



Financial Statements
June 30, 2021 and 2020

North Dakota Department of Trust Lands

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Independent Auditor's Report

State Land Board and the
Legislative Assembly
State of North Dakota
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, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the North Dakota Department of Trust Lands' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, as of June 30, 2021 and 2020, and the respective changes in financial position and the statement of appropriations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reporting Entity

As discussed in Note 1, the financial statements of North Dakota Department of Trust Lands are intended to present the financial position and changes in financial position of only that portion 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, 2021 and 2020 and the changes in its financial position 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, Schedule of Contributions to NDPERS Pension Plan, Schedule of Contributions to NDPERS OPEB Plan, Schedule of Employer's Proportionate Share of Net Pension Liability, and Schedule of Employer's Proportionate Share of Net OPEB Liability on pages 4 through 11 and 83 through 86 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 or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Department of Trust Lands' 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 financial statements.

- During fiscal year 2020, the Strategic Investment and Improvements fund did not receive any gross production tax revenues in fiscal year 2020, compared to revenues of \$433,343,880 in fiscal year 2019. Gross production tax revenues are deposited into the Strategic Investment and Improvements fund during the second year of each biennia versus the first year.
- The sixty-sixth legislative assembly did not appropriate any gross production tax revenues to the oil and gas impact grant fund of the 2019-21 biennia. In fiscal year 2019, the gross production tax revenues received by the oil and gas impact grant fund totaled \$2,000,000.
- Oil extraction tax revenues received in fiscal year 2021 totaled \$222,667,616, an increase of \$143,398,355 over the \$79,269,261 earned in fiscal year 2020. Oil extraction tax revenues in fiscal year 2020 decreased by \$354,023,758 over the \$433,293,019 earned in fiscal year 2019.
 - Oil extraction tax revenues received by the Common School Trust fund totaled \$68,855,764 in fiscal year 2021, compared to \$79,269,261 in fiscal year 2020. The tax revenue changes between fiscal year 2021 and 2020 was primarily due to swings in production and commodity prices caused by the COVID-19 pandemic.
 - Oil extraction tax revenues received by the Common School Trust fund totaled \$79,269,261 in fiscal year 2020, compared to \$100,523,292 in fiscal year 2019. These tax revenue changes are primarily due to decrease in commodity prices followed by the effects of the COVID-19 pandemic as compared to fiscal year 2019.
 - Oil extraction tax revenues received by the Strategic Investment and Improvements fund totaled \$153,811,852 in fiscal year 2021. During fiscal year 2020 the Strategic Investment and Improvements fund did not receive any oil extraction tax revenues compared to revenues of \$332,769,727 in fiscal year 2019. Oil extraction tax revenues are deposited into the Strategic Investment and Improvements fund as directed by the legislature, which results in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year.
- During fiscal year 2021, the Common School Trust fund received a one-time transfer from the State General Fund in the amount of \$64,370,000. This transfer was legislated to cover underpayments of oil extraction taxes owed to the Common School Trust fund and collected between August 2008 and February 2019.
- Investment income totaled \$145,540,697 in fiscal year 2021, an increase of \$11,171,826 over fiscal year 2020. Investment income totaled \$134,368,871 in fiscal year 2020, a decrease of \$16,029,825 over fiscal year 2019. Investment income totaled \$150,398,696 in fiscal year 2019. The increase of investment income in fiscal year 2021 was a result of strong market rally after the country reopened following COVID restrictions. The decrease in investment income in fiscal year 2020 was a result of a significant stress on the investment market as a result of the COVID-19 pandemic.

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

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

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

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

Government-Wide Financial Analysis

As noted earlier, changes in net position may, at times, serve as a useful indicator of the Department's financial position. As of June 30, 2021, the Department's total net position was \$6,999,894,777. As of June 30, 2020, the Department's total net position was \$5,751,626,475. As of June 30, 2019, the Department's total net position was \$6,165,096,555. The largest portion of the Department's net position is represented by investments in financial securities. The Department uses this net position to provide distributions to educational entities and general government.

The following is a comparative summary statement of net position:

Condensed Statement of Net Position

	2021	2020	2019
Current and other assets	\$7,292,333,461	\$5,973,887,833	\$6,423,453,973
Capital assets	8,830,180	8,798,580	7,808,336
Total assets	7,301,163,641	5,982,686,413	6,431,262,309
Deferred outflows of resources:			
Pension	3,577,193	845,960	1,268,258
Other Post-Employment Benefits	51,366	34,800	34,834
	3,628,559	880,760	1,303,092
Long-term liabilities	5,794,468	2,002,074	3,219,895
Other liabilities	298,017,927	228,651,357	263,845,783
Total liabilities	303,812,395	230,653,431	267,065,678
Deferred inflows of resources:			
Pension	1,058,720	1,255,612	379,020
Other Post-Employment Benefits	26,308	31,655	24,148
	1,085,028	1,287,267	403,168
Net Position:			
Net position held in capital assets	8,830,180	8,798,580	7,808,336
Restricted net position			
Nonexpendable	71,010,157	70,750,577	70,213,873
Expendable	6,061,026,839	4,897,656,032	4,925,726,600
Unrestricted net position	859,027,601	774,421,286	1,161,347,746
Total net position	\$6,999,894,777	\$5,751,626,475	\$6,165,096,555

During fiscal year 2021, the Department's net position increased by \$1,248,268,302. The main change relates to an increase in royalty revenues, oil extraction and gross production taxes deposited into the Strategic Investment and Improvements fund, and gains in the fair value of investments during the year.

During the fiscal year ending June 30, 2021, the Department's revenues increased by a total of \$1,500,563,657. Royalty revenues increased by \$37,741,297 as commodity prices recovered following the effects of the COVID-19 pandemic. In addition, oil extraction tax and gross production tax revenues increased by \$143,398,355 and \$218,197,798, respectively, primarily due to the tax distribution formula, which resulted in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year. Mineral lease bonus revenue decreased by \$9,298,718 due to fewer mineral acres available to lease in producing areas and by bonus refunds issued pursuant to N.D.C.C. §61-33.1. The change in fair value of investments indicates a net gain of \$1,099,139,492 for fiscal year 2021 attributed to the strong market rally after the country reopened following COVID restrictions.

During the fiscal year ending June 30, 2020, the Department's revenues decreased by a total of \$1,146,606,758. Royalty revenues decreased by \$83,467,196 as commodity prices dropped followed by the effects of the COVID-19 pandemic. In addition, oil extraction tax and gross production tax revenues decreased by \$354,023,758 and \$435,343,880, respectively, due primarily to the tax distribution formula, which resulted in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year. Mineral lease bonus revenue increased by \$5,529,780 as one track in prime Bakken area exceeded a single payment of \$7 million. The change in fair value of investments indicates an additional decline of \$266,158,632 for fiscal year 2020 from the previous year attributed to the significant market correction related to the COVID-19 pandemic.

Financial Analysis of the Government's Funds

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

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

Capital Asset

The Department's capital assets for its governmental funds as of June 30, 2021, 2020 and 2019 are \$8,830,180, \$8,798,580, and \$7,808,336 (net of accumulated depreciation for equipment), respectively. These capital assets include land, equipment, and the purchasing of Microsoft Dynamics software starting in fiscal year 2020. See Note 15 to Financials Statements for additional details on capital assets.

Economic Factors

During fiscal year 2021, as the country reopened from COVID restrictions, the trust assets experienced a significant rally in the financial markets. However, the trusts also experienced swings in production and commodity prices caused by the ongoing effects of the COVID pandemic.

Requests for Information

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

ND Department of Trust Lands
Statement of Activities
For the Year Ended June 30, 2021

2021				
Functions/Programs of Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 2,517,361	\$ -	\$ -	\$ (2,517,361)
Intergovernmental	7,709,625	-	-	(7,709,625)
Education	21,596,993	8,013,262	1,228,947,141	1,215,363,410
Total	\$ 31,823,979	\$ 8,013,262	\$1,228,947,141	\$ 1,205,136,424
Net (expense) revenue				1,205,136,424
General revenues:				
Taxes:				
Coal severance				1,468,023
Oil extraction				222,667,616
Gross production				218,197,798
Contributions to special revenue fund				11,162,710
Unrestricted investment earnings				6,338,605
Net increase (decrease) in fair value of investments				(3,150,562)
Royalties				110,738,895
Bonuses, net of bonus refunds				(851,997)
Rents				255,544
Loan income				594,417
Interest income				80,761
Other revenues:				
Gain on sale of capital asset – land				21,555
Transfers:				
To/from other state agencies				(330,128,487)
Educational institutions				(194,263,000)
Total general revenues, other revenues and transfers				43,131,878
Total change in net position				1,248,268,302
Net position – beginning of year				5,751,626,475
Net position – ending				\$ 6,999,894,777

See Notes to the Financial Statements

ND Department of Trust Lands
Statement of Activities
For the Year Ended June 30, 2020

2020				
Functions/Programs of Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 3,204,107	\$ -	\$ -	\$ (3,204,107)
Intergovernmental	22,220,963	-	-	(22,220,963)
Education	24,350,910	7,960,688	95,035,515	78,645,293
Total	\$ 49,775,980	\$ 7,960,688	\$ 95,035,515	\$ 53,220,223
Net (expense) revenue				53,220,223
General revenues:				
Taxes:				
Coal severance				1,547,095
Oil extraction				79,269,261
Contributions to special revenue fund				9,515,851
Unrestricted investment earnings				16,429,644
Net increase (decrease) in fair value of investments				2,882,713
Royalties				89,224,480
Bonuses				1,167,696
Rents				245,997
Loan income				616,240
Other revenues:				
Gain on sale of capital asset – land				24,950
Transfers:				
To/from other state agencies				(473,351,212)
Educational institutions				(194,263,000)
Total general revenues, other revenues and transfers				(466,690,304)
Total change in net position				(413,470,082)
Net position – beginning of year				6,165,096,555
Net position – ending				\$ 5,751,626,475

See Notes to the Financial Statements

ND Department of Trust Lands
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2021

Revenues:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Energy Impact Funds	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Investment income	\$ -	\$ 130,235,307	\$ 347,962	\$ -	\$ 5,792,985	\$ 7,477,107	\$ 143,853,361
Interest income	23	-	-	-	21,532	-	21,555
Loan income	-	-	-	-	-	-	-
<i>Farm loans</i>	-	362,392	-	-	-	30,995	393,387
<i>Energy construction loans</i>	-	25,181	-	-	-	-	25,181
<i>School loans - Coal</i>	-	-	594,417	-	-	-	594,417
Net increase (decrease) in fair value of investments	-	862,501,389	(196,739)	-	(2,921,994)	48,389,141	907,771,797
Securities lending income	-	482,128	1,174	-	131,271	38,223	652,796
Royalties	-	153,825,247	-	-	109,747,506	12,609,558	276,182,311
Bonuses, net of bonus refunds	-	1,103,212	-	-	(854,157)	55,255	304,310
Rental income	-	11,769,950	-	-	67,873	1,256,687	13,094,510
Coal severance tax	-	-	1,468,023	-	-	-	1,468,023
Gross production tax	-	-	-	-	218,197,798	-	218,197,798
Oil extraction tax	-	68,855,764	-	-	153,811,852	-	222,667,616
Unclaimed property collections	-	11,162,710	-	-	-	-	11,162,710
Indirect recovery costs	8,013,262	-	-	-	-	-	8,013,262
Total Revenues	8,013,285	1,240,323,280	2,214,837	-	483,994,666	69,856,966	1,804,403,034
Expenditures:							
Current	-	-	20,127	-	1,644,730	43,014	1,707,871
<i>General government</i>	-	-	-	-	-	-	-
<i>Intergovernmental</i>	-	-	-	7,709,625	-	-	7,709,625
<i>Education</i>	7,886,485	12,887,048	-	-	-	823,460	21,596,993
Total Expenditures	7,886,485	12,887,048	20,127	7,709,625	1,644,730	866,474	31,014,489
Excess of revenue over (under) expenditures	126,800	1,227,436,232	2,194,710	(7,709,625)	482,349,936	68,990,492	1,773,388,545
Other Financing Sources (Uses):							
Transfer to Public Instruction	-	(183,378,000)	-	-	-	-	(183,378,000)
Transfer to Educational Institutions	-	-	-	-	-	(10,885,000)	(10,885,000)
Transfer to Lignite Research Fund	-	-	(1,027,616)	-	-	-	(1,027,616)
Transfer to Agricultural Department	-	-	-	-	(92,071)	(2,200,000)	(2,292,071)
Transfer to Attorney General	-	-	-	-	(422,685)	-	(422,685)
Transfer to Dakota College at Bottineau	-	-	-	-	(2,500,000)	-	(2,500,000)
Transfer to Department of Human Services	-	-	-	-	(1,296,969)	-	(1,296,969)
Transfer to Environmental Quality	-	-	-	-	(1,057,658)	-	(1,057,658)
Transfer to Facilities Management	-	-	-	-	(500,000)	-	(500,000)
Transfer to Industrial Commission	-	-	-	-	(1,219,082)	-	(1,219,082)
Transfer to Lake Region State College	-	-	-	-	(363,000)	-	(363,000)
Transfer to State General Fund	-	-	(800,000)	-	(382,200,000)	-	(383,000,000)
Transfer to Tax Commissioner	-	-	-	-	(13,683)	-	(13,683)
Transfer to Office of Management & Budget	-	-	-	-	(872,680)	-	(872,680)
Transfer to Legislative Council	-	-	-	-	-	(74,918)	(74,918)
Transfer to Supreme Court	-	-	-	-	-	(970,000)	(970,000)
Transfer from Department of Commerce	-	-	-	-	119,262	-	119,262
Transfer from Department of Corrections	-	-	-	-	123,426	-	123,426
Transfer from Environmental Quality	-	-	-	-	126,023	-	126,023
Transfer from Information Technology	-	-	-	-	743,163	-	743,163
Transfer from State General Fund	-	64,370,000	-	-	-	-	64,370,000
Proceeds from sale of capital asset (land)	-	82,000	-	-	-	-	82,000
Total Other Financing Sources (Uses)	-	(118,926,000)	(1,827,616)	-	(389,425,954)	(14,129,918)	(524,309,488)
Net Change in Fund Balance	126,800	1,108,510,232	367,094	(7,709,625)	92,923,982	54,860,574	1,249,079,058
Fund Balance - beginning	322,089	4,628,066,674	70,750,577	8,966,322	767,541,456	269,589,358	5,745,236,476
Fund Balance - ending	\$ 448,889	\$ 5,736,576,906	\$ 71,117,671	\$ 1,256,697	\$ 860,465,438	\$ 324,449,932	\$ 6,994,315,534

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

Net change in fund balance	\$1,249,079,058
Net value of capital asset - land transaction	(1,319)
Net value of capital asset - acquired land	80
Depreciation expense on equipment	(363,697)
Office equipment additions	396,536
Increase in compensated absences liability	(16,979)
Increase in net OPEB liability	(17,822)
Changes in deferred outflows and inflow resources related to net OPEB liability	21,913
Increase in net pension liability	(3,757,566)
Changes in deferred outflows and inflows resources related to net pension liability	2,928,124
Change in net position of governmental activities	<u>\$1,248,268,328</u>

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2021 AND 2020

	2021 Indian Cultural Education Trust	2020 Indian Cultural Education Trust
<u>Assets</u>		
Cash	\$ 2,102	\$ 3,333
Investments	1,436,653	1,215,125
Interest receivable	2,584	3,181
Invested securities lending collateral	48,796	46,379
Total Assets	1,490,138	1,268,019
<u>Liabilities</u>		
Accounts payable	280	331
Securities lending collateral	48,796	46,379
Total Liabilities	49,076	46,710
<u>Net Position</u>		
Net position, restricted for education	1,441,059	1,221,309
Total Net Position	\$ 1,441,059	\$ 1,221,309

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED June 30, 2021 AND 2020

	2021 Indian Cultural Education Trust	2020 Indian Cultural Education Trust
Additions		
Contributions:		
Donations	\$ -	\$ -
Total Contributions	-	-
Investment income:		
Net change in fair value of investments	228,427	(48,688)
Interest	34,715	29,208
Less investment expense	2,286	3,040
Net Investment Income	260,855	(22,520)
Securities Lending Activity:		
Securities lending income	125	691
Net Securities Lending Income	125	691
Miscellaneous Income	2,906	3,068
Total Additions	263,886	(18,761)
Deductions		
Payments in accordance with Trust agreement	42,556	42,556
Administrative expenses	1,580	2,639
Total Deductions	44,136	45,195
Change in net position held in Trust for:		
Indian Cultural Education Trust	219,750	(63,956)
Total Change in Net Position	219,750	(63,956)
Net Position – Beginning of Year	1,221,309	1,285,265
Net Position – End of Year	\$ 1,441,059	\$ 1,221,309

See Notes to the Financial Statements

Allowance for Loan Losses

The Department uses the allowance method in providing for loan losses. Accordingly, the allowance is increased or reduced by the current period's provision of loan losses charged to operations and reduced by net charge-offs.

The adequacy of the allowance for loan losses and the provisions for loan losses charged to operations are based on management's evaluation of several factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality including estimated value of any underlying collateral, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful. Based on this assessment there was no allowance for loan losses on June 30, 2021 or 2020.

Claimant Liability

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

Long-Term Debt

The Theodore Roosevelt Presidential Library and Museum fund has issued long-term debt which is reported as a liability in the Statement of Fiduciary Net Position.

Capital Assets

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

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

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

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

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

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

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

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

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

Unassigned: the residual classification for the general fund, as well as reflecting negative residual amounts in other funds.

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

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

ND Department of Trust Lands
Notes to Financial Statements
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Fiscal Year Ended June 30, 2020							
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	\$ -	\$ -	\$70,750,577	\$ -	\$ -	\$ -	\$70,750,577
Special Revenue Funds:							
<i>Restricted</i>							
Distribution to educational beneficiaries	-	4,628,066,674	-	-	-	264,053,572	4,892,120,246
Capitol building maintenance	-	-	-	-	-	5,535,786	5,535,786
<i>Committed</i>							
Grants	-	-	-	8,966,322	-	-	8,966,322
Designated for transfer to(from):							
Adjutant General	-	-	-	-	2,502,253	-	2,502,253
Aeronautics Commission	-	-	-	-	20,000,000	-	20,000,000
Bank of North Dakota	-	-	-	-	25,137,707	-	25,137,707
ND Department of Commerce	-	-	-	-	2,888,105	-	2,888,105
ND Department of Corrections	-	-	-	-	1,218,000	-	1,218,000
Energy Impact Fund	-	-	-	-	2,000,000	-	2,000,000
ND Department of Human Services	-	-	-	-	4,300,030	-	4,300,030
ND Industrial Commission	-	-	-	-	270,000	-	270,000
ND Information Technology	-	-	-	-	25,150,000	-	25,150,000
NDSU Extension	-	-	-	-	940,465	-	940,465
ND Office of Management and Budget	-	-	-	-	663,275	-	663,275
ND Park and Recreation	-	-	-	-	3,755,000	-	3,755,000
ND State Treasurer	-	-	-	-	35,000	-	35,000
ND Attorney General	-	-	-	-	(6,387)	-	(6,387)
ND Department of Health	-	-	-	-	(67,310)	-	(67,310)
ND Highway Patrol	-	-	-	-	(49,403)	-	(49,403)
ND Public Service Commission	-	-	-	-	(52,818)	-	(52,818)
Operating Expenses	-	-	-	-	449,532,490	-	449,532,490
<i>Assigned</i>							
Potential mineral title disputes	-	-	-	-	229,325,049	-	229,325,049
<i>Unassigned</i>							
Operating Expenses	322,089	-	-	-	-	-	322,089
Total Fund Balances:	<u>\$322,089</u>	<u>\$4,628,066,674</u>	<u>\$70,750,577</u>	<u>\$8,966,322</u>	<u>\$767,541,456</u>	<u>\$269,589,358</u>	<u>\$ 5,745,236,476</u>

NOTE 5 – INVESTMENTS

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

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

Interest Rate Risk

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

Certain investment managers may take short positions in securities, including fixed income securities, which may be indicated by negative balances in the maturity columns above. Such short positions are usually offset by long positions in other maturity columns. Investment managers typically take short positions as a hedge against long positions to reduce interest rate risk, market/sector risk, or credit risk.

Fiscal Year 2020

Investment Type	Maturity Amount	Weighted Average Maturity (Years)
Asset Backed Securities	\$129,797,379	8.68
Collateralized Bond	1,996,014	20.14
Commercial Mortgage-Backed	20,612,778	16.39
Corporate Bonds	362,283,402	5.30
Corporate Convertible Bonds	174,657	5.58
Funds – Government Agencies	26,258	
Funds – Other Fixed Income	3,342	
Funds – Short Term Investment	180,889,882	
Brandywine Fund	179,059,712	13.73
JP Morgan Mortgage Back	120,180,371	3.74
Government Agencies	152,270,033	1.84
Government Bonds	200,715,734	7.86
Government Mortgage-Backed Securities	111,873,753	22.97
Gov't-issued Commercial Mortgage- Backed	7,511,422	8.32
Index Linked Government Bonds	5,011,842	4.37
Municipal/Provincial Bonds	27,476,650	3.67
Non-Government Backed CMOs	38,896,274	20.18
Short Term Bills and Notes	24,400,430	0.08
Funds – Corporate Bond	63,544	
Funds – Municipal/Provincial Bond	11,632	
Total	\$1,563,255,109	
Weighted Average Maturity		7.50

Other investments included in the table above for fiscal year 2020, such as variable rate collateralized mortgage obligations (CMOs), have a high degree of sensitivity to interest rate change. As of June 30, 2020, the Board held \$35,754,853 in variable rate CMOs.

Custodial Risk

Custodial risk is the risk, in the event of the failure of the counterparty to a transaction, the Department will not be able to recover the value of the investment that is in the possession of the outside party. The Department has existing policies in place that limit the custodial risk for investments. The Department is not exposed to any custodial risk for its investment portfolio.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Department has existing policies in place that limit the concentration of credit risk for investments. The System's operational guidelines for investments in any corporate entity are stated in each individual manager's specific portfolio guideline.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings, including securities identified as U.S. Government in the tables below, which are U.S. Treasury and Agency debt securities that are either explicitly or implicitly guaranteed by the U.S. government and thus are considered to have no credit risk. Each fixed income securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The following tables present the Board's ratings as of June 30, 2021 and 2020, respectively.

Fiscal Year 2021

	AAA	AA	A	BBB	BB	B	CCC	Not Rated	US Government	Total
Asset Backed Securities	\$63,015,578	\$9,675,294	\$5,092,907	\$10,826,525	\$ -	\$ -	\$1,541,387	\$66,817,681	\$ -	\$156,969,372
Bank Loans	-	-	-	-	2,002,476	1,048,851	-	2,541,203	-	5,592,530
Collateralized Bond	-	-	-	-	-	-	-	2,099,042	-	2,099,042
Commercial Mortgage-Backed	-	-	-	2,144,756	-	-	-	27,496,102	-	29,640,858
Corporate Bonds	3,947,520	42,824,364	295,789,900	219,567,471	14,893,850	11,426,296	4,234,895	14,159,136	-	606,843,432
Corporate Convertible Bonds	-	-	171,855	500,463	2,145,677	626,131	-	1,746,911	-	5,191,037
Government Agencies	-	125,351,816	2,759,300	835,490	-	-	-	-	18,279,466	147,226,072
Government Bonds	-	636,105	1,092,035	4,696,682	195,928	-	-	4,123,592	265,549,668	276,294,010
Government Mortgage Backed Securities	-	-	-	4,658,670	5,547,444	1,276,560	-	571,030	80,380,983	92,434,687
Municipal/Provincial Bonds	23,535,643	54,162,914	6,614,519	-	-	-	-	4,535,476	-	88,848,552
Non-Government Backed C.M.O.s	6,012,106	6,921,676	14,221,970	334,493	829,698	554,802	459,621	65,277,234	-	94,611,600
Short Term Bills and Notes	-	-	-	-	-	-	-	-	229,699,699	229,699,699
Funds - Other Fixed Income	-	-	-	-	-	-	-	732,481,080	-	732,481,080
Funds - Short Term Investment	23,027,725	-	-	-	-	-	-	1,921	-	23,029,646
Funds - Corporate Bond	-	-	-	-	-	-	-	74,232	-	74,232
Funds - Municipal/Provincial Bond	-	-	-	-	-	-	-	12,206	-	12,206
Funds - Government Agencies	-	-	-	-	-	-	-	-	3,281	3,281
	\$119,538,572	\$239,572,169	\$325,742,486	\$243,564,550	\$25,615,073	\$14,932,640	\$6,235,903	\$921,936,846	\$593,913,097	\$2,491,051,336

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Fiscal Year 2020

	AAA	AA	A	BBB	BB	B	CCC	Not Rated	US Government	Total
Asset Backed Securities	\$65,717,056	\$5,552,110	\$3,425,475	\$5,166,692	\$551,014	\$ -	\$2,454,147	\$46,930,884	\$ -	\$129,797,379
Collateralized Bond	-	-	-	-	-	-	-	1,996,014	-	1,996,014
Commercial Mortgage-Backed	-	-	-	2,057,014	-	-	-	18,555,763	-	20,612,778
Corporate Bonds	2,795,478	40,030,054	172,899,468	140,890,170	-	-	-	5,668,234	-	362,283,402
Corporate Convertible Bonds	-	-	174,657	-	-	-	-	-	-	174,657
Funds - Government Agencies	-	-	-	-	-	-	-	-	26,258	26,258
Funds - Other Fixed Income	-	-	-	-	-	-	-	299,243,424	-	299,243,424
Funds - Short Term Investment	-	-	-	-	-	-	-	180,889,882	-	180,889,882
Government Agencies	-	130,150,723	2,786,015	1,973,817	-	-	-	-	17,359,478	152,270,033
Government Bonds	-	652,498	-	4,801,075	-	-	-	10,370,633	184,891,528	200,715,734
Government Mortgage Backed Securities	-	946,128	-	1,840,529	-	522,276	-	1,618,024	106,946,797	111,873,753
Gov't-issued Commercial Mortgage-Backed	-	-	-	-	-	-	-	-	7,511,425	7,511,425
Index Linked Government Bond	-	-	-	-	-	-	-	-	5,011,842	5,011,842
Municipal/Provincial Bonds	5,634,320	13,039,911	3,997,409	-	-	-	-	4,805,009	-	27,476,650
Non-Government Backed C.M.O.s	2,156,149	6,382,110	7,759,952	2,173,509	1,025,804	602,633	1,089,100	17,707,016	-	38,896,272
Short Term Bills and Notes	-	-	-	-	-	-	-	-	24,400,430	24,400,430
Funds - Corporate Bond	-	-	-	-	-	-	-	63,544	-	63,544
Funds - Municipal/Provincial Bond	-	-	-	-	-	-	-	11,632	-	11,632
	\$76,303,002	\$196,753,534	\$191,042,974	\$158,902,805	\$1,576,818	\$1,124,909	\$3,543,248	\$587,860,060	\$346,147,758	\$1,563,255,109

Foreign Currency Risk

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

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Fiscal Year 2020

Currency	Debt	Equity	Total
Australian Dollar	\$ 519,273	\$ 47,517,339	\$ 48,036,612
Brazilian Real	6,356,620	8,678,408	15,035,028
British Pound Sterling	19,338,162	99,282,468	118,620,631
Canadian Dollar	1,899,947	54,135,434	56,035,381
Chilean Peso	8,666,490	790,503	9,456,993
Chinese Renminbi	-	5,611,669	5,611,669
Columbian Peso	8,021,875	219,055	8,240,930
Czech Koruna	7,108,671	716,127	7,824,798
Danish Krone	-	15,234,430	15,234,430
Egyptian Pounds	-	66,669	66,669
European Euro	21,155,526	205,500,425	226,655,950
Hong Kong Dollar	-	69,057,269	69,057,269
Hungarian Forint	7,126,577	266,676	7,393,252
Indian Rupee	-	13,013,378	13,013,378
Indonesian Rupiah	393,931	7,866,681	8,260,612
Israel Shekel	-	4,452,899	4,452,899
Japanese Yen	-	184,979,114	184,979,114
Kenyan Shilling	-	1,212,578	1,212,578
Malaysian Ringgit	8,666,490	2,276,267	10,942,757
Mexican Peso	20,269,559	4,136,812	24,406,371
New Zealand Dollar	1,665,255	2,109,285	3,774,540
Norwegian Krone	128,064	6,610,348	6,738,412
Peruvian Nuevo Sol	-	9,524	9,524
Philippines Peso	-	971,461	971,461
Polish Zloty	9,740,848	942,889	10,683,737
Qatari Riyal	-	85,717	85,717
Russian Rubles	2,256,152	1,171,468	3,427,620
Saudi Arabian Riyal	-	885,744	885,744
Singapore Dollar	-	9,210,493	9,210,493
South African Rand	411,837	5,754,967	6,166,804
South Korean Won	9,078,327	16,708,398	25,786,726
Swedish Krona	-	28,078,714	28,078,714
Swiss Franc	-	60,634,123	60,634,123
Taiwan dollar	-	24,637,988	24,637,988
Thai Baht	-	3,312,610	3,312,610
Turkish Lira	-	790,503	790,503
UAE dirham	-	57,145	57,145
	<u>\$ 132,803,604</u>	<u>\$ 886,985,578</u>	<u>\$1,019,789,182</u>

ND Department of Trust Lands

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

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of North Dakota Board of University & School Lands loans was approximately 148 days as of June 30, 2021 and 76 days as of June 30, 2020.

Cash open collateral is invested in a short-term investment pool, the NDLAN Custom fund, which had an interest sensitivity of 37 days as of this statement date.

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

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

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

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

The following represents the Board's balances related to securities lending transactions at June 30, 2021 and 2020.

Fiscal Year 2021

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non- Cash Collateral	Non-Cash Collateral
US Agencies	44,520,144	45,343,835	-	-
US Corporate Fixed	61,873,620	63,375,035	2,012,194	2,064,173
US Equities	43,454,774	44,663,347	11,018,014	11,288,812
US Government Fixed	124,454,200	126,897,974	9,524,736	9,728,706
	\$ 274,302,738	\$280,280,191	\$ 22,554,944	\$ 23,081,691
Market Value of Securities on Loan against Cash Collateral				\$ 274,302,738
Market Value of Securities on Loan against Non-Cash Collateral				22,554,944
Total Market Value of Securities on Loan				\$ 296,857,682

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2021.

	Fair Value at 6/30/21	Fair Value Measures Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments, at fair value				
Short Term Securities				
Short Term Bills and Notes	\$ 245,348,866	\$ 15,649,167	\$ 229,699,699	\$ -
Total Short-Term Securities	<u>245,348,866</u>	<u>15,649,167</u>	<u>229,699,699</u>	<u>-</u>
Equity Investments				
Common Stock	257,223,092	257,222,095	553	444
Equity Funds/ETFs	250,594,974	2,074,571	248,502,403	-
Convertible Equity	637,145	637,145	-	-
Preferred Stock	46,414	46,414	-	-
Total Equity Investments	<u>508,501,625</u>	<u>259,980,225</u>	<u>248,520,956</u>	<u>444</u>
Fixed Income Investments				
Asset Backed Securities	108,442,777	-	107,344,863	1,097,914
Bond Funds/ETFs	122,739,437	93,999	122,645,438	-
Collateralized Mortgage	94,611,600	-	92,259,594	2,352,006
Commercial Mortgage Backed	31,000,437	-	27,293,501	3,706,936
Corporate Bonds	612,037,468	-	612,034,468	-
Government Agencies	69,976,302	-	69,976,302	-
Government Bonds	365,142,562	-	365,142,562	-
Government Mortgage Backed	169,684,457	-	169,684,457	-
Collateralized Debt	49,266,058	-	48,080,158	1,185,900
Bank Loans	5,592,530	-	5,592,530	-
Total Fixed Income Investments	<u>1,628,490,628</u>	<u>93,999</u>	<u>1,620,053,873</u>	<u>8,342,756</u>
Other Investment Assets				
Commodity ETF	435	435	-	-
Currency	1,191,532	1,191,532	-	-
FX Contracts	306,531	306,531	-	-
Global Tactical Asset Allocation MF	878,935,754	-	878,935,754	-
Master Limited Partnership	1,085,673	1,085,672	-	1
REITs	12,543,304	12,543,304	-	-
Rights/Warrants	236	236	-	-
Miscellaneous	175	-	-	175
Total Other Investment Assets	<u>894,063,640</u>	<u>15,127,710</u>	<u>878,935,754</u>	<u>176</u>
Total Investments at Fair Value	<u>\$3,276,404,759</u>	<u>\$290,851,101</u>	<u>\$2,977,210,282</u>	<u>\$ 8,343,376</u>

ND Department of Trust Lands
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		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV:				
Commingled Funds – Equities	\$1,778,806,900	\$ -	Daily, Monthly	< 5 days
Commingled Funds Fixed Income	136,806,566	-	Daily	< 5 days
Real Estate Funds	781,207,960	-	Quarterly	90 days
Private Debt Fund	283,256,214	296,000,000	NA	NA
Private Equity	11,229,716	249,000,000	NA	NA
Total Investments measured at NAV	<u>\$2,991,307,356</u>	<u>\$ 545,000,000</u>		
Investments at other than fair Value				
Cash and adjustments to Cash	\$ 1,656,019			
Total Investment at other than FV	<u>\$ 1,656,019</u>			
Value Indeterminable/Worthless/Delisted	7,761			
Total Investments	<u>\$6,269,375,895</u>			

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2020.

	Fair Value at 6/30/20	Fair Value Measures Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments, at fair value				
Short Term Securities				
Short Term Bills and Notes	\$ 24,407,603	\$ 24,407,603	\$ -	\$ -
Total Short-Term Securities	<u>24,407,603</u>	<u>24,407,603</u>	<u>-</u>	<u>-</u>
Equity Investments				
Common Stock	158,669,035	158,497,328	171,133	574
Equity Funds/ETFs	243,059,985	243,059,985	-	-
Preferred Stock	83,059	83,059	-	-
Total Equity Investments	<u>401,812,079</u>	<u>401,640,372</u>	<u>171,133</u>	<u>574</u>
Fixed Income Investments				
Asset Backed Securities	112,808,708	-	112,808,708	-
Bond Funds/ETFs	488,043,922	488,043,922	-	-
Collateralized Mortgage	38,896,274	-	38,896,274	-
Commercial Mortgage Backed	28,124,203	-	28,124,203	-
Corporate Bonds	362,458,059	-	362,458,059	-
Government Agencies	55,299,663	-	55,299,663	-
Government Bonds	228,192,383	-	228,192,383	-
Government Mortgage Backed	208,844,123	-	208,844,123	-
Index linked Government Bonds	5,011,842	-	5,011,842	-
Collateralized Debt	18,984,686	-	18,984,686	-
Total Fixed Income Investments	<u>1,546,663,863</u>	<u>488,043,922</u>	<u>1,058,619,941</u>	<u>-</u>

Reconciliation of investment expenses to financial statements

	2021	2020
Investment expenses as reflected in the financial statements	\$ 9,389,494	\$10,450,272
Plus, investment management fees included in investment income		
Large cap equity	5,814	4,897
Small cap equity	(217)	(315)
International equity	7,839	10,795
Emerging markets equity	1,785,458	1,569,100
Core fixed income	304,964	420,654
Non-core fixed income	7,793,859	1,426,167
Loan pools	30,791	46,986
Core real estate	(2,059)	(214,940)
Non-core real estate	7,786,380	3,028,315
Global tactical	7,119,337	6,289,932
Private equity	25,182	-
Credit opportunities	2,646,227	-
Specialty consultant fees	3,653	-
General consultant fees	-	39,600
Investment expenses per schedule	\$36,896,722	\$23,071,463
	2021	2020
BND loan pool management expenses:		
Expenses as reflected in the financial statements	\$29,594	\$44,469
Plus expenses as reflected in interest income	1,197	2,516
Total loan pool expenses	\$30,791	\$46,985

NOTE 9 – FARM LOAN POOL AND FARM REAL ESTATE

The Board is authorized to invest in first mortgage farm loans, as governed by N.D.C.C. Chapter 15-03. 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, 2021, the non-current and current portions of the loans were \$4,447,996 and \$540,537, respectively. As of June 30, 2020, the non-current and current portions of the loans were \$6,594,734 and \$778,354, respectively.

As of June 30, 2021, and 2020, the pool had a net position of \$6,731,563 and \$9,367,768, respectively. For the same period, the pool earned net income of \$363,794 and \$622,633.

NOTE 14 - OFFICE LEASE COMMITMENT

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

For the period ending June 30, 2021 and 2020, rent of \$70,702 and \$72,156, respectively, was paid by the non-Common Schools Trusts funds.

NOTE 15 - CAPITAL ASSETS

Governmental Activities:	Balance 7/1/20	Additions	Retirements	Balance 6/30/21
Land	\$7,740,013	\$80	\$1,319	\$7,738,774
Equipment	1,339,761	396,536	-	1,736,297
Less accumulated depreciation:				
Equipment	(281,194)	(363,697)	-	(644,891)
Net capital assets	\$8,798,580	\$32,919	\$1,319	\$8,830,180

Governmental Activities:	Balance 7/1/19	Additions	Retirements	Balance 6/30/20
Land	\$7,740,063	\$ -	\$50	\$7,740,013
Equipment	83,712	1,256,049	-	1,339,761
Less accumulated depreciation:				
Equipment	(15,439)	(265,755)	-	(281,194)
Net capital assets	\$7,808,336	\$990,294	\$50	\$8,798,580

Under the provisions of the Enabling Act, land was granted to the State for the support of the common schools and other institutions. Under Constitutional authority, no grant land may be sold for less than ten dollars an acre which is the value per acre used for statement of net position purposes. During fiscal year 2021, no acres were acquired, and 113.68 acres were sold. In fiscal year 2020, no acres were acquired, and 5.02 acres were sold.

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

A total of \$363,697 and \$265,755 in equipment depreciation for fiscal years ending June 30, 2021 and 2020, respectfully, was charged to the education fund.

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2021 and 2020

NOTE 16 - DUE FROM (TO) OTHERS

As stated in Note 1 of these financial statements, the Department is a state agency of North Dakota, as such, the other state agencies of the State and political subdivision are related parties.

The following is detail of amounts due from and to other state agencies as of June 30, 2021 and 2020. The *due from other state agencies* represents revenues earned during the year ended June 30, 2021 that were not received as of June 30, 2021 and 2020. The *due to other state agencies* represents services rendered to the Department during the years ended June 30, 2021 and 2020 that were not paid as of June 30, 2021 and 2020.

Fund	2021		2020	
	Due from other state agencies	Due to other state agencies	Due from other state agencies	Due to other state agencies
General fund:				
Attorney General	\$ -	\$ 9,084	\$ -	\$ 2,922
Dept. of Transportation	-	3,082	-	4,431
Information Technology Department	-	27,802	-	20,594
Central Services	-	-	-	2,150
Office of Management and Budget	-	271	-	1,046
	-	40,239	-	31,143
Common School Trust fund:				
State Treasurer	15,467,238	-	4,194,151	-
Attorney General Office	-	-	-	315
Bank of North Dakota	-	12,005	-	19,669
Information Technology Department	-	791	-	584
Office of Management and Budget	64,370,000	267	-	123
	79,837,238	13,063	4,194,151	20,691
Perpetual funds:				
Bank of North Dakota	-	1,026	-	1,683
	-	1,026	-	1,683
Strategic Investment & Improvements fund:				
State Treasurer	59,967,868	-	-	-
Department of Environmental Quality	126,023	-	-	-
Department of Commerce	119,262	-	-	2,746
Department of Corrections	123,426	-	-	-
Information Technology Department	743,163	1,705	-	1,705
Attorney General	-	190,852	-	-
Industrial Commission	-	817,634	-	-
Office of Management & Budget	-	-	-	172,802
OMB – Facility Management	-	500,000	-	-
	61,079,742	1,510,191	-	177,252

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2021 and 2020

Commons School Trust Fund

Department of Public Instruction	-	183,378,000	-	183,378,000
State General Fund	64,370,000	-	-	-
	<u>64,370,000</u>	<u>183,378,000</u>	<u>-</u>	<u>183,378,000</u>

Strategic Investment and Improvements :

General Fund of North Dakota	-	382,200,000	-	382,200,000
Adjutant General	-	-	-	2,502,253
Aeronautics Commission	-	-	-	20,000,000
Attorney General	-	422,685	6,387	-
Bank of North Dakota	-	-	-	25,137,707
Dakota College of Bottineau	-	2,500,000	-	-
Department of Agriculture	-	92,071	-	-
Department of Commerce	119,262	-	111,895	3,000,000
Department of Corrections	123,426	-	-	1,218,000
Department of Health	-	-	67,310	-
Department of Human Services	-	1,296,969	-	4,300,030
Energy Impact Fund	-	-	-	2,000,000
Environmental Quality	126,023	1,057,658	-	-
Highway Patrol	-	-	49,403	-
Industrial Commission	-	1,219,082	-	270,000
Information Technology	743,163	-	-	25,150,000
Lake Region State College	-	363,000	-	-
NDSU Extension	-	-	-	940,465
Office of Management & Budget (OMB)	-	872,680	-	663,275
OMB – Facility Management	-	500,000	-	-
Park and Recreation	-	-	-	3,755,000
Public Service Commission	-	-	52,818	-
State Treasurer	-	-	-	35,000
Tax Commissioner	-	13,683	-	-
	<u>1,111,874</u>	<u>390,537,828</u>	<u>287,813</u>	<u>471,171,730</u>

Oil & Gas Impact Grant Fund

Strategic Investments & Improvement Fund	-	-	2,000,000	-
	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>

Coal Development Trust:

General Fund of North Dakota	-	800,000	-	1,802,478
Lignite Research Fund	-	1,027,616	-	1,082,966
	<u>-</u>	<u>1,827,616</u>	<u>-</u>	<u>2,165,444</u>

Capitol Building Trust:

Facilities Management	-	2,200,000	-	2,270,000
ND Supreme Court	-	970,000	-	-
Legislative Council	-	74,918	-	54,360
	<u>-</u>	<u>3,244,918</u>	<u>-</u>	<u>2,324,360</u>

Total Transfers	<u>\$ 65,481,874</u>	<u>\$ 589,873,362</u>	<u>\$ 2,287,812</u>	<u>\$ 669,924,534</u>
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Whitetail Wave LLC v. XTO Energy, Inc., Board of University and School Lands, and the State of North Dakota

This case is also challenging the State's determination of the ordinary high watermark, but the tract is located on the east side of the Highway 85 Bridge where the Department has currently leased only the historic channel of the Missouri River. Plaintiffs are requesting that title to the minerals be quieted and have alleged claims of unconstitutional takings, trespass, slander of title and constructive trust/unjust enrichment against the State. The Complaint also makes several claims against XTO individually. The district court issued an order dated August 21, 2017, staying these proceedings until such time as final review findings under N.D.C.C. § 61-33.1-03 are adopted by the North Dakota Industrial Commission. A continued stay was affirmed on November 27, 2018. Stay has been lifted and summary judgment motions are due in October 2021 with a trial being scheduled in December 2021.

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

Whiting filed an interpleader for the lands underlying a spacing unit located near the Montana border for which the Yellowstone River runs through. Whiting is requesting the Court determine the property interests for the spacing unit so that Whiting can correctly distribute the proceeds from the well located in the unit. The court trial (no jury) scheduled for August 6 - 10, 2018, was postponed to April 22 - 26, 2019. The initial scheduling order was amended for the State to conduct field work that could not be completed in the winter. Due to property flooding from high flows on the Yellowstone River, the State has been unable to conduct field work. At an August 16, 2018 status conference, the court suspended any interim deadlines and set a scheduling conference for January 2019 to set a new trial date. An Amended Notice of Court Trial was filed, reflecting the April 20 - 24, 2020, trial date. On July 9, 2019, the State Engineer brought an action to Quiet Title to the property involved in this case. The State Defendants filed an Amended Answer in September 2019. On February 5, 2020, Defendants Murex Petroleum Corporation and Northern Oil and Gas, Inc., filed a Notice of Motion, Motion and Brief in Support of Motion to Consolidate this matter with Case No. 27-2019-CV-00312, State of North Dakota ex rel North Dakota State Engineer v. Leland (Quiet Title action referenced above) and other parties responded to the motion. An Order Granting Motion to Consolidate Case 27-2016-CV-00040 into 27-2019-CV-00312 was signed on March 10, 2020. On April 8, 2020, the Court entered the Order Granting State Engineer's Partial Motion to Dismiss. Also, on April 8, 2020, Whiting filed a Suggestion of Bankruptcy for Whiting Petroleum Corporation and Certain of its Affiliates and Notice of Automatic Stay of Proceedings. Stay was lifted and is scheduled for trial in September 2022.

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

Plaintiff is seeking a Declaratory Judgment that it is currently paying gas royalties properly under the Board's lease. Specifically, Plaintiff is asking the Court to order that gas royalty payments made by the Plaintiff be based on the gross amount received by the Plaintiff from an unaffiliated third-party purchaser, not upon the gross amount paid to a third party by a downstream purchaser, and that Plaintiff does not owe the Defendants any additional gas royalty payments based on previous payments. A Complaint and Answer with Counterclaims have been filed. Newfield filed an Answer to Counterclaims. A Scheduling conference was held July 27, 2018, and a trial was scheduled for September 10 and 11, 2019, at the McKenzie County Courthouse. Newfield filed a Motion for Summary Judgment and supporting documents on August 13, 2018. Defendants' filed their response and Cross Motion for Summary Judgment on September 12, 2018. A hearing on the Motion for Summary Judgment was held in January 2019 and the Judgment was entered March 1, 2019. The Defendant appealed to the North Dakota Supreme Court. On July 11, 2019, the Supreme Court entered its Judgment reversing the Judgment of the McKenzie County District Court. On July 25, 2019, Newfield filed Appellee's Petition for Rehearing and Amicus Curiae Briefs were filed by Western Energy Alliance and the North Dakota Petroleum Council. The North Dakota Supreme Court requested Defendants file a Response to the Petition for Rehearing and the two Amicus Curiae Briefs which was filed on September 4, 2019. A Corrected Opinion was filed by the North Dakota Supreme Court on September 9, 2019, changing the page number of a citation. On September 12, 2019, the North Dakota Supreme Court entered an order denying Newfield's Petition for Rehearing. On September 20, 2019, the opinion and mandate of the Supreme Court was filed with McKenzie County District Court. A Telephonic Status Conference was held October 8, 2019, before the District Court. On October 9, 2019, the District Court issued an Order Setting Briefing Schedule which ordered "the parties to file a brief regarding how they suggest the case proceed after the Supreme Court's decision." The parties filed briefs with the District Court on November 6, 2019. Telephonic Status Conference was scheduled for March 17, 2020, before the District Court. On May 14, 2020, the Court scheduled a five-day Court Trial to start on October 4, 2021, McKenzie County Courthouse. On July 28, 2020, a Stipulated Scheduling Order was entered, setting dates for various deadlines.

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

In April 2019, XTO Energy, Inc. and XTO Holdings, LLC (XTO), brought an interpleader action against the Board and the United States regarding certain lands underlying XTO operated wells located in McKenzie and Williams Counties. This case addresses overlapping ownership claims by the State and the United States of minerals underlying the Missouri River. XTO is requesting the Court determine the property interests for the disputed lands so that XTO can correctly distribute the proceeds from the affected wells. The Board and the United States filed Answers on August 1, 2019. On April 7, 2020, the Court issued an Order Staying Proceedings pending resolution of the Continental Interpleader litigation, Continental Resources, Inc., v. North Dakota Board of University and School Lands, docket number #1:17-cv-14.

Mandan, Hidatsa, and Arikara Nation v. United States Department of the Interior; David L. Bernhardt, in his official capacity as Secretary of the United States Department of Interior; and Daniel H. Jorjani, in his official capacity as Solicitor of the United States Department of the Interior

On July 16, 2020, the Mandan, Hidatsa, and Arikara Nation (Tribe) filed a Complaint against the United States Department of the Interior (DOI); David Bernhardt, Secretary of DOI; and Daniel Jorjani, DOI Solicitor. Along with its Complaint, the Tribe filed a motion for preliminary injunction asking that the Court to immediately order DOI to refrain from doing anything to implement the Jorjani Opinion until the Court has decided the merits of the Tribe's claims regarding that Opinion. A scheduling conference was held by telephone on July 23, 2020, with a follow up on July 29. The parties agreed the pending motion for preliminary injunction can be considered Plaintiff's motion for partial summary judgment on count one and resolved with defendant's cross motion for partial summary judgment as to that count. The merits of count one will be consolidated with any hearing on the motion for preliminary injunction. The Court set certain filing deadlines. The State of North Dakota filed an Expedited Motion to Intervene, and that request was granted. The United States filed its opposition to Plaintiff's Motion for Preliminary Injunction and Cross-Motion for Partial Summary Judgment on September 1, 2020. The State of North Dakota filed its Intervenor-Defendant's Cross-Motion for Partial Summary Judgment and Opposition to Plaintiff's Motion for Preliminary Injunction on September 8, 2020. The Tribe filed a Motion to Complete Administrative Record on September 8, 2020. On August 16, 2021, a Minute Order was entered continuing the stay and that the parties shall file a joint status report within 14 days of the issuance of a new M-Opinion or the conclusion of the Solicitor's Office review without a new M-Opinion, or on November 16, 2021, if nothing has been filed by that date.

Marvin Nelson, Michael Coachman & Paul Sorum v. The Board of University and School Lands of the State of North Dakota and the State of North Dakota

The Board was named as a defendant in the above reference case which was served on July 26, 2021. Plaintiffs have filed a Summons for Petition or Quiet Title, Petition for Quiet Title, and a Memorandum in Support of Petition for Quiet Title. Plaintiffs are seeking to quiet title to the property described as: That area of the bed of Lake Sakakawea known as Lake Jesse (Jesse Lake) delineated by the US Army Corps of Engineers Shoreline Survey used in acquiring land for the creation of Lake Sakakawea in Section 30 of Township 153 North Range 98 West and in Sections 23,24,25,26 in Township 153 North Range 99 West (approximately 488.68 acres). On August 5, 2021, Paul Sorum emailed a Request for Setting for Petition for Quiet Title and Memorandum in Support of Quiet Title requesting the Court schedule a one-hour hearing on Petitioners' Petition for Quiet Title and Petitioners' Memorandum in Support of Petition for Quiet Title. On August 16, 2021, Defendants filed a Motion to Dismiss. Hearing is scheduled for October 2021

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

NOTE 21 – CONTINUING APPROPRIATIONS

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

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

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

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

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

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

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

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

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

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

NDCC 47-30.2-46 Uniform Unclaimed Property Act. To pay all expense deductions under this section.

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2021 and 2020

	Balance <u>7/1/19</u>	<u>Additions</u>	<u>Reductions</u>	Amounts Due Within One <u>Year</u>	Amounts Due <u>Thereafter</u>	Balance <u>6/30/20</u>
Governmental Activities- Other long-term liabilities:						
Compensated absences	\$197,109	\$115,645	\$113,311	\$10,652	\$188,792	\$199,443

The reported liabilities for compensated absences were \$216,422 and \$199,443 at June 30, 2021 and 2020. This balance includes the employer's share of FICA taxes.

Long-Term Debt

The following is a summary of the long-term debt from the Bank of North Dakota to the Theodore Roosevelt Presidential Library and Museum Endowment fund for the year ending June 30, 2021.

	Balance <u>7/1/20</u>	<u>Additions</u>	<u>Reductions</u>	Amounts Due Within One <u>Year</u>	Balance <u>6/30/21</u>
Fiduciary Activities - Liabilities					
Loan payable	\$ -	\$ 35,000,000	\$ 17,500,000	\$ 17,500,000	\$ 17,500,000

In accordance with Senate Bill No. 2001 enacted by the 2019 Legislature, the Theodore Roosevelt Presidential Library and Museum Endowment fund incurred a \$35,000,000 loan in November 2020. The loan is unsecured with an interest rate of 1.50% over 30-day LIBOR rate index, adjusted on the first day of each month with a floor rate of 1.75%. The original term of the loan was to be paid over six years as follows:

- One-third principal plus accrued interest to be paid at the end of Year 2;
- One-third principal plus accrued interest to be paid at the end of Year 4;
- Remaining principal plus accrued interest to be paid at the end of Year 6.

The 2021 Legislature authorized transfers from the State General Fund to the Bank of North Dakota. In accordance with House Bill No. 1025, the Theodore Roosevelt Presidential Library and Museum Endowment fund received a donation of \$17,500,000 which was used to pay down the principal balance of the loan in June 2021. In accordance with House Bill No. 1015, the Theodore Roosevelt Presidential Library and Museum Endowment fund received a donation of \$17,500,000 which was used to pay down remaining principal balance of the loan on September 17, 2021. The two \$17,500,000 donations were paid directly from the General Fund to the Bank of North Dakota.

NOTE 24 – PENSION PLAN

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2021 and 2020

For the year ended June 30, 2020, the Department recognized pension expense of \$232,240. At June 30, 2020, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Resources	
	Outflows	Inflows
Differences between expected and actual experience	\$ 1,004	\$ (307,500)
Changes in assumptions	633,151	(543,615)
Net difference between projected and actual earnings on pension plan investment	29,520	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	58,037	(404,497)
Employer contributions subsequent to the measurement date	124,248	-
TOTAL	\$ 845,960	\$ (1,255,612)

The \$124,248 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

<u>Year ended June 30</u>	<u>Amount of Pension Expense</u>
2021	\$ (19,914)
2022	(60,000)
2023	(161,061)
2024	(229,921)
2025	(63,004)
Thereafter	-

Actuarial assumptions.

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increase	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustment	None

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

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

Fiscal Year Ended June 30, 2020

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23	2.11%
Global Real Assets	19%	5.41%

Discount rate.

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

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

NOTE 25 – DEFINED BENEFIT OPEB PLAN

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

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan, and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The Retiree Health Insurance Credit Fund is advance funded on an actuarially determined basis.

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

OPEB Benefits

The employer contribution for the PERS, the HPRS, and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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

ND Department of Trust Lands

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

<u>Year ended June 30</u>	<u>Pension Expense Amount</u>
2022	\$ 809
2023	1,930
2024	1,724
2025	468
2026	(227)
Thereafter	(279)

For the year ended June 30, 2020, the Department recognized OPEB expense of \$9,701. At June 30, 2020, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Resources</u>	
	<u>Outflows</u>	<u>Inflows</u>
Differences between expected and actual experience	\$ 2,671	\$ (3,381)
Changes in assumptions	12,900	-
Net difference between projected and actual earnings on OPEB plan investment	121	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(28,274)
Employer contributions subsequent to the measurement date	19,108	-
TOTAL	\$ 34,800	\$ (31,655)

The \$19,108 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021.

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

<u>Year ended June 30</u>	<u>Pension Expense Amount</u>
2021	\$ (3,026)
2022	(3,026)
2023	(2,018)
2024	(2,203)
2025	(3,331)
Thereafter	(2,359)

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	33%	6.00%
Small Cap Domestic Equities	6%	7.30%
Domestic Fixed Income	40%	2.07%
International Equities	21%	6.95%

Discount rate.

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on these assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Department's 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 Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Bismarck, North Dakota
November 1, 2021

2021-001 **Material Audit Adjustments**
Material Weakness

Criteria: Proper internal controls include controls that allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition: During the course of our engagement, we proposed material audit adjustments to the Department's recorded account balances in the areas of interest receivable and interest income and accounts payable and expenditures.

Cause: Management's reconciliation controls failed to ensure that interest receivable and accounts payable were appropriately reconciled on June 30, 2021.

Effect: The need for these adjustments indicates a risk that the Department's interim financial information may not be materially correct, which may affect management decisions made during the year.

Recommendation: We recommend the Department review internal controls to ensure the controls in place will prevent, or detect and correct, misstatements on a timely basis.

Views of Responsible Officials: Management agrees with the finding. The Department implemented a new accounting system this fiscal year, with implementation of new software processes and procedures change. Some of these changes are not fully known until the process has been performed at least once. The minor adjustment found by the auditors is immaterial when compared to the \$7 billion in assets managed by the Department. After going through the process of creating its first financial statement with the new accounting software, Management will review its internal processes to ensure transactions are properly accounted for and reflected on its balance sheet.

**2021-002 Material Audit Adjustments to the Theodore Roosevelt Presidential Library and Museum
Endowment Fund
Material Weakness**

Criteria: Proper internal controls include controls that allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition: During the course of our engagement, we proposed material audit adjustments to the Department's recorded account balances in the areas of long-term debt, donation revenue, interest payable, and interest expense in the Theodore Roosevelt Presidential Library and Museum Endowment fund.

Cause: Management failed to obtain necessary communication and understanding from the State of North Dakota to ensure Senate Bill and House Bill legislative intent was properly reflected in the Theodore Roosevelt Presidential Library and Museum Endowment fund.

Effect: The need for these adjustments indicates a risk that the Department's interim financial information may not be materially correct, which may affect management decisions made during the year.

Recommendation: We recommend the Department review communication processes and controls to ensure that Senate Bill and House Bill legislative intent is appropriately reflected in the financial statements.

Views of Responsible Officials: The Department manages the investment of funds for the Theodore Roosevelt Presidential Library and Museum Endowment Fund (Fund). The Fund received cash to invest from a loan entered into between the Bank of North Dakota and the Governor's office. Neither the Fund nor the Department were required to repay the loan, as such the loan was not recorded on the Departments books. The loan has subsequently been repaid by general fund, neither the Department nor the Fund ultimately repaid any portion of the loan. The loan has been repaid pursuant to House Bill 1015 (FY 2022) and 1025 (FY 2021). Management will review its communication process and controls to ensure legislative intent is followed and is appropriately reflected in the financial statements.



**North Dakota Department of Trust Lands
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2021**

State Land Board and the
Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

As discussed in the Schedule of Findings and Responses, there were two internal control deficiencies identified as a result of the financial statement audit.

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

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

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

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

3. Identify any significant audit adjustments.

The following material misstatements were identified as a result of the audit procedures performed which were brought to the attention of, and corrected by management:

<u>Governmental Funds Corrected Misstatements</u>	<u>Debit</u>	<u>Credit</u>
<i>General Fund</i>		
Expenditures	\$ 77,573	
Accounts payable		\$ 77,573
<i>To adjust general fund accounts payable to actual.</i>		
 <i>Coal Development Trust Fund</i>		
Interest income	450,000	
Interest receivable		450,000
<i>To adjust coal development trust fund interest receivable to actual.</i>		
 <u>Fiduciary Fund Corrected Misstatement</u>	<u>Debit</u>	<u>Credit</u>
<i>Theodore Roosevelt Presidential Library and Museum Endowment</i>		
Donation revenue	\$ 17,500,000	
Interest expense	317,158	
Loan payable		\$ 17,500,000
Interest payable		317,158
<i>To properly reflect legislative action from Senate Bill 2001 (2019) and House Bill 1025 (2021).</i>		

4. 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

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

None

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

None

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

None

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions 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 this application.

This report is intended solely for the information and use of the State Land Board, Legislative Assembly, and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.



Bismarck, North Dakota
November 1, 2021