

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, a department of the State of North Dakota, as of and for the year ended June 30, 2014, 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. We also have audited North Dakota Department of Trust Lands' internal controls over oil and gas related revenues, management of mineral acres, and grant expenditures as of June 30, 2014, based on criteria established in the 1992 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control Over Oil and Gas Related Revenues, Management of Mineral Acres, and Grant Expenditures.

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 effective internal control over financial reporting relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error. North Dakota Department of Trust Lands management is also responsible for its assertion about the effectiveness of internal controls over oil and gas related revenues, management of mineral acres, and grant expenditures included in the accompanying Management's Report on Internal Control Over Oil and Gas Related Revenues, Management of Mineral Acres, and Grant Expenditures.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on North Dakota Department of Trust Lands' internal control over oil and gas related revenues, management of mineral acres, and grant expenditures based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted our audit of internal control over oil and gas related revenues, management of mineral acres, and grant expenditures, in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal controls over and gas related revenues, management of mineral acres, and grant expenditures was maintained in all material respects.

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. 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. An audit of internal control over oil and gas related revenues, management of mineral acres, and grant expenditures involves obtaining an understanding of internal controls, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal controls based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

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

Definition and Inherent Limitations of Internal Control over Oil and Gas Related Revenues, Management of Mineral Acres, and Grant Expenditures

An entity's internal control over oil and gas related revenues, management of mineral acres, and grant expenditures is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over oil and gas related revenues, management of mineral acres, and grant expenditures includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over oil and gas related revenues, management of mineral acres, and grant expenditures may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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, 2014, 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. Also in our opinion, the North Dakota Department of Trust Lands maintained, in all material respects, effective internal control over oil and gas related revenues, management of mineral acres, and grant expenditures as of June 30, 2014 based on the procedures performed.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the North Dakota Department of Trust Lands are intended to present the financial position and the change in financial position of only that portion of the governmental activities and each major fund of the State of North Dakota that is attributable to the transactions of the North Dakota Department of Trust Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2014 and 2013, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 - 12 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 Lands' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and 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.

The financial statements of the North Dakota Department of Trust Lands as of June 30, 2013, were audited by another auditor whose report dated October 23, 2013 expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014 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, 2014

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

As management of the Department of Trust Lands (the Agency), our discussion and analysis of the Agency's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the basic financial statements, which follow this discussion.

Financial Highlights

- The assets of the Agency exceeded its liabilities as of June 30, 2014, 2013, and 2012 by \$4,976,646,230, \$3,687,541,471, and \$2,611,026,612, respectively.
- The Agency's net position increased by \$1,289,104,759 for the year ending June 30, 2014, by \$1,076,514,859 for the year ending June 30, 2013, and by \$553,356,418 for fiscal year 2012.
- Royalty revenues totaled \$371,629,760 in fiscal year 2014, an increase of \$95,807,625 over the amount earned in fiscal year 2013. Royalty revenues totaled \$275,822,135 in fiscal year 2013, an increase of \$72,030,756 over the \$203,791,379 earned in fiscal year 2012. These increases are due to the large number of new oil and gas wells placed into production over the past few years.
- Mineral lease bonus revenues totaled \$35,643,119 in fiscal year 2014, a decrease of \$33,469,385 when compared to fiscal year 2013. Bonus revenues totaled \$69,112,504 in fiscal year 2013, a decrease of \$56,354,042 when compared to fiscal year 2012. These decreases occurred because mineral acres in prime Bakken areas are already leased and much of the new acreage being nominated for lease auction is now outside prime Bakken areas.
- Oil extraction tax revenues received in fiscal year 2014 totaled \$346,913,487, a decrease of \$137,232,388 over the \$484,145,875 earned in fiscal year 2013. The oil extraction tax revenue of \$81,949,837 received in fiscal year 2012 was \$402,196,038 less than the amount received in fiscal year 2013.
 - Oil extraction tax revenues received by the Common School Trust fund totaled \$157,030,229 in fiscal year 2014, compared to \$118,807,311 in fiscal year 2013 and \$81,949,837 in fiscal year 2012. These changes are due to the substantial increase in oil production over the past three years.
 - Oil extraction tax revenues received by the Strategic Investment and Improvements fund (SIIF) totaled \$189,883,258 in fiscal year 2014, compared to \$365,338,564 in fiscal year 2013. No oil extraction tax revenues were received during fiscal 2012. Oil extraction tax revenues are deposited into the SIIF in accordance with NDCC 57-51.1-07.5. The decline in deposits from fiscal year 2013 to fiscal year 2014 is a result of a distribution formula, which results in higher distributions to the SIIF during the second year of each biennia verse the first year.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2014 AND 2013

- Gross production tax revenues received in fiscal year 2014 totaled \$301,189,953 a decrease of \$96,339,708 over the \$397,529,661 in fiscal year 2013. The gross production tax revenue of \$124,129,807 was received in fiscal year 2012. No gross production tax revenues were received in fiscal year 2011.
 - Gross production tax revenues received by the Strategic Investment and Improvements fund totaled \$136,027,799 in fiscal year 2014, compared to \$397,529,661 in fiscal year 2013 and \$24,129,807 in fiscal year 2012. No gross production tax revenues were received in fiscal year 2011. Gross production tax revenues are deposited into the SIIF in accordance with NDCC 57-51.1-07.5. The decline in deposits from fiscal year 2013 to fiscal year 2014 is a result of a distribution formula, which results in higher distributions to the SIIF during the second year of each biennia verses the first year.
 - Gross production tax revenues received by the oil and gas impact grant fund total \$165,162,154 in fiscal year 2014. No gross production tax revenues were received in fiscal year 2013, compared to \$100 million in fiscal year 2012 and none in fiscal year 2011. 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. An additional \$30 million of general fund money was deposited in the oil and gas impact grant fund during fiscal year 2012 as a result of the special session of the 62nd Legislative Assembly held in November 2011.
- Investment income totaled \$58,701,315 in fiscal year 2014, an increase of \$7,602,778 over fiscal year 2013. Investment income totaled \$51,098,537 in fiscal year 2013, a decrease of \$2,195,636 over the \$53,294,173 of investment income earned in fiscal year 2012. The relatively stable amount of investment income generated over the past three 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, totaled \$323,952,457 in fiscal year 2014, an increase of \$145,684,260 over the \$178,268,197 of gains earned in fiscal year 2013. Net capital gains totaled \$101,448 in 2012. Negative equity returns during fiscal year 2012 resulted in minimal capital gains in the permanent trusts' portfolio. During fiscal years 2013 and 2014, strong equity returns (19.86% and 22.7%, respectively) were the primary driver of capital gains. However, in fiscal year 2014 strong fixed income returns also helped boost that year's returns above fiscal year 2013.

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, 2014 AND 2013

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 Agency's financial position. As of June 30, 2014, the Agency's total net position was \$4,976,646,230. As of June 30, 2013 and 2012, the Agency's total net position was \$3,687,541,471 and \$2,611,026,612, respectively. The largest portion of the Agency's net position is represented by investments in financial securities. The Agency 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, 2014 AND 2013

The following is a comparative statement of net position:

Statement of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$5,176,096,114	\$3,938,822,392	\$2,751,826,459
Capital assets	<u>7,777,175</u>	<u>7,774,693</u>	<u>7,744,562</u>
Total assets	<u>5,183,873,289</u>	<u>3,946,597,085</u>	<u>2,759,571,021</u>
Long-term liabilities	207,483	173,371	165,734
Other liabilities	<u>207,019,576</u>	<u>258,882,243</u>	<u>148,378,675</u>
Total liabilities	<u>207,227,059</u>	<u>259,055,614</u>	<u>148,544,409</u>
Net Position:			
Net position invested in capital assets	7,777,175	7,774,693	7,744,562
Restricted net position			
Nonexpendable	66,116,742	65,183,169	64,342,175
Expendable	3,324,485,567	2,573,518,788	2,045,608,392
Unrestricted net position	<u>1,578,266,746</u>	<u>1,041,064,821</u>	<u>493,331,483</u>
Total net position	<u>4,976,646,230</u>	<u>3,687,541,471</u>	<u>2,611,026,612</u>
Total liabilities and net position	<u>\$5,183,873,289</u>	<u>\$3,946,597,085</u>	<u>\$2,759,571,021</u>

During fiscal year 2014, the Agency's net position increased by \$1,289,104,759. This change relates to an increase in the amount of investment assets held by the Agency, reflected as an increase of \$1,237,273,722 in current and other assets.

During fiscal year 2013, the Agency's net position increased by \$1,076,514,859. This change relates to an increase in the amount of investment assets held by the Agency, reflected as an increase of \$1,186,995,933 in current and other assets.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2014 AND 2013

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

Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Revenues</u>			
<i>General Revenues:</i>			
Interest on investments	\$ 2,078,244	\$ 1,408,009	\$ 1,419,298
Change in fair value of investments	151,339	95,953	119,827
Interest income	26,123		
Royalties	120,362,459	82,394,783	56,854,403
Bonuses	18,743,760	49,426,254	57,524,446
Rents	306,489	243,114	446,937
Interest on loans	1,317,003	611,680	536,561
Contributions to perpetual funds	14,251,211	13,722,930	12,469,733
Taxes	651,329,483	884,743,461	209,242,308
Gain on Sale of Capital Asset - Land	120,577	404,906	123,925
Total General Revenue	<u>808,686,688</u>	<u>1,033,051,090</u>	<u>338,737,438</u>
<i>Program Revenues:</i>			
Interest on loans	1,306,734	1,733,773	2,810,702
Interest on investments	53,973,211	47,345,075	48,527,612
Change in fair value of investments	323,801,118	178,172,244	(18,379)
Royalties	251,267,301	193,427,352	146,936,976
Bonuses	16,899,359	19,686,250	67,942,100
Rents	11,937,405	11,142,489	9,310,009
Fees to Maintenance fund	3,887,856	3,660,639	5,196,627
Total Program Revenue	<u>663,072,984</u>	<u>455,167,822</u>	<u>280,705,647</u>
Total Revenues	<u>1,471,759,672</u>	<u>1,488,218,912</u>	<u>619,443,085</u>
<u>Expenses</u>			
<i>Governmental Activities:</i>			
General government	968,002	824,087	793,906
Intergovernmental	75,350,625	64,607,709	30,196,538
Education	16,491,344	10,592,761	11,901,997
Total Expenses	<u>92,809,971</u>	<u>76,024,557</u>	<u>42,892,441</u>
Excess before transfer	1,378,949,701	1,412,194,355	576,550,644
Transfers	(89,844,942)	(335,679,496)	(23,194,226)
Increase(decrease) in net position	<u>1,289,104,759</u>	<u>1,076,514,859</u>	<u>553,356,418</u>
Net position - beginning	<u>3,687,541,471</u>	<u>2,611,026,612</u>	<u>2,057,670,194</u>
Net position - ending	<u>\$4,976,646,230</u>	<u>\$3,687,541,471</u>	<u>\$2,611,026,612</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2014 AND 2013

During the fiscal year ending June 30, 2014, the Agency's revenues decreased by a total of \$16,459,240. Mineral lease bonus revenue declined by \$33,469,385 as fewer minerals were available for lease, while royalty revenues increased by \$95,807,625 as leased minerals were placed into production. Oil extraction and gross production tax revenues decreased by \$137,232,388 and \$96,339,708, respectively, due to legislative changes to the gross production and oil extraction tax distribution formulas. The change in fair value of investments increased by \$145,684,260 from the previous year as capital markets produced strong gains during fiscal year 2014.

During the fiscal year ending June 30, 2013, the Agency's revenues increased by a total of \$868,775,827. Mineral lease bonus revenue declined by \$56,354,042 as fewer minerals were available for lease, while royalty revenues increased by \$72,030,756 as leased minerals were placed into production. Oil extraction and gross production tax revenues increased by \$402,196,038 and \$273,399,854, respectively, due to both increased oil production in the state and legislative changes to the gross production and oil extraction tax distribution formulas. The change in fair value of investments increased by \$178,166,749 from the previous year as capital markets produced strong gains during fiscal year 2013.

Financial Analysis of the Government's Funds

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

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

Capital Asset

The Agency's capital assets for its governmental funds as of June 30, 2014, 2013, and 2012, are \$7,777,175, \$7,774,693 and \$7,744,562 (net of accumulated depreciation for equipment), respectively. These capital assets include land and equipment. For additional details reference Note 14 – Capital Assets.

Economic Factors

The trust growth that occurred during fiscal year 2014 was driven primarily by oil and gas royalty payments and oil and gas tax revenue received as a result of the current oil plays in North Dakota. During fiscal year 2014, the trusts experienced stronger investment returns as compared to the prior fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Agency'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, 2014 AND 2013

	2014	2013
	Governmental Activities	Governmental Activities
<u>Assets:</u>		
Cash	\$ 220,919,549	\$ 79,604,406
Investments	4,307,367,762	3,391,058,580
Interest receivable	9,250,958	10,894,651
Accounts receivable	64,607,308	48,566,644
Invested securities lending collateral	196,344,084	251,795,861
Loans		
Farm loans	16,586,013	18,265,624
Energy construction loans	1,412,658	1,466,935
School loans	129,341,076	32,162,448
Energy impact loans	7,427,853	7,983,253
Capital Asset - Land	7,741,758	7,741,181
Due from other state agencies	222,838,853	96,918,944
Due from state general fund		105,046
Equipment (net of accumulated depreciation)	35,417	33,512
Total Assets	5,183,873,289	3,946,597,085
<u>Liabilities:</u>		
Accrued payroll	210,779	187,511
Accounts payable	1,741,488	1,494,104
Securities lending collateral	196,344,084	251,795,861
Due to other state agencies	385,373	352,894
Claimant liability	8,326,146	5,042,092
Long-term liabilities:		
Compensated absences due within one year	11,706	9,781
Compensated absences due in more than one year	207,483	173,371
Total Liabilities	207,227,059	259,055,614
<u>Net Position:</u>		
Net investment in capital assets	7,777,175	7,774,693
Restricted		
Nonexpendable	66,116,742	65,183,169
Expendable	3,324,485,567	2,573,518,788
Unrestricted	1,578,266,746	1,041,064,821
Total Net Position	\$ 4,976,646,230	\$ 3,687,541,471

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs of Governmental activities:	2014			Net (Expense) Revenue
	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 968,002			\$ (968,002)
Intergovernmental	75,350,625			(75,350,625)
Education	16,491,344	\$ 3,887,856	\$ 659,185,128	646,581,640
Total	\$ 92,809,971	\$ 3,887,856	\$ 659,185,128	\$ 570,263,013
Net (expense) revenue				\$ 570,263,013
General revenues:				
Taxes:				
Coal severance				3,226,043
Oil extraction				346,913,487
Gross production				301,189,953
Contributions to special revenue fund				14,251,211
Unrestricted investment earnings				2,078,244
Net increase (decrease) in fair value of investments				151,339
Royalties				120,362,459
Bonuses				18,743,760
Rents				306,489
Loan income				1,317,003
Interest Income				26,123
Gain on sale of capital asset – land				120,577
Transfers:				
To/from other state agencies				(20,502,944)
Educational institutions				(69,341,998)
Total general revenues and transfers				718,841,746
Total change in net position				1,289,104,759
Net position – beginning				\$ 3,687,541,471
Net position – ending				\$ 4,976,646,230

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs of Governmental activities:	2013			Net (Expense) Revenue
	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 824,087			\$ (824,087)
Intergovernmental	64,607,709			(64,607,709)
Education	10,592,761	\$ 3,660,639	\$ 451,507,183	444,575,061
Total	\$ 76,024,557	\$ 3,660,639	\$ 451,507,183	\$ 379,143,265
Net (expense) revenue				\$ 379,143,265
General revenues:				
Taxes:				
Coal severance				3,067,925
Oil extraction				484,145,875
Gross production				397,529,661
Contributions to special revenue fund				13,722,930
Unrestricted investment earnings				1,408,009
Net increase (decrease) in fair value of investments				95,953
Royalties				82,394,783
Bonuses				49,426,254
Rents				243,114
Loan income				611,680
Gain on sale of capital asset – land				404,906
Transfers:				
To/from other state agencies				(316,560,544)
Educational institutions				(49,223,998)
Transfer in general fund				30,000,000
To/from general fund				105,046
Total general revenues and transfers				697,371,594
Total change in net position				1,076,514,859
Net position – beginning				2,611,026,612
Net position – ending				\$ 3,687,541,471

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

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	\$9,752,911	\$11,964,560	\$2,314	\$161,032,680	\$36,942,170	\$1,224,914	\$220,919,549
Investments		3,023,148,242	30,185,618		1,064,839,115	189,194,787	4,307,367,762
Interest receivable		8,431,417	114,054		127,392	578,095	9,250,958
Accounts receivable		41,895,281			19,046,332	3,665,695	64,607,308
Invested securities lending collateral		168,598,311	17,343,861			10,401,912	196,344,084
Loans							
Farm		15,278,528				1,307,485	16,586,013
Energy construction		1,412,658					1,412,658
School			28,542,978		100,798,098		129,341,076
Energy impact			7,427,853				7,427,853
Due from other state agencies		30,236,011	456,916		192,145,926		222,838,853
Due from other funds		5,783,368			3,345,738	293,263	9,422,369
Total Assets	\$9,752,911	\$3,306,748,376	\$84,073,594	\$161,032,680	\$1,417,244,771	\$206,666,151	\$5,185,518,483
Liabilities:							
Accrued payroll	\$194,464			\$16,315			\$210,779
Accounts payable	162,164	\$1,471,479	\$16,886	111	\$125	\$90,723	1,741,488
Securities lending collateral		168,598,311	17,343,861			10,401,912	196,344,084
Due to other state agencies	23,742	37,207	319,841	1,401		3,182	385,373
Due to other funds	9,422,369						9,422,369
Claimant liability		8,326,146					8,326,146
Total Liabilities	\$9,802,739	\$178,433,143	\$17,680,588	\$17,827	\$125	\$10,495,817	\$216,430,239
Equity:							
Fund Balance:							
Permanent funds							
Nonspendable			\$66,116,742				\$66,116,742
Committed			276,264				276,264
Special revenue funds							
Restricted		\$3,128,315,233				\$196,170,334	3,324,485,567
Committed				\$161,014,853	\$1,276,047,586		1,437,062,439
Assigned					141,197,060		141,197,060
Unassigned	(\$49,828)						(49,828)
Total Fund Balance	(49,828)	3,128,315,233	66,393,006	161,014,853	1,417,244,646	196,170,334	4,969,088,244
Total Liabilities and Fund Balances	\$9,752,911	\$3,306,748,376	\$84,073,594	\$161,032,680	\$1,417,244,771	\$206,666,151	\$5,185,518,483

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

Total fund balances - governmental funds	\$4,969,088,244
Capital Asset - Land	7,741,758
Net book value of office equipment	35,417
Liability for compensated absences	(219,189)
Net position of governmental activities	<u>\$4,976,646,230</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

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	\$4,201,978	\$979,191	\$1,103	\$71,644,278	\$1,607,322	\$1,170,534	\$79,604,406
Investments		2,338,374,549	24,808,026		\$877,471,528	150,404,477	3,391,058,580
Interest receivable		9,514,232	132,665		600,075	647,679	10,894,651
Accounts receivable		32,051,586			14,104,342	2,410,716	48,566,644
Invested securities lending collateral		224,799,645	12,548,484			14,447,732	251,795,861
Loans							
Farm		16,825,796				1,439,828	18,265,624
Energy construction		1,466,935					1,466,935
School			32,162,448				32,162,448
Energy impact			7,983,253				7,983,253
Due from other state agencies		21,836,712	405,329		74,676,903		96,918,944
Due from state general fund			105,046				105,046
Due from other funds		2,302,541			1,460,117	143,549	3,906,207
Total Assets	\$4,201,978	\$2,648,151,187	\$78,146,354	\$71,644,278	\$969,920,287	\$170,664,515	\$3,942,728,599
Liabilities:							
Accrued payroll	\$187,511						\$187,511
Accounts payable	80,629	\$897,598	\$14,002	\$444,086	\$125	\$57,664	1,494,104
Securities lending collateral		224,799,645	12,548,484			14,447,732	251,795,861
Due to other state agencies	16,981	48,070	283,730			4,113	352,894
Due to other funds	3,906,207						3,906,207
Claimant liability		5,042,092					5,042,092
Total Liabilities	\$4,191,328	\$230,787,405	\$12,846,216	\$444,086	\$125	\$14,509,509	\$262,778,669
Equity:							
Fund Balance:							
Permanent funds							
Nonspendable			\$65,183,169				\$65,183,169
Committed			116,969				116,969
Special revenue funds							
Restricted		\$2,417,363,782				\$156,155,006	2,573,518,788
Committed				\$71,200,192	\$835,934,840		907,135,032
Assigned					133,985,322		133,985,322
Unassigned	\$10,650						10,650
Total Fund Balance	10,650	2,417,363,782	65,300,138	71,200,192	969,920,162	156,155,006	3,679,949,930
Total Liabilities and Fund Balances	\$4,201,978	\$2,648,151,187	\$78,146,354	\$71,644,278	\$969,920,287	\$170,664,515	\$3,942,728,599

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

Total fund balances - governmental funds	\$3,679,949,930
Capital Asset - Land	7,741,181
Net book value of office equipment	33,512
Liability for compensated absences	(183,152)
Net position of governmental activities	<u>\$3,687,541,471</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, 2014

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		\$50,428,415	\$258,365		\$1,779,153	\$3,193,415	\$55,659,348
Interest Income					26,123		26,123
Loan income							
Farm		1,136,195				97,182	1,233,377
Energy construction		73,357					73,357
School			666,037		650,966		1,317,003
Net increase (decrease) in fair value of investments		304,709,987	58,288			19,184,182	323,952,457
Securities lending income		352,615	17,737			21,755	392,107
Royalties		231,936,883			118,351,345	21,341,532	371,629,760
Bonuses		16,663,932			18,720,558	258,629	35,643,119
Rental income		11,115,068			155,535	973,291	12,243,894
Coal severance tax			3,226,043				3,226,043
Gross production tax				\$165,162,154	136,027,799		301,189,953
Oil extraction tax		157,030,229			189,883,258		346,913,487
Unclaimed property collections		4,007,845					4,007,845
Indirect recovery costs	\$3,887,856						3,887,856
Tobacco settlement		10,243,366					10,243,366
Total Revenues	3,887,856	787,697,892	4,226,470	165,162,154	465,594,737	45,069,986	1,471,639,095
Expenditures:							
Current							
General government			75,372		831,539	26,959	933,870
Intergovernmental				75,347,493		3,132	75,350,625
Education	3,948,334	11,703,441				839,569	16,491,344
Total Expenditures	3,948,334	11,703,441	75,372	75,347,493	831,539	869,660	92,775,839
Excess of revenue over expenditures	(60,478)	775,994,451	4,151,098	89,814,661	464,763,198	44,200,326	1,378,863,256
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			(2,258,230)				(2,258,230)
Transfer to State General Fund			(800,000)		-		(800,000)
Transfer to Facilities Management						(6,000)	(6,000)
Transfer to Attorney General Office					(9,600,000)		(9,600,000)
Transfer to Commerce Department					(1,000,000)		(1,000,000)
Transfer to Human Services Department					(5,150,000)		(5,150,000)
Transfer to Legacy Fund					(1,688,714)		(1,688,714)
Proceeds from sale of capital asset (land)		120,000					120,000
Total Other Financing Sources (Uses)	-	(65,043,000)	(3,058,230)	-	(17,438,714)	(4,184,998)	(89,724,942)
Net Change in Fund Balance	(60,478)	710,951,451	1,092,868	89,814,661	447,324,484	40,015,328	1,289,138,314
Fund Balance - beginning	10,650	2,417,363,782	65,300,138	71,200,192	969,920,162	156,155,006	3,679,949,930
Fund Balance - ending	(\$49,828)	\$3,128,315,233	\$66,393,006	\$161,014,853	\$1,417,244,646	\$196,170,334	\$4,969,088,244

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

Net change in fund balance	\$1,289,138,314
Net value of capital asset - land transaction	(611)
Net value of capital asset - acquired land	1,188
Depreciation expense on equipment	(6,541)
Office equipment additions	8,446
Increase in compensated absences liability	(36,037)
Net position of governmental activities	<u>\$1,289,104,759</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, 2013

Revenues:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Funds	Strategic Investments & Improvements Fund	Other Governmental Funds	Total
Investment income		\$44,020,163	\$289,368		\$1,087,045	\$2,895,174	\$48,291,750
Loan income							
Farm		1,493,646				127,754	1,621,400
Energy construction		112,373					112,373
School			611,680				611,680
Net increase (decrease) in fair value of investments		167,264,562	36,395			10,967,240	178,268,197
Securities lending income		423,874	10,219			27,241	461,334
Royalties		178,311,885			81,784,775	15,725,475	275,822,135
Bonuses		18,171,033			49,426,254	1,515,217	69,112,504
Rental income		10,292,829			154,163	938,611	11,385,603
Coal severance tax			3,067,925				3,067,925
Gross production tax					397,529,661		397,529,661
Oil extraction tax		118,807,311			365,338,564		484,145,875
Unclaimed property collections		4,711,078					4,711,078
Indirect recovery costs	\$3,660,639						3,660,639
Tobacco settlement		9,011,852					9,011,852
Total Revenues	3,660,639	552,620,606	4,015,587	-	895,320,462	32,196,712	1,487,814,006
Expenditures:							
Current							
General government			65,123		756,587	26,534	848,244
Intergovernmental				64,605,791		1,918	64,607,709
Education	3,619,289	6,444,044				529,428	10,592,761
Total Expenditures	3,619,289	6,444,044	65,123	64,605,791	756,587	557,880	76,048,714
Excess of revenue over expenditures	41,350	546,176,562	3,950,464	(64,605,791)	894,563,875	31,638,832	1,411,765,292
Other Financing Sources (Uses):							
Transfer to Public Instruction		(46,257,000)					(46,257,000)
Transfer to Educational Institutions						(2,966,998)	(2,966,998)
Transfer to Lignite Research Fund			(2,147,547)				(2,147,547)
Transfer to State General Fund			(968,080)		(305,000,000)		(305,968,080)
Transfer to Legacy Fund					(7,356,917)		(7,356,917)
Transfer to Facilities Management						(1,088,000)	(1,088,000)
Transfer in State General Fund				30,000,000			30,000,000
Transfer from State General Fund			105,046				105,046
Proceeds from sale of capital asset (land)		309,000				98,000	407,000
Total Other Financing Sources (Uses)	-	(45,948,000)	(3,010,581)	30,000,000	(312,356,917)	(3,956,998)	(335,272,496)
Net Change in Fund Balance	41,350	500,228,562	939,883	(34,605,791)	582,206,958	27,681,834	1,076,492,796
Fund Balance - beginning	(30,700)	1,917,135,220	64,360,255	105,805,983	387,713,204	128,473,172	2,603,457,134
Fund Balance - ending	\$10,650	\$2,417,363,782	\$65,300,138	\$71,200,192	\$969,920,162	\$156,155,006	\$3,679,949,930

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

Net change in fund balance	\$1,076,492,796
Net value of capital asset - land transaction	(2,094)
Net value of capital asset - acquired land	-
Depreciation expense on equipment	(2,461)
Office equipment additions	34,686
Decrease in compensated absences liability	(8,068)
Net position of governmental activities	<u>\$1,076,514,859</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF APPROPRIATIONS
JUNE 30, 2014

	Original Appropriation	Final Adjusted Appropriation	First Year 2014 Expenditures	Second Year 2015 Expenditures	Unexpended Appropriation on 06/30/14
General Fund:					
Salaries and Wages	\$ 5,157,015	\$ 5,157,015	\$ 2,143,343		\$ 3,013,672
Accrued Leave Payments	108,541	108,541	5,009		103,532
Operating Expenses	1,975,863	1,975,863	558,291		1,417,572
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>\$ -</u>	<u>\$ 4,795,730</u>

Oil and Gas Impact Grant Fund:

Energy Infrastructure and Impact Grants	\$ 239,299,174	\$ 239,299,174	\$ 30,258,826		\$ 209,040,348
Energy Infrastructure and Impact Operating	700,826	700,826	242,213		458,613
Flood Infrastructure Development Grants		26,154,763	13,676,627		12,478,136
	<u>\$ 240,000,000</u>	<u>\$ 266,154,763</u>	<u>\$ 44,177,666</u>	<u>\$ -</u>	<u>\$ 221,977,097</u>

Strategic Investment and Improvements Fund:

ND General Fund (HB 1015)		\$ 520,000,000			\$ 520,000,000
ND Department of Human Services (HB 1358)		9,600,000	5,150,000		4,450,000
ND Commerce Department (HB 1358)		2,000,000	1,000,000		1,000,000
ND Commerce Department (SB 2018)		2,500,000			2,500,000
ND Attorney General Office (HB 1358)		9,600,000	9,600,000		
Board of University and School Lands (SB 2013)		50,000			50,000
		<u>\$ 543,750,000</u>	<u>\$ 15,750,000</u>	<u>\$ -</u>	<u>\$ 528,000,000</u>

Perpetual Education Trusts:

For the years ending on June 30, 2014 and June 30, 2013, the perpetual education trusts managed by the Agency distributed \$69,341,998 and \$49,223,998, respectively, in accordance with Article IX, Section 2 of the North Dakota State Constitution. During the same periods, the trusts paid administrative expenses of \$12,543,010 and \$6,973,472, respectively, in accordance with N.D.C.C. 15-03-16.

Reconciliation of Administrative Expenses to Appropriated Earnings

	Fiscal Year 2014	Fiscal Year 2013
Biennial Legislative Appropriation Expenditures	\$ 2,711,239	\$ 2,472,975
Continuing Appropriation Authority Expenditures	76,048,714	73,575,739
Total expenses as reflected on the financial statements	<u>\$ 78,759,953</u>	<u>\$ 76,048,714</u>

Reference Financial Statement Note 20 for information on the Agency's continuing appropriation authority of funding.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Reporting Entity

The Department of Trust Lands (the Agency) 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 North Dakota Century Code Chapters 15-01, 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 Agency has included all funds and has considered all potential component units for which the Agency is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency'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 Agency's statements and the Agency is a reporting entity within the State of North Dakota as a reporting entity.

Fund Accounting Structure

The Agency 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 Agency is bound to honor them: nonspendable, restricted, committed and assigned.

The following fund types and funds are used to account for the Agency'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, 2014 AND 2013

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. 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. 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. 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 57-62-05.

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 provides 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 subdivisions. The program is funded with one-time State general fund moneys and expired June 30, 2013.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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 Trust receives revenues from surface rental income.

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

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

Cash Deposits and Investments

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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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, 2014 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, 2014. Interest is expected to be collected prior to June 30, 2015 when investments mature. In addition, accounts receivable includes funds appropriated to the Medical Facility Loan Program, and the income earned is included in interest income (see Note 11). 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.

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.

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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.

NOTE 2 – ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Agency 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 \$211,847,984 and \$79,503,421 while Northern Trust was \$9,071,565 and \$100,985, as of June 30, 2014 and 2013, respectively, and the bank balances were \$41,385,833 and \$7,569,498. 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, these deposits held at the BND are guaranteed by the State of North Dakota through N.D.C.C. Section 6-09-10. The Agency 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.

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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.

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.

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, 2013. 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.

Assigned: amounts in the assigned fund balance classification are intended to be used by the State or the Department of Trust Lands for specific purposes but do not meet the criteria to be classified as restricted or committed.

The Department of Trust Lands General fund was created under N.D.C.C. 15-03-01.1 and is available for paying operating expenses as appropriated by the legislative assembly. Any changes to the assigned fund balance would require an appropriation bill action of the legislative assembly.

The Strategic Investment and Improvements fund assigned fund balance was initially established by Board action in September 2010 when the Board voted to classify certain funds as a designated fund balance that should not be transferred out of the Strategic Investment and Improvements fund until potential title disputes related to certain riverbed mineral leases have

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been resolved. The legislature affirmed the Board action with the passage of House Bill 1451 in 2011. Any change to the assigned fund balance would require a vote of the Board or action of the legislative assembly.

Fund Balance Classifications

Specific purposes have been mandated on the committed fund balance and assigned fund balance amounts managed by the Board. These fund balances are established by the North Dakota State Constitution and legislative assembly through referendum and vote of the people, and/or formal legislative action. These constraints can only be removed or changed by the same action.

Fiscal Year Ended June 30, 2014

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:							
<i>Nonspendable</i>							
Permanent fund principal			\$66,116,742				\$66,116,742
<i>Committed</i>							
Designated for transfer to State general fund			276,264				276,264
Special Revenue Funds:							
<i>Restricted</i>							
Distribution to educational beneficiaries		\$3,128,315,233				\$190,305,021	3,318,620,254
Capitol building maintenance						4,998,848	4,998,848
Indian cultural education						866,465	866,465
<i>Committed</i>							
Grants				\$161,014,853			161,014,853
Designated for transfer to:							
State general fund					\$1,258,608,872		1,258,608,872
State Attorney General Office					9,600,000		9,600,000
State Commerce Department					1,000,000		1,000,000
State Human Services Department					5,150,000		5,150,000
State Legacy Fund					1,688,714		1,688,714
<i>Assigned</i>							
Potential mineral title disputes					141,197,060		141,197,060
<i>Unassigned</i>							
Operating Expenses	(\$49,828)						(49,828)
Total Fund Balances:	(\$49,828)	\$3,128,315,233	\$66,393,006	\$161,014,853	\$1,417,244,646	\$196,170,334	\$4,969,088,244

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Fiscal Year Ended June 30, 2013

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:							
<i>Nonspendable</i>							
Permanent fund principal			\$65,183,169				\$65,183,169
<i>Committed</i>							
Designated for transfer to State general fund			116,969				116,969
Special Revenue Funds:							
<i>Restricted</i>							
Distribution to educational beneficiaries		\$2,417,363,782				\$152,554,912	2,569,918,694
Capitol building maintenance						2,841,003	2,841,003
Indian cultural education						759,091	759,091
<i>Committed</i>							
Grants				\$71,200,192			71,200,192
Designated for transfer to State general fund					\$835,934,840		835,934,840
<i>Assigned</i>							
Potential mineral title disputes					133,985,322		133,985,322
<i>Unassigned</i>							
Operating Expenses	\$10,650						10,650
Total Fund Balances:	\$10,650	\$2,417,363,782	\$65,300,138	\$71,200,192	\$969,920,162	\$156,155,006	\$3,679,949,930

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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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, 2014 and 2013 are classified as investments in the accompanying financial statements as follows:

	<u>2014</u>	<u>2013</u>
Equity Securities:		
Common stock	\$ 1,777,550,946	\$ 1,288,726,197
Preferred stock	21,406,702	100
Convertible equity	70,326	26
Equity exchange traded fund	37,909,420	-
 Fixed Income	 1,314,009,471	 1,184,440,755
 Cash and Cash Equivalents	 <u>85,880,564</u>	 <u>37,882,837</u>
	<u>\$ 3,236,827,429</u>	<u>\$ 2,511,049,915</u>

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, 2014 and 2013, these investments included \$1,069,442,392 and \$879,072,831, respectively, in U.S. Treasury Bills and Notes.

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, 2014 and 2013, respectively, the Board held \$393,122 and \$265,187 in unclaimed mutual funds and other securities.

Common Schools Trust Fund owns the building occupied by the Department of Trust Lands. For the periods ending June 30, 2014 and 2013, the book value of the building was \$704,819 and \$670,647, respectively. The book value of the building is included in the investments line of the balance sheet.

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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 tables show the investments by investment type and maturity at June 30, 2014 and 2013. The investments are shown by type, amount, and duration; and assume the call dates as the maturity dates.

Fiscal Year 2014

Investment Type	Maturity Amount	Weighted Average Maturity (Years)
Asset Backed Securities	\$ 16,638,412	6.28
Commercial Mortgage-Backed	1,552,649	30.82
Corporate Bonds	316,659,818	7.03
TIPS Fund	139,433,931	8.58
Government Agencies	15,557,365	5.83
Low Duration Fund	214,521,404	2.72
Government Bonds	212,681,856	7.51
Government Mortgage Backed Securities	59,881,341	20.46
Gov't-issued Commercial Mortgage-Backed	7,723,430	12.94
Municipal/Provincial Bonds	9,339,296	12.36
Non-Government Backed CMOs	9,590,004	21.26
Other Fixed Income	105,036,137	5.18
Short Term Bills and Notes	30,616,711	0.26
Short Term Investment Funds	88,518,352	0.10
Total	<u>\$ 1,227,750,706</u>	
Weighted Average Maturity		<u>6.56</u>

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Fiscal Year 2013

<u>Investment Type</u>	<u>Maturity Amount</u>	<u>Weighted Average Maturity (Years)</u>
Asset Backed Securities	\$ 10,549,587	8.41
Commercial Mortgage-Backed	6,235,388	31.22
Corporate Bonds	425,310,900	6.66
TIPS Fund	167,213,152	8.67
Government Agencies	14,295,783	4.93
Low Duration Fund	134,690,039	3.29
Government Bonds	185,804,039	6.32
Government Mortgage Backed Securities	97,399,876	22.35
Gov't-issued Commercial Mortgage-Backed	1,973,700	8.5
Index Linked Government Bonds	2,122,289	11.6
Municipal/Provincial Bonds	3,391,694	4.45
Non-Government Backed CMOs	14,812,837	23.05
Other Fixed Income	120,641,471	5.27
Short Term Bills and Notes	14,972,634	0.30
Short Term Investment Funds	50,754,506	0.14
Total	<u>\$ 1,250,167,895</u>	
Weighted Average Maturity		<u>7.58</u>

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

Other investments included above, such as variable rate collateralized mortgage obligations (CMOs), have a high degree of sensitivity to interest rate changes. As of June 30, 2014 and 2013, respectively, the Board held \$19,317,052 and \$20,287,304 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, 2014 and 2013, respectively.

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Credit Risk Ratings

Fiscal Year 2014

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$8,210,627	\$715,405				\$1,586,815					\$6,125,565	
Commercial Mortgage-Backed											1,552,649	
Corporate Bonds	223,666	19,760,091	\$71,983,789	\$89,524,442	\$85,497,695	38,758,542	\$138,626				10,772,967	
TIPS											139,433,931	
Government Agencies	3,875,833	11,558,549										122,983
Low Duration Fund											214,521,404	
Government Bonds	7,552,359	7,345,472	15,219,687	19,270,312	4,607,723						59,798,870	\$98,887,433
Government Mortgage Backed Securities		8,437,529									562,182	50,881,630
Govt-issued Commercial Mortgage-Backed												7,723,430
Municipal/Provincial Bonds	500,960	7,820,179	1,018,157									
Non-Government Backed C.M.O.s	3,655,587	534,133	1,508,372	92,986						912,106	2,886,820	
Other Fixed Income											105,036,137	
Short Term Bills and Notes												30,616,711
Short Term Investment Funds											88,518,352	
	\$24,019,032	\$56,171,358	\$89,730,005	\$108,887,740	\$90,105,418	\$40,345,357	\$138,626	\$ -	\$ -	\$912,106	\$629,208,877	\$188,232,187

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Credit Risk Ratings

Fiscal Year 2013

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$4,118,317	\$957,520				\$1,777,540					\$3,696,210	
Commercial Mortgage-Backed	2,209,082										4,026,306	
Corporate Bonds	1,764,733	15,243,492	\$77,946,732	\$92,226,853	\$111,813,752	114,001,847	\$4,059,008				8,254,483	
TIPS											167,213,152	
Government Agencies	9,279,662	5,016,121										
GNMA Fund												
Low Duration Fund											134,690,039	
Government Bonds	18,804,312	4,217,977	11,098,607	8,166,796	3,029,971						33,090,645	\$107,395,731
Government Mortgage Backed Securities		9,882,859									619,608	86,897,409
Govt-issued Commercial Mortgage-Backed												1,973,700
Index Linked Government Bond											2,122,289	
Municipal/Provincial Bonds		2,385,444	1,006,250									
Non-Government Backed C.M.O.s	3,768,640	26,515	2,105,423	1,729,824	823,751		1,840,838	491,049		2,073,557	1,953,240	
Other Fixed Income											120,641,471	
Short Term Bills and Notes												14,972,634
Short Term Investment Funds											50,754,506	
	\$39,944,746	\$37,729,928	\$92,157,012	\$102,123,473	\$115,667,474	\$115,779,387	\$5,899,846	\$491,049	\$ -	\$2,073,557	\$527,061,949	\$211,239,474

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
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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 tables:

Fiscal Year 2014

Currency	Debt	Equity	Total
Australian Dollar	\$ 272,708	\$ 26,820,217	\$ 27,092,925
Brazilian Real	(138,862)	-	(138,862)
British Pound Sterling	66,526	73,832,225	73,898,751
Canadian Dollar	-	37,280,101	37,280,101
Danish Krone	-	5,095,841	5,095,841
Euro Members	(59,257)	108,430,304	108,371,047
Hong Kong Dollar	5,691	9,655,278	9,660,969
Hungarian Forint	(94,045)	-	(94,045)
Israel Shekel	-	1,724,157	1,724,157
Japanese Yen	29,081	69,885,821	69,914,902
Mexican Peso	82,018	-	82,018
New Zealand Dollar	(1,311)	421,461	420,150
Norwegian Krone	49,217	2,988,538	3,037,755
Polish Zloty	105,664	-	105,664
Singapore dollar	-	5,019,212	5,019,212
South African Rand	(51,858)	-	(51,858)
Swedish Krona	8,576	10,651,457	10,660,033
Swiss Franc	-	31,341,339	31,341,339
	<u>\$ 274,148</u>	<u>\$ 383,145,951</u>	<u>\$ 383,420,099</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
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Fiscal Year 2013

Currency	Debt	Equity	Total
Australian Dollar	\$ (238,298)	\$ 19,934,889	\$ 19,696,591
Brazilian Real	(81,724)	-	(81,724)
British Pound Sterling	(49,257)	58,120,727	58,071,470
Canadian Dollar	(106,538)	-	(106,538)
Danish Krone	-	3,268,827	3,268,827
Euro Members	(500,610)	68,843,468	68,342,858
Hong Kong Dollar	-	6,884,347	6,884,347
Hungarian Forint	(195,203)	-	(195,203)
Japanese Yen	-	53,564,181	53,564,181
Mexican Peso	(3,048)	-	(3,048)
New Zealand Dollar	(169,110)	49,528	(119,582)
Norwegian Krone	(206,034)	841,970	635,936
Polish Zloty	(495,925)	-	(495,925)
Singapore Dollar	-	4,655,601	4,655,601
South African Rand	106,372	-	106,372
Swedish Krona	(509,617)	5,547,100	5,037,483
Swiss Franc	-	25,927,738	25,927,738
Thai Baht	30,915	-	30,915
	<u>\$ (2,418,077)</u>	<u>\$ 247,638,376</u>	<u>\$ 245,220,299</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, 2014 and 2013, the Board had one type of derivative security: currency forwards.

Currency Forwards

Currency forwards represent forward exchange contracts that are obtained to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Position with losses of \$6,907,028 for fiscal year 2014 and gains of \$3,277,390 for fiscal year 2013. At June 30, 2014 and 2013, the Board’s investment portfolio included the currency forwards balances shown below.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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Currency	Cost	Purchases	Sales	Fair Value	
				June 30, 2014	June 30, 2013
Australian Dollar	\$ (22,837,185)	\$ -	\$ (22,998,493)	\$(22,998,493)	\$(10,726,373)
Brazilian Real	(5,753,778)	-	(5,881,058)	(5,881,058)	(3,117,317)
Canadian Dollar	-	-	-	-	(10,694,782)
Euro Members	(69,892,998)	-	(69,907,081)	(69,907,081)	(49,423,189)
Hungary Forint	(4,736,456)	-	(4,701,769)	(4,701,769)	(3,427,212)
Mexico Peso	(7,467,732)	-	(7,463,885)	(7,463,885)	(5,912,242)
New Zealand Dollar	(7,168,135)	-	(7,346,783)	(7,346,783)	(5,454,956)
Norwegian Krone	(7,718,998)	-	(7,503,142)	(7,503,142)	(5,681,938)
Polish Zloty	(7,573,014)	-	(7,568,120)	(7,568,120)	(5,685,338)
South Africa Rand	(3,968,143)	-	(3,972,982)	(3,972,982)	(3,239,948)
Swedish Krona	(10,351,730)	-	(10,130,584)	(10,130,584)	(8,052,650)
Thai Baht	-	-	-	-	(3,215,083)
United Kingdom Pound	(1,689,090)	-	(1,709,095)	(1,709,095)	(1,319,024)
United States Dollar	149,157,259	149,157,259	-	149,157,259	118,505,867
Total forwards subject to currency risk				<u>\$ (25,733)</u>	<u>\$ 2,555,815</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, US government securities and irrevocable letters of credit. US securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. In all cases the borrower provides more collateral than the value of securities lent. Therefore, there is no credit risk related to security lending transactions. Non-US 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 Department of Trust Lands loans was approximately 145 days as of June 30, 2014.

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.

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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, 2014 and 2013.

Fiscal Year 2014

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$ 1,559,407	\$ 1,638,164		
GLOBAL Government Fixed	3,771,753	3,912,849		
US Agencies	3,800,875	3,873,561		
US Corporate Fixed	51,615,448	52,720,031		
US Equities	56,131,016	57,313,212		
US Government Fixed	75,377,325	76,886,267		
	<u>\$ 192,255,824</u>	<u>\$ 196,344,084</u>	\$ -	\$ -
Market Value of Securities on Loan against Cash Collateral				\$ 192,255,824
Market Value of Securities on Loan against Non Cash Collateral				-
Total Market Value of Securities on Loan				<u>\$ 192,255,824</u>

Fiscal Year 2013

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$ 1,027,236	\$ 1,042,280		
US Agencies	148,868	152,623		
US Corporate Fixed	81,489,675	83,416,816		
US Equities	67,049,402	68,719,527		
US Government Fixed	96,629,814	98,464,615		
	<u>\$ 246,344,995</u>	<u>\$ 251,795,861</u>	\$ -	\$ -
Market Value of Securities on Loan against Cash Collateral				\$ 246,344,995
Market Value of Securities on Loan against Non Cash Collateral				-
Total Market Value of Securities on Loan				<u>\$ 246,344,995</u>

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NOTE 7 – FARM LOAN POOL AND FARM REAL ESTATE

N.D.C.C. 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, 2014, the non-current and current portions of the loans were \$14,988,544 and \$1,597,469, respectively. The same amounts as of June 30, 2013 were \$16,590,903 and \$1,674,721, respectively.

As of June 30, 2014 and 2013, the pool had a net position of \$20,149,829 and \$19,072,368, respectively. For the same period, the pool earned net income of \$1,152,462 and \$1,499,078.

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, 2014, the non-current and current portions of the loans were \$1,379,822 and \$32,836 respectively. The same amounts as of June 30, 2013 were \$1,434,100 and \$32,835, respectively.

As of June 30, 2014 and 2013 the program had a net position of \$1,524,765 and \$1,507,108, respectively. For the same period, the program earned net income of \$73,357 and \$112,373, respectively.

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 six, three or three and three-fourths 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, 2014, the non-current and current portions of the loans were \$6,902,570 and \$525,283, respectively. The same amounts as of June 30, 2013 were \$7,427,853 and \$555,400, respectively.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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NOTE 10 – SCHOOL CONSTRUCTION LOANS

The school construction loan program is governed by N.D.C.C. 15.1-36-02; initially enacted in 1993 as N.D.C.C. 15-60-10. This law authorizes the Board to fund low interest school construction loans from the Coal Development Trust Fund; the outstanding principal balance of loans made from this fund may not exceed fifty million dollars. In 2013, the legislature amended N.D.C.C. 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. 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 Agency 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 chapter 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 the this office until that year's scheduled loan payment has been captured. To date, no gross production tax backed school construction loans have been made.

As of June 30, 2014, the non-current and current portions of loans from the Coal Development Trust Fund were \$25,888,096 and \$2,654,882, respectively. The same amounts as of June 30, 2013, were \$29,186,442 and \$2,976,006, respectively.

As of June 30, 2014, the non-current and current portions of loans from the SIIF were \$96,184,099 and \$4,613,999, respectively. There were no outstanding loans from the SIIF on June 30, 2013. Any uncommitted school construction loan funds in the Strategic Investment and Improvements Fund after December 31, 2014, must be transferred to the Medical Facility Infrastructure Loan Program.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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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 Bank of North Dakota. 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 monies remaining as of July 31, 2017 are to be transferred to the SIIF.

NOTE 12 – FUEL PRODUCTION FACILITIES LOAN GUARANTEE PROGRAM

The Fuel Production Facility Loan Guarantee Program is governed under N.D.C.C. 6-09.7. Under this program, 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 million 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. This guarantee money will be held at BND, on behalf of the SIIF, in an income earning account. Any net income earned under the guarantee program will be transferred back into the SIIF periodically.

NOTE 13 – OFFICE LEASE COMMITMENT

The Board's administrative agent, the North Dakota Department of Trust Lands (the Department) rents office space owned by the Common Schools Trust Fund. The Agency's commitment to rent its office space from the Common Schools Trust is continuous, with periodic adjustments made in accordance with acceptable management practices and market conditions. For the periods ending June 30, 2014 and 2013, rent of \$58,276 and \$50,507 was paid by the non-Common Schools Trusts funds.

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NOTE 14 – CAPITAL ASSETS

Governmental Activities:	<u>Balance 7/1/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/14</u>
Land	\$ 7,741,181	\$ 1,188	\$ (611)	\$ 7,741,758
Equipment	43,494	8,446	(8,808)	43,132
Less accumulated depreciation:				
Equipment	<u>(9,982)</u>	<u>(6,541)</u>	<u>8,808</u>	<u>(7,715)</u>
Net capital assets	<u>\$ 7,774,693</u>	<u>\$ 3,093</u>	<u>\$ (611)</u>	<u>\$ 7,777,175</u>
Governmental Activities:	<u>Balance 7/1/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/13</u>
Land	\$ 7,743,275	\$ -	\$ (2,094)	\$ 7,741,181
Equipment	8,808	34,686	-	43,494
Less accumulated depreciation:				
Equipment	<u>(7,521)</u>	<u>(2,461)</u>	<u>-</u>	<u>(9,982)</u>
Net capital assets	<u>\$ 7,744,562</u>	<u>\$ 32,225</u>	<u>\$ (2,094)</u>	<u>\$ 7,774,693</u>

Under the provisions of the Enabling Act, land was granted to the State for the support of the common schools and other institutions. Under Constitutional authority, no grant land may be sold for less than ten dollars an acre which is the value per acre used for balance sheet purposes. In fiscal year 2014, 118.78 acres were acquired and 61.08 acres were sold. In fiscal year 2013, no acres were acquired and 209.4 acres were sold.

All lands held by the Agency 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 and \$2,461 in equipment depreciation for fiscal years ending June 30, 2014 and 2013 was charged to the education fund.

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, 2014 and 2013:

<u>Fund</u>	<u>2014</u>		<u>2013</u>	
	<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund		\$ 9,422,369		\$ 3,906,207
Strategic Investment and Improvements fund	\$ 3,345,738		\$ 1,460,117	
Non-major perpetual funds	293,263		143,549	
Common Schools Trust fund	<u>5,783,368</u>		<u>2,302,541</u>	
	<u>\$ 9,422,369</u>	<u>\$ 9,422,369</u>	<u>\$ 3,906,207</u>	<u>\$ 3,906,207</u>

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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, 2014 and 2013.

Fund	2014		2013	
	Due from other state agencies	Due to other state agencies	Due from state agencies	Due to other state agencies
Strategic Investment and Improvements fund:				
State Treasurer	\$ 142,119,803		\$ 74,676,903	
Medical Facility Infrastructure Loan Program	50,026,123			
	<u>192,145,926</u>		<u>74,676,903</u>	
Coal Development Trust fund:				
State Treasurer	456,916	\$ 319,841	405,329	\$ 283,730
	<u>456,916</u>	<u>319,841</u>	<u>405,329</u>	<u>283,730</u>
General fund:				
Attorney General		8,267		4,785
Dept. of Transportation		9,265		6,145
Information Technology Department		5,335		5,067
Central Services		483		266
Office of Management and Budget		392		718
		<u>23,742</u>		<u>16,981</u>
Perpetual funds:				
State Treasurer	30,236,011		21,836,712	
Bank of North Dakota		40,389		52,183
	<u>30,236,011</u>	<u>40,389</u>	<u>21,836,712</u>	<u>52,183</u>
Oil and Gas Impact fund:				
Information Technology Department		1,353		
Office of Management and Budget		48		
		<u>1,401</u>		
Total Due From/Due To	<u>\$ 222,838,853</u>	<u>\$ 385,373</u>	<u>\$ 96,918,944</u>	<u>\$ 352,894</u>

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.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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NOTE 17 – TRANSFERS FROM (TO) OTHER STATE AGENCIES

The following detail represents amounts transferred to beneficiaries and other State agencies as of June 30, 2014 and 2013.

Fund	2014		2013	
	Transfers from other agencies	Transfers to other agencies	Transfers from other agencies	Transfers to other agencies
Perpetual Funds:				
Department of Public Instruction		\$ 65,163,000		\$ 46,257,000
ND State University		1,033,000		712,000
School for the Blind		141,000		108,000
School for the Deaf		360,000		227,000
State Hospital		377,000		286,000
Ellendale		172,998		109,998
Valley City State University		186,000		143,000
Mayville State University		118,000		92,000
Industrial School		405,000		264,000
School of Science		341,000		246,000
School of Mines		397,000		280,000
Veterans Home		138,000		124,000
University of ND		510,000		375,000
		<u>69,341,998</u>		<u>49,223,998</u>
Coal Development Trust:				
Lignite Research Fund		2,258,230		2,147,547
General Fund of ND		800,000	\$ 105,046	968,080
		<u>3,058,230</u>	<u>105,046</u>	<u>3,115,627</u>
Strategic Investment and Improvements:				
General Fund of North Dakota				305,000,000
ND Legacy Fund		1,688,714		7,356,917
ND Attorney General Office		9,600,000		
ND Commerce Department		1,000,000		
ND Human Services Department		5,150,000		
		<u>17,438,714</u>		<u>312,356,917</u>
Capitol Building Trust:				
Facilities Management		6,000		1,088,000
		<u>6,000</u>		<u>1,088,000</u>
Flood-Impacted Political Subdivision Infrastructure Development Grants:				
General Fund of ND			30,000,000	
			<u>30,000,000</u>	
Total Transfers		<u>\$ 89,844,942</u>	<u>\$ 30,105,046</u>	<u>\$ 365,784,542</u>

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
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NOTE 18 – ASSIGNED FUND BALANCE

On July 31, 2014 the Department of Trust Lands classified \$141,197,060 of the Strategic Investment and Improvements fund as an assigned fund balance for fiscal year 2014 financial statement purposes. This commitment was made by the Board to indicate that these funds should not be transferred out of this fund until potential title disputes related to certain riverbed leases have been resolved.

NOTE 19 – LITIGATION

The State is currently involved in litigation relating to mineral title ownership between the ordinary high watermark and ordinary low watermark, an area known as shore zone, along the Missouri River by Williston, North Dakota. Last year the North Dakota Supreme Court ruled the State owns the minerals located below the ordinary high watermark of navigable bodies of water. Riparian owners are now challenging where the State has determined the ordinary high watermark.

The State 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.

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 Department 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 Department 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 Department 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 November 9, 2015.

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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. The State served its Answer to the Complaint on September 10, 2014. The case has not yet been filed with the District Court.

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 is currently on appeal to the North Dakota Supreme Court with oral arguments scheduled for November of 2014.

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

NOTE 20 – 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 Department, 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 Department 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 Department, 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 Department, 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 Department 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 Department, 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.

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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 Department 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.

NOTE 21 – 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.

The reported liabilities for compensated absences were \$219,189 and \$183,152 at June 30, 2014 and 2013, respectively. This balance includes the employer's share of FICA taxes.

	<u>Balance</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due</u> <u>Thereafter</u>	<u>Balance</u> <u>6/30/2014</u>
Governmental Activities- Other long-term liabilities:						
Compensated absences	\$183,152	\$138,124	\$102,087	\$11,706	\$207,483	\$219,189
	<u>Balance</u> <u>7/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due</u> <u>Thereafter</u>	<u>Balance</u> <u>6/30/2013</u>
Governmental Activities- Other long-term liabilities:						
Compensated absences	\$175,084	\$4,317	\$3,751	\$9,781	\$173,371	\$183,152

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NOTE 22 – PENSION PLAN

The Agency participates in the North Dakota Public Employees' Retirement System (PERS) administered by the State of North Dakota. The following is a brief description of the plan:

Defined Benefit Pension Plan:

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Agency. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred, or monthly payments in an amount equal to the employees' 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 employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees' who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Board has not elected to implement a salary reduction agreement. The Agency is required to contribute 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The Board's required and actual contributions to NDPERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$220,935, \$164,730, and \$120,464, respectively.

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NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1657, Bismarck, ND 58502-1657.

NOTE 23 – 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 periods ending June 30, 2014, 2013 and 2012 were \$19,164, \$16,867, and \$14,995, respectively.

NOTE 24 – RISK MANAGEMENT

The Agency 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 Agency 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 Agency pays an annual premium to the Fire and Tornado Fund (FTF) to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the FTF. The FTF is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve month period.

The State Bonding Fund currently provides the Agency 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.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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 25 – NEW PRONOUNCEMENTS

GASB Statements 67, *Financial Reporting for Pension Plans*. The objective of Statement 67 is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. GASB 67 is effective for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pension for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer 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 for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. Or a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

nonexchange financial guarantee may be applied prospectively.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and amendment of GASB Statement No. 63 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

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	\$432,380	\$37,308	\$44,958	\$38,641	\$13,767	\$19,987	\$37,323	\$132,014	\$82,812	\$80,397	\$16,725	\$97,052	\$1,033,364	\$189,967	\$1,583	\$1,224,914
Investments	49,711,931	6,890,413	17,136,071	12,494,555	7,380,682	8,114,754	5,872,426	19,759,052	13,202,407	15,113,207	4,539,791	23,512,185	183,727,474	4,603,277	864,036	189,194,787
Interest receivable	145,857	25,009	41,538	49,158	23,838	29,559	20,612	56,175	44,713	47,268	25,328	67,771	576,826	-	1,269	578,095
Accounts receivable	820,677	92,106	270,992	40,764	82,279	274,996	95,180	591,981	185,868	221,655	15,732	767,861	3,460,091	205,604		3,665,695
Invested securities lending collateral	2,804,591	382,074	962,543	708,243	417,419	457,775	330,129	1,114,495	746,410	853,923	257,731	1,318,097	10,353,430		48,482	10,401,912
Loans																
Farm loans	329,589	63,621	90,337	92,561	59,323	75,088	54,046	127,906	94,187	95,050	74,540	151,237	1,307,485			1,307,485
Due from other funds	179,666	3,172	-	4,253	2,967	5,303	4,551	61,550	9,628	11	14,616	7,546	293,263	-		293,263
Total Assets	\$54,424,691	\$7,493,703	\$18,546,439	\$13,428,175	\$7,980,275	\$8,977,462	\$6,414,267	\$21,843,173	\$14,366,025	\$16,411,511	\$4,944,463	\$25,921,749	\$200,751,933	\$4,998,848	\$915,370	\$206,666,151
Liabilities:																
Accounts payable	\$24,461	\$3,332	\$8,395	\$6,177	\$3,641	\$3,993	\$2,879	\$9,720	\$6,510	\$7,448	\$2,248	\$11,496	\$90,300		\$423	\$90,723
Securities lending collateral	2,804,591	382,074	962,543	708,243	417,419	457,775	330,129	1,114,495	746,410	853,923	257,731	1,318,097	10,353,430		48,482	10,401,912
Due to other state agencies	802	155	220	225	144	183	131	311	229	231	182	369	3,182			3,182
Total Liabilities	\$2,829,854	\$385,561	\$971,158	\$714,645	\$421,204	\$461,951	\$333,139	\$1,124,526	\$753,149	\$861,602	\$260,161	\$1,329,962	\$10,446,912	-	\$48,905	\$10,495,817
Equity:																
Fund Balance:																
Special revenue funds																
Restricted	\$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
Total Fund Balance	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
Total Liabilities and Fund Balances	\$54,424,691	\$7,493,703	\$18,546,439	\$13,428,175	\$7,980,275	\$8,977,462	\$6,414,267	\$21,843,173	\$14,366,025	\$16,411,511	\$4,944,463	\$25,921,749	\$200,751,933	\$4,998,848	\$915,370	\$206,666,151

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

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	\$8,788	\$3,017	\$3,603	\$3,454	\$2,478	\$2,886	\$2,501	\$4,118	\$3,252	\$3,278	\$2,780	\$6,222	\$46,377	\$1,121,224	\$2,933	\$1,170,534
Investments	39,508,597	5,476,327	13,668,178	10,912,161	6,375,151	6,432,625	4,530,480	15,932,610	10,860,253	12,458,439	3,895,165	17,998,296	148,048,282	1,601,304	754,891	150,404,477
Interest receivable	164,084	27,544	47,795	53,704	26,541	32,622	22,830	63,383	49,581	52,740	27,112	76,488	644,424	1,696	1,559	647,679
Accounts receivable	770,088	60,742	222,144	48,136	60,533	129,582	130,667	160,324	152,274	180,662	21,704	357,081	2,293,937	116,779		2,410,716
Invested securities lending collateral	3,836,771	529,523	1,326,089	1,066,643	619,207	623,672	437,764	1,545,259	1,054,332	1,211,432	381,091	1,742,797	14,374,580		73,152	14,447,732
Loans																
Farm loans	362,949	70,061	99,481	101,930	65,328	82,688	59,517	140,852	103,721	104,671	82,085	166,545	1,439,828			1,439,828
Due from other funds	51,602	7,363	-	9,786	642	-	11,443	47,191	1,365	-	9,355	4,802	143,549			143,549
Total Assets	\$44,702,879	\$6,174,577	\$15,367,290	\$12,195,814	\$7,149,880	\$7,304,075	\$5,195,202	\$17,893,737	\$12,224,778	\$14,011,222	\$4,419,292	\$20,352,231	\$166,990,977	\$2,841,003	\$832,535	\$170,664,515
Liabilities:																
Accounts payable	\$15,314	\$2,113	\$5,293	\$4,257	\$2,471	\$2,489	\$1,747	\$6,168	\$4,208	\$4,835	\$1,521	\$6,956	\$57,372		\$292	\$57,664
Securities lending collateral	3,836,771	529,523	1,326,089	1,066,643	619,207	623,672	437,764	1,545,259	1,054,332	1,211,432	381,091	1,742,797	14,374,580		73,152	14,447,732
Due to other state agencies	1,036	200	284	291	186	237	170	402	296	299	235	477	4,113			4,113
Total Liabilities	\$3,853,121	\$531,836	\$1,331,666	\$1,071,191	\$621,864	\$626,398	\$439,681	\$1,551,829	\$1,058,836	\$1,216,566	\$382,847	\$1,750,230	\$14,436,065	-	\$73,444	\$14,509,509
Equity:																
Fund Balance:																
Special revenue funds																
Restricted	\$40,849,758	\$5,642,741	\$14,035,624	\$11,124,623	\$6,528,016	\$6,677,677	\$4,755,521	\$16,341,908	\$11,165,942	\$12,794,656	\$4,036,445	\$18,602,001	\$152,554,912	\$2,841,003	\$759,091	\$156,155,006
Total Fund Balance	40,849,758	5,642,741	14,035,624	11,124,623	6,528,016	6,677,677	4,755,521	16,341,908	11,165,942	12,794,656	4,036,445	18,602,001	152,554,912	2,841,003	759,091	156,155,006
Total Liabilities and Fund Balances	\$44,702,879	\$6,174,577	\$15,367,290	\$12,195,814	\$7,149,880	\$7,304,075	\$5,195,202	\$17,893,737	\$12,224,778	\$14,011,222	\$4,419,292	\$20,352,231	\$166,990,977	\$2,841,003	\$832,535	\$170,664,515

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, 2014

Revenues:	Special Revenue Funds												Special Revenue Funds		Total Non-major Govern- mental Funds	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building		Indian Cultural Education
Investment income	\$852,888	\$117,514	\$293,057	\$224,613	\$132,065	\$139,064	\$99,442	\$341,534	\$230,454	\$262,810	\$81,216	\$395,870	\$3,170,527	\$7,534	\$15,354	\$3,193,415
Loan income																\$0
Farm loans	24,497	4,729	6,715	6,880	4,409	5,581	4,017	9,507	7,001	7,065	5,540	11,241	97,182			\$97,182
Change in fair value of investments	5,135,213	705,567	1,758,590	1,359,385	798,643	837,729	598,939	2,059,673	1,390,762	1,588,175	491,022	2,367,433	19,091,131		93,051	\$19,184,182
Securities lending income	5,866	799	2,013	1,481	873	957	691	2,331	1,561	1,786	539	2,757	21,654		101	\$21,755
Royalties	5,677,325	769,893	1,831,887	386,904	242,548	1,020,667	731,525	2,344,817	1,143,156	1,293,218	188,666	3,699,812	19,330,418	2,011,114		\$21,341,532
Bonuses	125,205	1,659	-	13,600	4,720	2,000	80	49,559	9,564	14,400	12,800	1,840	235,427	23,202		\$258,629
Rental income	182,062	40,471	81,967	23,890	58,615	59,605	39,588	63,392	63,462	48,729	30,500	130,056	822,337	148,954	2,000	\$973,291
Total Revenues	12,003,056	1,640,632	3,974,229	2,016,753	1,241,873	2,065,603	1,474,282	4,870,813	2,845,960	3,216,183	810,283	6,609,009	42,768,676	2,190,804	110,506	45,069,986
Expenditures:																
Current																
General government														26,959		26,959
Intergovernmental															3,132	3,132
Education	224,977	34,231	74,572	50,846	37,820	41,769	30,675	89,074	58,026	63,930	24,426	109,223	839,569			839,569
Total Expenditures	224,977	34,231	74,572	50,846	37,820	41,769	30,675	89,074	58,026	63,930	24,426	109,223	839,569	26,959	3,132	869,660
Excess of revenue over expenditures	11,778,079	1,606,401	3,899,657	1,965,907	1,204,053	2,023,834	1,443,607	4,781,739	2,787,934	3,152,253	785,857	6,499,786	41,929,107	2,163,845	107,374	44,200,326
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														(6,000)		(6,000)
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)	(6,000)	-	(4,184,998)
Net Change in Fund Balance	10,745,079	1,465,401	3,539,657	1,588,907	1,031,055	1,837,834	1,325,607	4,376,739	2,446,934	2,755,253	647,857	5,989,786	37,750,109	2,157,845	107,374	40,015,328
Fund Balance - beginning	40,849,758	5,642,741	14,035,624	11,124,623	6,528,016	6,677,677	4,755,521	16,341,908	11,165,942	12,794,656	4,036,445	18,602,001	152,554,912	2,841,003	759,091	156,155,006
Fund Balance - ending	\$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

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, 2013

Revenues:	Special Revenue Funds												Special Revenue Funds		Total Non-major Govern- mental Funds	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building		Indian Cultural Education
Investment income	\$755,798	\$103,622	\$266,060	\$220,444	\$125,642	\$123,830	\$83,661	\$308,479	\$211,550	\$246,376	\$79,032	\$349,441	\$2,873,935	\$5,756	\$15,483	\$2,895,174
Loan income																
Farm loans	32,204	6,216	8,827	9,044	5,797	7,337	5,281	12,498	9,203	9,287	7,283	14,777	127,754			127,754
Change in fair value of investments	2,843,383	391,308	1,011,979	850,591	481,553	470,771	314,378	1,166,257	804,535	944,316	302,979	1,325,632	10,907,682		59,558	10,967,240
Securities lending income	7,234	998	2,500	2,011	1,168	1,176	825	2,914	1,988	2,284	719	3,286	27,103		138	27,241
Royalties	5,007,844	719,626	1,318,423	455,215	433,200	760,719	805,554	1,672,958	1,038,369	964,905	141,932	1,796,722	15,115,467	610,008		15,725,475
Bonuses	836,707	3,680	50,926	28,880	3,200	1,750	110,762	461,525	-	2,730	-	15,057	1,515,217	-		1,515,217
Rental income	203,934	39,509	87,892	24,550	57,366	61,383	42,081	63,573	58,602	44,598	31,811	134,361	849,660	86,951	2,000	938,611
Total Revenues	9,687,104	1,264,959	2,746,607	1,590,735	1,107,926	1,426,966	1,362,542	3,688,204	2,124,247	2,214,496	563,756	3,639,276	31,416,818	702,715	77,179	32,196,712
Expenditures:																
Current																
General government														26,534		26,534
Intergovernmental															1,918	1,918
Education	136,799	21,932	45,571	33,000	25,589	28,908	20,898	57,572	34,954	38,907	16,278	69,020	529,428			529,428
Total Expenditures	136,799	21,932	45,571	33,000	25,589	28,908	20,898	57,572	34,954	38,907	16,278	69,020	529,428	26,534	1,918	557,880
Excess of revenue over expenditures	9,550,305	1,243,027	2,701,036	1,557,735	1,082,337	1,398,058	1,341,644	3,630,632	2,089,293	2,175,589	547,478	3,570,256	30,887,390	676,181	75,261	31,638,832
Other Financing Uses:																
Transfer to Educational Institutions	(712,000)	(108,000)	(227,000)	(286,000)	(109,998)	(143,000)	(92,000)	(264,000)	(246,000)	(280,000)	(124,000)	(375,000)	(2,966,998)			(2,966,998)
Transfer to Facilities Management														(1,088,000)		(1,088,000)
Proceeds from sale of capital asset (land)												98,000	98,000			98,000
Total Other Financing Uses	(712,000)	(108,000)	(227,000)	(286,000)	(109,998)	(143,000)	(92,000)	(264,000)	(246,000)	(280,000)	(124,000)	(277,000)	(2,868,998)	(1,088,000)	-	(3,956,998)
Net Change in Fund Balance	8,838,305	1,135,027	2,474,036	1,271,735	972,339	1,255,058	1,249,644	3,366,632	1,843,293	1,895,589	423,478	3,293,256	28,018,392	(411,819)	75,261	27,681,834
Fund Balance - beginning	32,011,453	4,507,714	11,561,588	9,852,888	5,555,677	5,422,619	3,505,877	12,975,276	9,322,649	10,899,067	3,612,967	15,308,745	124,536,520	3,252,822	683,830	128,473,172
Fund Balance - ending	\$40,849,758	\$5,642,741	\$14,035,624	\$11,124,623	\$6,528,016	\$6,677,677	\$4,755,521	\$16,341,908	\$11,165,942	\$12,794,656	\$4,036,445	\$18,602,001	\$152,554,912	\$2,841,003	\$759,091	\$156,155,006



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 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, 2014, 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, 2014.

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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting as finding 2014-001.

Compliance and Other Matters

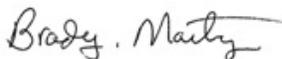
As part of obtaining reasonable assurance about whether North Dakota Department of Trust Lands' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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*.

North Dakota Department of Trust Lands Response to Findings

North Dakota Department of Trust Lands' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. North Dakota Department of Trust Lands' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, 2014

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

2014-001

Criteria: North Dakota Century Code 47-30.1-34 requires that penalties should be assessed and collected on entities that willfully fail to report or deliver property to the Department in accordance with the Uniform Unclaimed Property Chapter. As administrator of this fund, the North Dakota Department of Trust Lands is responsible for this compliance requirement.

Condition: While the Department utilizes third-party contract auditors to address compliance issues out-of-state, currently there is no audit function in place in the Unclaimed Property Division to ensure North Dakota businesses are appropriately submitting unclaimed property and that penalties are appropriately assessed for noncompliance. The Department has compliance and audit policies and procedures in place; however, they have no employee to currently fill this role internally.

Cause: Due to the limitations of the appropriated budget, the Department does not have an employee in place to perform audits and encourage North Dakota businesses to comply with North Dakota unclaimed property laws. This position is necessary to ensure the Department is collecting all unclaimed property within the guidelines listed in the North Dakota Century Code, which is critical for the Department to properly assess and enforce penalties for willful failure to comply.

Effect: Inadequate staffing over these areas could result in underreporting of property due citizens, a misstatement of the financial statements and the loss of penalty income the Department would be eligible to receive.

Recommendation: We recommend that the Department find a way to implement this audit function with North Dakota entities to ensure that all unclaimed property is received and penalties properly assessed and collected for those businesses not in compliance.

Management's Response: The Department understands the recommendation and will continue to develop a more effective and efficient unclaimed property audit effort to assist North Dakota businesses in complying with unclaimed property statutes.

NDCC 47-30.1-34 references penalties for "willfully" failing to comply with the Uniform Unclaimed Property Act. The Department's objective is compliance with the Act, which will be sought with education, outreach and audits; penalties will only be sought on a case-by-case basis for obstinate refusal to comply with the law or its provisions. To that end:

- 1) The Department has requested authorization for a compliance auditor within its budget request package to be presented to the 2015 Legislature.
- 2) In response to legislation adopted in 2013 to allow third-party auditors to conduct in-state unclaimed property audits; existing vendor contracts were amended to permit the review of in-state holders. Future vendor contracts will also permit audits of in-state as well as out-of-state organizations.
- 3) The Department is recruiting an administrator exclusively for the management of the Unclaimed Property Division. This position will be responsible for additional educational and compliance efforts and will not be diverted to other Department responsibilities. The expectation is that this outreach will lead to additional unclaimed property remittance.

Management's Report on Internal Control Over Oil and Gas Revenues, Management of Mineral Acres, and Grant Expenditures

North Dakota Department of Trust Lands' internal control over oil and gas revenues, management of mineral acres and grant expenditures is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over oil and gas revenues, management of mineral acres and grant expenditures includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over oil and gas revenues, management of mineral acres and grant expenditures. Management assessed the effectiveness of North Dakota Department of Trust Lands' internal control over oil and gas revenues, management of mineral acres and grant expenditures as of June 30, 2014, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*. Based on that assessment, management concluded that, as of June 30, 2014, North Dakota Department of Trust Lands' internal control over oil and gas revenues, management of mineral acres and grant expenditures is effective based on the criteria established in *Internal Control—Integrated Framework*.

North Dakota Department of Trust Lands

October 30, 2014



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?

See finding identified on page 57.

3. Was internal control adequate and functioning effectively?

See finding identified on page 57 and management letter comments on page 66.

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 try and correct prior year finding; however, not enough was done to fully correct the finding. See repeat finding in current year.

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

Yes, a separate management letter has been issued and is on pages 65-66.

Audit Committee Communications:

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

None.

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

None.

- 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 63.

- 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

BRADY, MARTZ & ASSOCIATES, P.C.
Bismarck, North Dakota
October 30, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

October 30, 2014

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, 2014. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2014. 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.

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	\$670,647	
Expenditures	34,172	
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, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. 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, which is 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.

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, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

We have audited the basic financial statements of the North Dakota Department of Trust Lands for the year ended June 30, 2014, and have issued our report thereon dated October 30, 2014. In planning and performing our audit of the basic financial statements of the North Dakota Department of Trust Lands for the year ended June 30, 2014, we considered the organizations internal control structure over oil and gas revenues, management of mineral acres, and grant expenditures in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

We noted certain matters during our audit involving the internal control structure over oil and gas revenues, management of mineral acres, and grant expenditures and its operation that are presented in the attached memorandum for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies.

This report is intended solely for the information and use of the Governor and the Legislative Audit and Fiscal Review Committee and is not intended to be and should not be used for any other purpose.

We wish to take this opportunity to thank the Governor and the Legislative Audit and Fiscal Review Committee for the opportunity to provide these services and to extend our thanks to your personnel for their cooperation and assistance during our engagement.

If you have any questions in regard to our audit, please do not hesitate to contact us.

BRADY, MARTZ & ASSOCIATES, P.C.
Bismarck, North Dakota
October 30, 2014

1. Observation – Capturing Oil Prices

In our review, we noted that the Department's software is unable to capture pricing information on oil royalties. When performing internal audit functions to verify the correct amount of revenue is received from oil companies, they are able to review volume variances and trust net percentages, but are unable to verify oil price information without manually comparing the price of the oil to what the oil company is reporting. They should be able to capture data on the oil prices paid with the ability to compare each well to nearby wells, by county, by well pad, etc. to ensure they are receiving the correct or comparable price amount without having to manually perform this function. This would ensure the accuracy of the oil revenue collections and enhance the internal audit function in ensuring proper receipt of oil revenue.

We recommend they enhance their existing software or develop new software to assist in gathering oil pricing information to ensure the proper amount of revenue is received and recorded.

2. Observation – Deductions and Fees

In our review, we noted among the different oil companies, a lack of consistency in reporting deductions and fees on the oil royalty revenue statements. Certain oil companies have a detailed listing of the deductions, while others only disclose a lump sum. Those that disclose a lump sum make it difficult for the internal audit function to determine if there are certain deductions or fees, such as taxes that should not be deducted. A manual review by the Department is their only option in determining compliance by the oil companies.

We recommend the Department develop a system to ensure only proper deductions are withheld by the oil companies on oil royalties.