovery costs	4,490,448						4,490,448
Tobacco settlement		8,722,641					8,722,641
Total Revenues	4,490,448	382,941,319	4,180,720	74,837,846	789,050,561	21,331,397	1,276,832,291
Expenditures:							
Current							
General government			79,261		1,076,817	29,951	1,186,029
Intergovernmental				112,417,413		2,298	112,419,711
Education	4,307,073	8,095,550				606,777	13,009,400
Total Expenditures	4,307,073	8,095,550	79,261	112,417,413	1,076,817	639,026	126,615,140
Excess of revenue over (under) expenditures	183,375	374,845,769	4,101,459	(37,579,567)	787,973,744	20,692,371	1,150,217,151
Other Financing Sources (Uses):							
Transfer to Public Instruction		(65,163,000)					(65,163,000)
Transfer to Educational Institutions						(4,178,998)	(4,178,998)
Transfer to Lignite Research Fund			(2,268,807)				(2,268,807)
Transfer to State General Fund			(854,318)		(520,000,000)		(520,854,318)
Transfer to Facilities Management						(1,086,000)	(1,086,000)
Transfer to Commerce Department					(3,500,000)		(3,500,000)
Transfer to Human Services Department					(4,450,000)		(4,450,000)
Transfer to Department of Transportation					(565,000,000)		(565,000,000)
Transfer to Industrial Commission					(500,000)		(500,000)
Transfer to State Treasurer					(298,000,000)		(298,000,000)
Transfer to Legacy Fund					(20,041,395)		(20,041,395)
Total Other Financing Sources (Uses)	-	(65,163,000)	(3,123,125)	-	(1,411,491,395)	(5,264,998)	(1,485,042,518)
Net Change in Fund Balance	183,375	309,682,769	978,334	(37,579,567)	(623,517,651)	15,427,373	(334,825,367)
Fund Balance - beginning	(49,828)	3,128,315,233	66,393,006	161,014,853	1,417,244,646	196,170,334	4,969,088,244
Fund Balance - ending	<u>\$133,547</u>	<u>\$3,437,998,002</u>	<u>\$67,371,340</u>	<u>\$123,435,286</u>	<u>\$793,726,995</u>	<u>\$211,597,707</u>	<u>\$4,634,262,877</u>

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

Net change in fund balance	(\$334,825,367)
Net value of capital asset - acquired land	443
Depreciation expense on equipment	(6,541)
Increase in compensated absences liability	2,558
Decrease in net pension liability	175,167
Changes in deferred outflows and inflow resources related to net pension liability	6,308
Change in net position of governmental activities	<u>(\$334,647,432)</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF APPROPRIATIONS
JUNE 30, 2015

	Original Appropriation	Final Adjusted Appropriation	First Year 2014 Expenditures	Second Year 2015 Expenditures	Unexpended Appropriation on 06/30/15
General Fund:					
Salaries and Wages	\$ 5,157,015	\$ 5,157,015	\$ 2,143,343	\$ 2,440,877	\$ 572,795
Accrued Leave Payments	108,541	108,541	5,009	23,382	80,150
Operating Expenses	1,975,863	1,975,863	558,291	673,301	744,271
Capital Assets	65,550	65,550	4,596		60,954
Contingencies	200,000	200,000			200,000
	<u>\$ 7,506,969</u>	<u>\$ 7,506,969</u>	<u>\$ 2,711,239</u>	<u>\$ 3,137,560</u>	<u>\$ 1,658,170</u>
Oil and Gas Impact Grant Fund:					
Energy Infrastructure and Impact Grants	\$ 239,299,174	\$ 239,299,174	\$ 30,258,826	\$ 95,997,197	\$ 113,043,151
Energy Infrastructure and Impact Operating	700,826	700,826	242,213	369,197	89,416
Flood Infrastructure Development Grants		26,154,763	13,676,627	6,496,905	5,981,231
	<u>\$ 240,000,000</u>	<u>\$ 266,154,763</u>	<u>\$ 44,177,666</u>	<u>\$ 102,863,299</u>	<u>\$ 119,113,798</u>
Strategic Investment and Improvements Fund:					
<i>Sixty-third Legislative Assembly</i>					
ND General Fund (HB 1015)	\$ 520,000,000	\$ 520,000,000		\$ 520,000,000	\$ -
ND Department of Human Services (HB 1358)	9,600,000	9,600,000	5,150,000	4,450,000	-
ND Commerce Department (HB 1358) & (SB 2018)	4,500,000	4,500,000	1,000,000	3,500,000	-
ND Attorney General Office (HB 1358)	9,600,000	9,600,000	9,600,000	-	-
Board of University and School Lands (HB 1358)	50,000	50,000		50,000	-
<i>Sixty-fourth Legislative Assembly</i>					
ND State Treasurer (SB 2103)		298,000,000		298,000,000	-
ND Department of Transportation (SB 2103)		802,000,000		565,000,000	237,000,000
	<u>\$ 543,750,000</u>	<u>\$1,643,750,000</u>	<u>\$ 15,750,000</u>	<u>\$1,391,000,000</u>	<u>\$ 237,000,000</u>

Perpetual Education Trusts:

For the year ending on June 30, 2015, the perpetual education trusts managed by the Department distributed \$69,341,998 in accordance with Article IX, Section 2 of the North Dakota State Constitution. During the same period, the trusts paid administrative expenses of \$8,702,327 in accordance with N.D.C.C. Chapter 15-03-16.

Reconciliation of Administrative Expenses to Appropriated Earnings

	Fiscal Year 2015
Biennial Legislative Appropriation Expenditures	\$ 3,137,559
Continuing Appropriation Authority Expenditures	123,477,581
Total expenses as reflected on the financial statements	<u>\$ 126,615,140</u>

Reference Financial Statement Note 19 for information on the Department's continuing appropriation authority of funding.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Reporting Entity

The 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 of Trust Lands. As a state agency, the Department of Trust Lands 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 and assigned.

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

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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2015

The Department of Trust Lands maintenance fund is used to pay operating expenses of the department. The Department of Trust Lands 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 from 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 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 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 Trust receives revenues from mineral bonuses, mineral royalties and, with the passage of House Bill 1451 by the 2011 Legislature, 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 relating to improving state infrastructure or for initiatives to improve the efficiency and effectiveness of state government.

The Energy Infrastructure and Impact Office provides grant 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. In addition, the Energy Infrastructure and Impact Office administers' the Flood-Impacted Political Subdivision Infrastructure Development Grants program by providing infrastructure development grants to flood-impacted political

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

subdivisions. The program is funded with one-time State general fund moneys and expires June 30, 2017.

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

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

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, tobacco settlement money and unclaimed property revenue are presented as program revenues.

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.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

Cash Deposits and Investments

Cash includes all funds deposited with the BND as well as certain funds deposited in The Northern Trust (TNT) Cash Pool at Northern Trust.

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, 2015 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, 2015. Interest is expected to be collected prior to June 30, 2016 when investments mature. All receivables are considered collectible.

Claimant Liability

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

Capital Assets

Capital assets include land 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 estimated fair 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 government activities columns in the government-wide financial statements in accordance with N.D.C.C. 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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

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.

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 resource (expense/ expenditure) until then. The Department has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the NDPERS pension plans. See Note 21 for more details.

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 one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. See Note 21 for more details.

Implementation of New Accounting Principles

The Department implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* during the year ended June 30, 2015. GASB Statement No. 68 established accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this statement, as well as for non-employer governments that have a legal obligation to contribute to those plans. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated to pensions, and paying benefits to plan members as they come due. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense / expenditures. In addition, for defined benefit plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Compensated Absences Payable

N.D.C.C. 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.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

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. 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. 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 BND was \$138,995,525 while Northern Trust was \$489,282,058 as of June 30, 2015, and the bank balances were \$16,511,693 and \$41,385,833. 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. The Department does not have a formal policy regarding deposits.

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 other school districts. 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 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 Trust 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.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

The Indian Cultural Education fund was established for the purpose of generating income to benefit Indian culture. The Mandan, Hidatsa and Arikara Nation Cultural Education Foundation is responsible for disbursements of trust proceeds.

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 legislatures 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.

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 expired June 30, 2017. 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 with the exception of any balance the Board identifies as assigned. Any changes to the fund balance commitment would require action of the legislative assembly to change the North Dakota century code or action by the Board to establish a different assigned fund balance.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2015

Fiscal Year Ended June 30, 2015

Fund Balances	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
Permanent Funds:							
<u>Nonspendable</u>							
Permanent fund principal			\$67,050,990				\$67,050,990
<u>Committed</u>							
Designated for transfer to State general fund			320,350				320,350
Special Revenue Funds:							
<u>Restricted</u>							
Distribution to educational beneficiaries		\$3,437,998,002				\$204,519,851	3,642,517,853
Capitol building maintenance						5,903,878	5,903,878
Indian cultural education						1,173,978	1,173,978
Fuel production facility - BND					17,881,832		17,881,832
<u>Committed</u>							
Grants				\$123,435,286			123,435,286
Designated for transfer to:							
State general fund							-
State Commerce Department					3,500,000		3,500,000
State Human Services Department					4,450,000		4,450,000
State Department of Transportation					565,000,000		565,000,000
State Treasurer Office					298,000,000		298,000,000
State Industrial Commission					500,000		500,000
State Legacy Fund					20,041,395		20,041,395
<u>Unassigned</u>							
Operating Expenses	\$133,547				(\$115,646,232)		(115,512,685)
Total Fund Balances:	\$133,547	\$3,437,998,002	\$67,371,340	\$123,435,286	\$793,726,995	\$211,597,707	\$4,634,262,877

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2015

NOTE 5 – INVESTMENTS

The Board's investment policy is to invest trust assets in a manner that balances the growth of the portfolio for the benefit of future beneficiaries with maintaining stable distributions to current beneficiaries. This is accomplished by investing in a widely diversified portfolio.

N.D.C.C. 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.

Investments

The following investments are reported at fair value, which represents stated market prices. Actual gains and losses realized by the Board will be determined at the time of the sale and will be based on market conditions at that date. Funds held by Northern Trust as of June 30, 2015 are classified as investments in the accompanying financial statements as follows:

	2015
Equity Securities:	
Common stock	\$ 1,987,658,513
Preferred stock	26,849,129
Convertible equity	13
Equity exchange traded fund	1,448
Corporate convertible bonds	5,294
Commodity exchange traded fund	1,296
Fixed Income	1,268,987,896
Other Assets	2
Cash and Cash Equivalents	311,642,332
	\$ 3,595,145,923

The Board holds other investments with a minimal risk since they are guaranteed by either the Federal government or the State of North Dakota. As of June 30, 2015, no minimal risk investments were held by the Board.

In addition, the Board 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, 2015 the Board held \$536,180 in unclaimed mutual funds.

Common Schools Trust Fund owns the building occupied by the Department of Trust Lands. For the period ending June 30, 2015, the book value of the building was \$661,687. The book value of the building is included in the investments line of the balance sheet.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

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 exposure by maintaining a diversified portfolio that contains a wide variety of maturity dates and credit ratings 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 Board does not have a formal policy regarding the maturities of its investments.

The following table shows the investments by investment type, amount and maturity as of June 30, 2015. When callable, maturity is calculated with the first call date.

Fiscal Year 2015

Investment Type	Maturity Amount	Weighted Average Maturity (Years)
Asset Backed Securities	\$ 14,789,538	5.83
Commercial Mortgage-Backed	2,558,394	24.65
Corporate Bonds	328,467,623	7.28
TIPS Fund	77,800,204	8.6
Corporate Convertible Bonds	5,294	
Government Agencies	50,453,293	5.08
Low Duration Fund	23,002,926	2.2
Brandywine	91,618,305	12.88
Government Bonds	213,910,605	6.01
Government Mortgage Backed Securities	63,255,029	21.06
Gov't-issued Commercial Mortgage-Backed	5,889,430	13.25
Municipal/Provincial Bonds	7,992,578	12.27
Non-Government Backed CMOs	18,984,915	20.34
Other Fixed Income	108,160,977	5.21
Short Term Bills and Notes	125,732,091	0.37
Short Term Investment Funds	196,343,578	0.11
Total	<u>\$ 1,328,964,780</u>	
Weighted Average Maturity		<u>6.40</u>

The table 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, 2015 the Board held \$26,184,334 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. 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 Board does not have a formal policy regarding credit risk. The following table presents the Board's ratings as of June 30, 2015.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2015

Fiscal Year 2015

	AAA	AA	A	BBB	BB	B	CCC	D	Not Rated	Government
Asset Backed Securities	\$ 6,554,060	\$ 567,219				\$ 881,579			\$ 6,786,680	
Commercial Mortgage-Backed									2,558,394	
Corporate Bonds	686,630	29,400,550	61,554,900	104,900,357	89,540,708	32,041,517			10,342,961	
TIPS									77,800,204	
Corporate Convertible Bonds									5,294	
Government Agencies	20,241,793	28,581,404								1,630,096
Brandywine									91,618,305	
Low Duration Fund									23,002,926	
Government Bonds		7,026,385	8,601,376	23,878,184					61,923,779	112,480,881
Government Mortgage Backed Securities		7,347,653							476,855	55,430,521
Govt-issued Commercial Mortgage-Backed									2,348,026	3,541,404
Municipal/Provincial Bonds	503,780	7,222,016	266,782							
Non-Government Backed C.M.O.s	3,878,372		1,490,550	792,449				672,927	12,150,617	
Other Fixed Income									108,160,977	
Short Term Bills and Notes										125,732,091
Short Term Investment Funds									196,343,578	
	\$ 31,864,635	\$ 80,145,227	\$ 71,913,608	\$ 129,570,990	\$ 89,540,708	\$ 32,923,096	\$ -	\$ 672,927	\$ 593,518,596	\$ 298,814,993

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2015

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 does not have a formal policy regarding foreign currency risk. The Board's exposure to foreign currency risk is presented in the following table:

Fiscal Year 2015

Currency	Debt	Equity	Total
Australian Dollar	\$ 776,468	\$ 35,958,778	\$ 36,735,246
Brazilian Real	(159,152)	-	(159,152)
British Pound Sterling	4,273,046	106,253,739	110,526,785
Canadian Dollar	3,412,000	-	3,412,000
Danish Krone	-	8,741,071	8,741,071
Euro Members	(634,584)	157,339,280	156,704,696
Hong Kong Dollar	-	16,958,725	16,958,725
Israel Shekel	-	3,192,846	3,192,846
Japanese Yen	-	119,757,908	119,757,908
Mexican Peso	145,480	-	145,480
New Zealand Dollar	104,135	680,443	784,578
Norwegian Krone	-	3,349,872	3,349,872
Polish Zloty	(242,577)	-	(242,577)
Singapore dollar	(184,970)	7,641,894	7,456,924
South African Rand	(21,601)	-	(21,601)
Swedish Krona	-	15,231,447	15,231,447
Swiss Franc	-	48,311,429	48,311,429
	<u>\$ 7,468,245</u>	<u>\$ 523,417,432</u>	<u>\$ 530,885,677</u>

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, 2015, the Board had one type of derivative security: currency forwards.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2015

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 gains of \$26,214,850 for fiscal year 2015. At June 30, 2015, the Board's investment portfolio included the currency forwards balances shown below.

Currency	Cost	Purchases	Sales	Fair Value June 30, 2015
Australian Dollar	\$(22,224,066)	\$ -	\$ (22,112,825)	\$ (22,112,825)
Brazilian Real	(5,268,362)	-	(5,377,757)	(5,377,757)
Canadian Dollar	(4,061,622)	-	(3,983,757)	(3,983,757)
Euro Members	(48,447,187)	-	(48,821,463)	(48,821,463)
Hungary Forint	-	-	-	-
Mexico Peso	(7,656,451)	-	(7,510,206)	(7,510,206)
New Zealand Dollar	(7,361,565)	-	(6,922,249)	(6,922,249)
Norwegian Krone	-	-	-	-
Polish Zloty	(7,804,007)	-	(7,664,661)	(7,664,661)
Singapore Dollar	(3,988,076)	-	(4,072,725)	(4,072,725)
South Africa Rand	(4,552,151)	-	(4,541,480)	(4,541,480)
Swedish Krona	-	-	-	-
United Kingdom Pound	(23,366,925)	-	(24,050,145)	(24,050,145)
United States Dollar	134,730,402	134,730,402	-	134,730,402
				<u>\$ (326,866)</u>
				<u>\$ (326,866)</u>

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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

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 125 days as of June 30, 2015.

Cash open collateral is invested in a short-term investment pool, the Core USA fund, which had an interest sensitivity of 37 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.

The following represents the Board's balances related to securities lending transactions at June 30, 2015.

Fiscal Year 2015

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non- Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$ 917,467	\$ 986,658		
GLOBAL Government Fixed	12,785,125	13,637,152		
US Agencies	6,859,029	6,996,026		
US Corporate Fixed	49,956,544	50,998,442		
US Equities	38,671,440	39,502,276		
US Government Fixed	70,700,404	72,195,431		
	<u>\$ 179,890,009</u>	<u>\$ 184,315,985</u>	\$ -	\$ -
Market Value of Securities on Loan against Cash Collateral				\$ 178,890,009
Market Value of Securities on Loan against Non Cash Collateral				<u>-</u>
Total Market Value of Securities on Loan				<u>\$ 178,890,009</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2015

NOTE 7 – 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, 2015, the non-current and current portions of the loans were \$11,673,620 and \$1,232,576, respectively.

As of June 30, 2015, the pool had a net position of \$13,379,098. For the same period, the pool earned net income of \$929,269.

NOTE 8 – 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-half percent on all outstanding loans.

As of June 30, 2015, the non-current and current portions of the loans were \$1,325,204 and \$32,836 respectively.

As of June 30, 2015 the program had a net position of \$1,377,654. For the same period, the program earned net income of \$70,889.

NOTE 9 - 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, 2015, the non-current and current portions of the loans were \$6,552,732 and \$378,151, respectively.

NOTE 10 – SCHOOL CONSTRUCTION LOANS

The school construction loan program is governed by N.D.C.C. Chapter 15.1-36-02; initially enacted in 1993 by N.D.C.C. Chapter 15-60-10. This law authorized the Board to fund low interest school construction loans from the Coal Development Trust Fund; of which the outstanding principal balance of loans made from this fund may not exceed fifty million dollars.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

In 2013, the legislature amended N.D.C.C. Chapter 15.1-36-02 to add an additional one hundred and fifty million dollars of loan making authority from the Strategic Investment and Improvements Fund to the program. Other than the source of funding, the program is managed exactly the same.

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.

Starting with the current biennium, 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. The maximum discount was previously two and one-half percent.

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 or the SIIF, respectively.

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. To date, one gross production tax backed school construction loan was made with SIIF funding and two loans with Coal Development Trust funding.

As of June 30, 2015, the non-current and current portions of loans from the Coal Development Trust Fund were \$39,374,105 and \$3,503,136, respectively.

As of June 30, 2015, the non-current and current portions of loans from the SIIF were \$142,854,453 and \$7,145,547, respectively. There were no uncommitted school construction loan funds in the Strategic Investment and Improvements Fund after December 31, 2014, thus a transfer to the Medical Facility Infrastructure Loan Program was not necessary.

NOTE 11 – MEDICAL FACILITY INFRASTRUCTURE LOAN PROGRAM

Section 6-09-47 of the North Dakota Century Code established the Medical Facility Infrastructure Loan Program (MFILP), effective May 3, 2013. The purpose of the MFILP is to provide loans to medical facilities to conduct construction that improves the health care infrastructure in the State or improve access to existing nonprofit health care providers in the State.

Funding for the MFILP was appropriated from the SIIF in the sum of \$50 million, or so much of the sum that may be necessary through June 30, 2015. The MFILP is supervised and administered by the BND. The MFILP will make an annual transfer of loan repayment and interest income funds, less fees and other costs, to the State Treasurer for deposit in the SIIF. Any unused funds remaining as of July 31, 2017 are to be transferred to the SIIF. The MFILP

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
 June 30, 2015

did not make any loan repayment transfer to the State Treasurer during fiscal year 2015 as expenses exceeded income.

NOTE 12 – 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 BND may use up to \$25 million of the SIIF to guarantee loans to facilities that use biomass for agriculturally derived fuel production. The guarantee is limited to 30% of the debt needed to build the project.

On March 6, 2014, \$18,000,000 was transferred from SIIF to the BND to guarantee \$60 million of loans to Dakota Spirit AgEnergy. The loan guarantee closed on May 12, 2014. The guaranteed funds will be held at BND, on behalf of the SIIF, in an income earning account. Any net income earned and fees collected under the guarantee program will be transferred back into the SIIF periodically. As of June 30, 2015, the loans from the SIIF were \$17,881,832. These are deposits to the loan guarantee fund and are restricted to the Fuel Production Facility Loan Guarantee Program. They are recorded as restricted cash in the SIIF fund.

NOTE 13 – OFFICE LEASE COMMITMENT

The Board's administrative agent, the Department of Trust Lands (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 period ending June 30, 2015, rent of \$58,276 was paid by the non-Common Schools Trusts fund.

NOTE 14 – CAPITAL ASSETS

Governmental Activities:	Balance 7/1/14	Additions	Retirements	Balance 6/30/15
Land	\$ 7,741,758	\$ 443	\$ -	\$ 7,742,201
Equipment	43,132	-	-	43,132
Less accumulated depreciation:				
Equipment	(7,715)	(6,541)	-	(14,256)
Net capital assets	\$ 7,777,175	\$ (6,098)	\$ -	\$ 7,771,077

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 balance sheet purposes. In fiscal year 2015, 44.35 acres were acquired and no acres were 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 \$6,541 in equipment depreciation for fiscal year ending June 30, 2015 was charged to the education fund.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2015

NOTE 15 – DUE FROM (TO) OTHERS

The following is a detail of the amounts that are due from and to other trust funds managed by the Department of Trust Lands at June 30, 2015:

Fund	2015	
	Due from other funds	Due to other funds
General fund		\$ 129,147
Strategic Investment and Improvements fund	\$ 53,319	
Non-major perpetual funds	1,368	
Common Schools Trust fund	74,460	
	\$ 129,147	\$ 129,147

As stated in Note 1 of these financial statements, the Department of Trust Lands is a state agency of North Dakota; as such, the other state agencies of the state and political subdivisions are related parties. The following is detail of amounts due from and to other State agencies as June 30, 2015.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

	2015	
Fund	Due from other state agencies	Due to other state agencies
Strategic Investment and Improvements fund:		
State Treasurer	\$ 69,876,776	
Medical Facility Infrastructure Loan Program	49,891,582	
	119,768,358	
Coal Development Trust fund:		
State Treasurer	501,998	\$ 351,398
	501,998	351,398
General fund:		
Attorney General		16,859
Dept. of Transportation		6,278
Information Technology Department		5,403
Central Services		9
Office of Management and Budget		2,318
		30,867
Common School Trust Fund:		
State Treasurer	16,446,409	
	16,446,409	
Perpetual funds:		
Bank of North Dakota		31,558
		31,558
Oil and Gas Impact fund:		
Information Technology Department		1,349
Office of Management and Budget		160
Attorney General		219
Dept. of Transportation		121
		1,849
Total Due From/Due To	\$ 136,716,765	\$ 415,672

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

NOTE 16 – 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 assets' ending value 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.

NOTE 17 – TRANSFERS FROM (TO) OTHER AGENCIES

The following detail represents amounts transferred to beneficiaries and other State agencies as of June 30, 2015.

Fund	2015	
	Transfers from other agencies	Transfers to other agencies
Perpetual Funds:		
Department of Public Instruction		\$ 65,163,000
ND State University		1,033,000
School for the Blind		141,000
School for the Deaf		360,000
State Hospital		377,000
Ellendale		172,998
Valley City State University		186,000
Mayville State University		118,000
Industrial School		405,000
School of Science		341,000
School of Mines		397,000
Veterans Home		138,000
University of ND		510,000
		69,341,998
Coal Development Trust:		
Lignite Research Fund		2,268,807
General Fund of ND		854,318
		3,123,125
Strategic Investment and Improvements:		
General Fund of North Dakota		520,000,000
ND Legacy Fund		20,041,395
ND Attorney General Office		
ND Industrial Commission		500,000
ND Commerce Department		3,500,000
ND Human Services Department		4,450,000
ND Treasurer's Office		298,000,000
ND Department of Transportation		565,000,000
		1,411,491,395
Capitol Building Trust:		
Facilities Management		1,086,000
		1,086,000
Total Transfers		\$1,485,042,518

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

NOTE 18 – LITIGATION

The Board is currently involved in litigation relating to mineral title ownership along the Missouri River. Riparian owners are challenging where the State has determined the ordinary high watermark. The Board has set aside funds to cover the potential title disputes related to certain riverbed leases until they are resolved.

The Board is also involved in litigation relating to ownership of minerals under the railroad rights-of-way in six sections of land in Mountrail County. At issue are rights-of-way that the railroad acquired by condemnation and through rights-of-way deeds.

The Board has also been named as a party in a declaratory judgment action regarding the deduction of extraction taxes from private party royalties.

Brigham Oil & Gas v. State of North Dakota

On June 9, 2011, Brigham Oil & Gas filed a suit seeking resolution of a title question and asking the court to require those asserting title to the minerals in the spacing unit southeast of Williston, to set forth and prove their claims. Brigham Oil & Gas named 83 defendants in its complaint, including the Board and the United States of America. On November 23, 2011, the United States was granted a dismissal on sovereign immunity grounds. On March 5, 2012, defendant Kerry Hoffman filed an answer and cross-claim against the Board asserting claims of an unconstitutional taking of private property without just compensation. In 2013, the District Court granted a motion for partial summary judgment finding in favor of the State. The Court held that the State owns the minerals located below the ordinary high watermark of navigable bodies of water. This decision was later affirmed by the North Dakota Supreme Court. The parties are waiting for final disposition in this case.

Wilkinson Family v. State of North Dakota

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, the 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 Diversion project. The trial in this case is scheduled for May, 2016.

EEE Minerals, LLC et. al. v. State of North Dakota; Continental Resources, Inc.

On July 31, 2014, the State was served with a complaint in this case. The plaintiffs allege identical causes of action to what was pled in the Wilkinson amended complaint. The plaintiffs in this case, however are requesting the case be certified as a class action suit. The class is alleged to include all owners having an interest in the area where the Phase I delineation study and the Phase II delineation study overlap, an area of approximately 25 river miles. The State served its Answer to the Complaint on September 10, 2014. A trial in this case has not yet been set.

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 OHWM but the tract is located on the east side of the Highway 85 Bridge where the Department has currently leased only the

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

historic channel of the Missouri River. The 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. Discovery is ongoing and no trial date has been set yet.

Statoil Oil & Gas, LP v. Abaco Energy, LLC, et. al.

Statoil filed a suit seeking resolution of a title question and asking the court to require those asserting title to the minerals underlying two spacing units located east of the Highway 85 Bridge containing 15 active wells. Statoil is requesting the Court determine the property interests for the two spacing units so that Statoil can correctly distribute the proceeds from the wells. The federal government claims interest in the disputed lands, however Statoil acknowledges that the United States is not amenable to state court jurisdiction. The Board is awaiting the filing of an Amended Complaint.

EOG Resources, Inc. v. Soo Line Railroad Co., et. al.

This case concerns ownership of the minerals underlying the railroad rights-of-way in six sections of land in Mountrail County. The railroad's lessee, G-4, Inc., filed a cross-claim against the State and a number of other parties that claim ownership of the minerals adverse to the claims of the railroad. Cross motions for summary judgment were filed in January 2013. The District Court found in favor of the State and the private mineral owners holding that the railroad only acquired an easement interest to these tracts. This decision was appealed to the ND Supreme Court. For the tract in which the Board claims an interest, the Supreme Court found the deed ambiguous and remanded the case back to the district court for further proceedings.

Willard Burk v. State of North Dakota, et. al.

Mr. Burk has brought this suit against the State through both the Board of University and School Lands and Ryan Rauschenberger, Tax Commissioner. Mr. Burk is requesting a declaratory judgment that the State has wrongfully withheld gross production taxes on Mr. Burk's share of royalties being paid to him pursuant to a Settlement Agreement with the State.

In 1991, the Bank of North Dakota conveyed to the Mr. Burk and his wife some property in Williams County reserving 50% of the minerals. At the time, the statutory mineral reservation was 100%. Mr. Burk brought this issue to the Board in 2011 and threatened litigation. The Board entered into an agreement with Mr. Burk to convey to him 50% of the minerals he thought were previously conveyed to him. Mr. Burk now claims that he should not have to pay taxes on the royalties he is receiving pursuant to this agreement. Board recently filed a motion for summary judgment requesting the case be dismissed.

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, 2015

NOTE 19 – CONTINUING APPROPRIATIONS

The following information discloses the Agency'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, 2015

NOTE 20 – LONG TERM LIABILITIES

Compensated Absences Payable

Department of Trust Lands 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. Department of Trust Lands 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 <u>7/1/2014</u>	<u>Additions</u>	<u>Reductions</u>	Amounts Due Within <u>One Year</u>	Amounts Due <u>Thereafter</u>	Balance <u>6/30/2015</u>
Governmental Activities- Other long-term liabilities:						
Compensated absences	\$219,189	\$150,146	\$152,704	\$11,569	\$205,062	\$216,631

The reported liabilities for compensated absences were \$216,631 at June 30, 2015. This balance includes the employer’s share of FICA taxes.

NOTE 21 – PENSION PLAN

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 seven 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.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Member 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). The annual pension benefit is equal to 2% 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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

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 of 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.

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 25 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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

Member and Employer Contributions

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

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

At June 30, 2015, the Department reported a liability of \$1,118,620 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2014, the Department's proportion was 0.176238 percent

For the year ended June 30, 2015, the Department recognized pension expense of \$110,682. At June 30, 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resource	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 36,267	-
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	\$ (218,359)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Contributions paid to PERS subsequent to the measurement date	188,400	-
Total	\$ 224,667	\$ (218,359)

The \$188,400 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, 2015.

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
2016	\$ (46,873)
2017	(46,873)
2018	(46,873)
2019	(46,873)
2020	5,400

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, 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 with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS. 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	31.00%	6.90%
International equity	21.00%	7.55%
Private equity	5.00%	11.30%
Domestic fixed income	17.00%	1.55%
International fixed income	5.00%	0.90%
Global real assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
 June 30, 2015

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
Employer's proportionate share of the GERF net pension liability:	\$ 1,725,243	\$ 1,118,620	\$ 611,400

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 22 – POSTRETIREMENT BENEFITS

Former employees receiving retirement benefits under the Retirement Plan of the Department are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. The retired employee is provided a credit toward their monthly health insurance premium under the state health plan based upon their years of credited service. In accordance with NDCC 54-52.1-03.2, the Department reimburses the Retiree Health Benefits Fund monthly for credit received by members of the retirement plan.

The benefits, fully paid by the department, are equal to \$5.00 for each of the employee's or decreased employee's years of credited service, not to exceed the premium in effect for selected coverage. For this pay-as-you-go plan, total department expenditures for the period ending June 30, 2015 were \$21,631.

NOTE 23 – 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.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

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.

NOTE 24 – NEW PRONOUNCEMENTS

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENT-CONTINUED
June 30, 2015

about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

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

NOTE 25 – GASB 68 ADJUSTMENT

The Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which required a prior period adjustment to record net pension liability and deferred outflows as of July 1, 2014; the cumulative effect of implementing this GASB statement was an increase in net pension liability of \$1,118,620 and an increase in deferred outflows of \$224,667, and an increase in deferred inflows of \$218,359 on the Statement of Net Position. The adjustments resulted in a net decrease of \$1,293,787 on the Statement of Revenues, Expenses, and Changes in Net Position.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015**

Assets:	Special Revenue Funds												Special Revenue Funds		Total	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Indian Cultural Education	Non-major Governmental Funds
Cash	\$ 102,847	\$ 86,011	\$ 14,579	\$ 5,853	\$ 2,099	\$ 21,074	\$ 6,858	\$ 38,801	\$ 24,047	\$ 27,616	\$ 1,989	\$ 27,249	\$ 359,023	\$ 5,721,588	\$ 3,235	\$ 6,083,846
Investments	54,742,557	7,387,460	18,246,531	12,613,230	8,474,973	9,594,040	6,313,822	22,010,289	14,228,842	16,319,877	4,621,586	25,843,035	200,396,242		1,170,300	201,566,542
Interest receivable	117,595	21,084	32,236	42,581	19,357	24,657	17,236	44,910	37,262	38,904	22,616	54,507	472,945	-	848	473,793
Accounts receivable	558,514	76,140	120,549	80,681	86,058	106,691	34,628	860,930	104,778	99,861	45,808	170,158	2,344,796	182,290		2,527,086
Invested securities lending collateral	2,733,887	370,288	914,317	634,102	423,831	481,236	316,623	1,100,982	717,452	818,659	232,541	1,295,476	10,039,394		58,456	10,097,850
Loans																
Farm loans	256,500	49,513	70,304	72,035	46,168	58,436	42,061	99,542	73,300	73,972	58,010	117,699	1,017,540			1,017,540
Due from other funds												1,368	1,368	-		1,368
Total Assets	58,511,900	7,990,496	19,398,516	13,448,482	9,052,486	10,286,134	6,731,228	24,155,454	15,185,681	17,378,889	4,982,550	27,509,492	214,631,308	5,903,878	1,232,839	221,768,025
Liabilities:																
Accounts payable	18,947	2,566	6,336	4,394	2,937	3,335	2,194	7,630	4,972	5,674	1,612	8,978	69,575		405	69,980
Securities lending collateral	2,733,887	370,288	914,317	634,102	423,831	481,236	316,623	1,100,982	717,452	818,659	232,541	1,295,476	10,039,394		58,456	10,097,850
Due to other state agencies	626	121	172	176	113	143	103	243	179	181	142	289	2,488			2,488
Total Liabilities	2,753,460	372,975	920,825	638,672	426,881	484,714	318,920	1,108,855	722,603	824,514	234,295	1,304,743	10,111,457	-	48,905	10,170,318
Equity:																
Fund Balance:																
Special revenue funds																
Restricted	55,758,440	7,617,521	18,477,691	12,809,810	8,625,605	9,801,420	6,412,308	23,046,599	14,463,078	16,554,375	4,748,255	26,204,749	204,519,851	5,903,878	1,173,978	211,597,707
Total Fund Balance	55,758,440	7,617,521	18,477,691	12,809,810	8,625,605	9,801,420	6,412,308	23,046,599	14,463,078	16,554,375	4,748,255	26,204,749	204,519,851	5,903,878	1,173,978	211,597,707
Total Liabilities and Fund Balances	\$ 58,511,900	\$ 7,990,496	\$ 19,398,516	\$ 13,448,482	\$ 9,052,486	\$ 10,286,134	\$ 6,731,228	\$ 24,155,454	\$ 15,185,681	\$ 17,378,889	\$ 4,982,550	\$ 27,509,492	\$ 214,631,308	\$ 5,903,878	\$ 1,222,883	\$ 221,768,025

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, 2015

Revenues:	Special Revenue Funds												Special Revenue Funds		Total	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Indian Cultural Education	Non-major Governmental Funds
Investment income	\$ 995,701	\$ 143,378	\$ 334,379	\$ 237,068	\$ 149,865	\$ 164,859	\$ 117,484	\$ 396,845	\$ 262,902	\$ 298,743	\$ 86,834	\$ 480,821	\$ 3,668,879	\$ 10,878	\$ 20,157	\$ 3,699,914
Loan income																
Farm loans	19,799	3,822	5,427	5,560	3,564	4,511	3,247	7,684	5,658	5,710	4,478	9,085	78,545			78,545
Change in fair value of investments	(665,999)	(91,255)	(225,952)	(160,875)	(99,070)	(120,314)	(77,018)	(267,460)	(174,669)	(201,305)	(58,621)	(307,054)	(2,449,592)		(12,443)	(2,462,035)
Securities lending income	4,523	613	1,513	1,049	701	796	524	1,822	1,187	1,354	385	2,143	16,610		97	16,707
Royalties	4,760,474	521,854	1,085,356	393,181	1,141,614	816,634	385,213	2,422,341	1,080,998	1,265,953	150,892	1,876,890	15,901,400	1,838,724		17,740,124
Bonuses	4,965	54,280	35,583	2,629	4,880	576,805	2,003	167,784	202	25,068	351	1,298	875,848	1,520		877,368
Rental income	235,816	43,607	76,484	27,352	67,313	61,559	40,728	70,951	56,592	51,234	35,189	142,090	908,915	169,859	2,000	1,080,774
Donations															300,000	300,000
Total Revenues	5,355,279	676,299	1,312,790	505,964	1,268,867	1,504,850	472,181	2,799,967	1,232,870	1,446,757	219,508	2,205,273	19,000,605	2,020,981	309,811	21,331,397
Expenditures:																
Current																
General government														29,951		29,951
Intergovernmental															2,298	2,298
Education	158,676	25,920	50,380	32,684	29,335	32,941	23,001	67,015	41,668	45,291	17,555	82,311	606,777			606,777
Total Expenditures	158,676	25,920	50,380	32,684	29,335	32,941	23,001	67,015	41,668	45,291	17,555	82,311	606,777	29,951	2,298	639,026
Excess of revenue over expenditures	5,196,603	650,379	1,262,410	473,280	1,239,532	1,471,909	449,180	2,732,952	1,191,202	1,401,466	201,953	2,122,962	18,393,828	1,991,030	307,513	20,692,371
Other Financing Uses:																
Transfer to Educational Institutions	(1,033,000)	(141,000)	(360,000)	(377,000)	(172,998)	(186,000)	(118,000)	(405,000)	(341,000)	(397,000)	(138,000)	(510,000)	(4,178,998)			(4,178,998)
Transfer to Facilities Management														(1,086,000)		(1,086,000)
Proceeds from sale of capital asset (land)													-			-
Total Other Financing Uses	(1,033,000)	(141,000)	(360,000)	(377,000)	(172,998)	(186,000)	(118,000)	(405,000)	(341,000)	(397,000)	(138,000)	(510,000)	(4,178,998)	(1,086,000)	-	(5,264,998)
Net Change in Fund Balance	4,163,603	509,379	902,410	96,280	1,066,534	1,285,909	331,180	2,327,952	850,202	1,004,466	63,953	1,612,962	14,214,830	905,030	307,513	15,427,373
Fund Balance - beginning	51,594,837	7,108,142	17,575,281	12,713,530	7,559,071	8,515,511	6,081,128	20,718,647	13,612,876	15,549,909	4,684,302	24,591,787	190,305,021	4,998,848	866,465	196,170,334
Fund Balance - ending	\$ 55,758,440	\$ 7,617,521	\$ 18,477,691	\$ 12,809,810	\$ 8,625,605	\$ 9,801,420	\$ 6,412,308	\$ 23,046,599	\$ 14,463,078	\$ 16,554,375	\$ 4,748,255	\$ 26,204,749	\$ 204,519,851	\$ 5,903,878	\$ 1,173,978	\$ 211,597,707

North Dakota Department of Trust Lands
SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS*
JUNE 30, 2015

<u>Fiscal Year Ending</u>	<u>Pension Plan</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Trust Land's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
June 30 2015	PERS	\$ 105,703	\$ (105,703)	\$ -	\$ 1,484,586	7.12%

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

North Dakota Department of Trust Lands
SCHEDULE OF EMPLOYER'S
SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS*
JUNE 30, 2015

For the Fiscal Year Ended June 30	Trust Land's Proportion of the Net Pension Liability (Asset)	Trust Land's Proportionate Share of the Net Pension Liability (Asset) (a)	Trust Land's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability
2015 PERS	0.176238%	\$ 1,118,320	\$ 1,484,586	75.33%	77.70%

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



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**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**

Governor of North Dakota
Legislative Audit and Fiscal Review Committee
North Dakota Department of Trust Lands
Bismarck, 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, 2015, 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 30, 2015.

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 30, 2015



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Governor of North Dakota
Legislative Audit and Fiscal Review Committee
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of state agencies. 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?

Action was taken to correct prior year finding; They have hired additional staff and have effectively improved collection efforts.

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.**

As described in Note 1 to the financial statements, North Dakota Department of Trust Lands changed accounting policies related to the pension by adopting Statement No. 68, Accounting and Financial Reporting for Pensions.

- 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. The passed (immaterial) audit adjustment is identified in the audit committee letter on page 57.

- 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.

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 30, 2015



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

October 30, 2015

To Governor Dalrymple
Legislative Audit and Fiscal Review Committee
North Dakota Department of Trust Lands
Bismarck, 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, 2015. 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 June 9, 2014. 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. As described in Note 1 to the financial statements North Dakota Department of Trust Lands changed accounting policies related to the pension by adopting Statement No. 68, *Accounting and Financial Reporting for Pensions* was a new accounting policy that was adopted during the year. 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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

	<u>Debit</u>	<u>Credit</u>
<u>Common Schools Fund</u>		
Fund Balance	\$661,687	
Expenditures	43,132	
Investments		\$704,819
To remove capital asset that is recorded as an investment		

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 30, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. However, these discussions occurred in the normal course of our professional relationship.

Other Matters

We applied certain limited procedures to management's discussion and analysis, Schedule of Contributions and Schedule of Employer's Share of Net Pension 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.

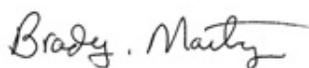
We were engaged to report on the combining fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the 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.

We were not engaged to report on Schedule of Contributions and Schedule of Employer's Share of Net Pension Liability, which accompany the financial statements. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

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

This information is intended solely for the use of the Governor, the Legislative Audit and Fiscal Review Committee, 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 30, 2015