NORTH DAKOTA DEPARTMENT OF TRUST LANDS
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Governor of North Dakota
The Legislative Assembly
North Dakota Department of Trust Lands
Bismarck, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, a department of the State of North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the North Dakota Department of Trust Lands' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements of North Dakota Department of Trust Lands are intended to present the net position, revenues and expenses of only that portion of the financial statement of the State of North Dakota that is attributable to the transactions of the North Dakota Department of Trust Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2016, the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 and Note 7 to the financial statements, the North Dakota Department of Trust Lands adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

As described in Note 26 of the financial statements, the North Dakota Department of Trust Lands reclassified fund balances between two non-major funds from the prior period that were erroneously reported in the 2015 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 and the schedule of contributions and schedule of employer's proportionate share of net pension liability on pages 50-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Department of Trust Lands' basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of North Dakota Department of Trust Lands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 20, 2016

As management of the Department of Trust Lands (the Department), our discussion and analysis of the Department's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the basic financial statements, which follow this discussion.

Financial Highlights

- The assets and deferred outflows of resources of the Department exceeded its liabilities and deferred inflows of resources as of June 30, 2016 and 2015 by $4,346,135,622 and $4,640,705,011, respectively

- The Department's net position decreased by $294,569,389 for the year ending June 30, 2016, and decreased by $335,941,219 (including a prior period adjustment of $1,293,787 for GASB 68) for the year ending June 30, 2015. The net position decrease for fiscal year 2016 is due to appropriations from the Strategic Investment and Improvements fund during the 64th Legislative Assembly.

- Royalty revenues totaled $179,086,533 in fiscal year 2016, a decrease of $138,108,309 over the amount earned in fiscal year 2015. Royalty revenues totaled $317,194,842 in fiscal year 2015. The decrease in fiscal year 2016 was due to lower crude oil prices.

- Mineral lease bonus revenues totaled $12,417,390 in fiscal year 2016, a decrease of $5,254,850 when compared to fiscal year 2015. Bonus revenues totaled $17,672,240 in fiscal year 2015. This decrease occurred because mineral acres in prime Bakken areas are leased and new acreage being nominated for lease auction is now outside prime Bakken areas.

- Oil extraction tax revenues received in fiscal year 2016 totaled $59,638,189, a decrease of $402,119,997 over the $461,758,186 earned in fiscal year 2015.

    - Oil extraction tax revenues received by the Common School Trust fund totaled $59,638,189 in fiscal year 2016, compared to $122,392,357 in fiscal year 2015. These tax revenue changes are due to lower crude oil prices over the past two years.

    - The Strategic Investment and Improvements fund (SIIF) did not receive any oil extraction tax revenues in fiscal year 2016, compared to $339,365,829 in fiscal year 2015. Oil extraction tax revenues are deposited into the SIIF in accordance with N.D.C.C. Chapters 57-51.1-07.5. The decline in deposits for fiscal year 2016 is a result of a change in the distribution formula as well as lower crude oil prices.

- Gross production tax revenues received by the oil and gas impact grant fund total $27,583,173 in fiscal year 2016, compared to $74,837,846 in fiscal year 2015. The revenue changes from year to year are a result of a change in the gross production tax formula as well as lower crude oil prices as directed by the legislature for the biennium.

- Investment income totaled $85,013,070 in fiscal year 2016, an increase of $15,387,628 over fiscal year 2015. Investment income totaled $69,625,442 in fiscal year 2015. The revenue increase during a time of relatively stable asset base is a result of a change in asset allocation for both the permanent trust funds and SIIF.

- The change in fair value of investments, otherwise known as capital gains/loss, had a loss of $88,312,406 in fiscal year 2016; the net loss was $45,079,682 larger than the $43,232,724 of losses experienced in fiscal year 2015. In fiscal year 2016, losses of more than 9% in the permanent trusts' diversified inflation strategies and international equities portfolios more than offset the modest returns earned in other portfolios, while in fiscal year 2015, market returns from the various trust portfolios were more evenly mixed.

Overview of the Financial Statements

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

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

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

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

Fund Financial Statements. A *fund* is a grouping of related accounts used to maintain control of resources that have been segregated for specific objectives. The Department uses fund accounting to provide a relevant financial statement format for users and to demonstrate compliance with constitutional and legislative requirements. All of the funds of the Department are governmental funds.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Common Schools Trust fund, Coal Development Trust fund, Department of Trust Lands General fund, Oil and Gas Impact Grant fund, School Construction Assistance Loan fund, and the Strategic Investment and Improvements fund. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these is provided in the *combining statements* immediately following the notes to the financial statements.

The 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, 2016, the Department's total net position was $4,346,135,622. As of June 30, 2015, the Department's total net position was $4,640,705,011 (after the prior period GASB 68 adjustment). 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 statement of net position:

Condensed Statement of Net Position

	2016	2015
Current and other assets	$ 4,512,952,452	$ 4,829,286,000
Capital assets	7,762,092	7,771,077
Total assets	4,520,714,544	4,837,057,077
Deferred pension outflows	164,533	224,667
Long-term liabilities	1,402,461	1,323,682
Other liabilities	173,206,557	195,034,692
Total liabilities	174,609,018	196,358,374
Deferred pension inflows	134,437	218,359
Net Position:		
Net position invested in capital assets	7,762,092	7,771,077
Restricted net position		
Nonexpendable	67,997,836	67,050,990
Expendable	3,739,964,835	3,667,477,541
Unrestricted net position	530,410,859	898,405,403
Total net position	$ 4,346,135,622	$ 4,640,705,011

During fiscal year 2016, the Department's net position decreased by $294,569,389. This change relates to appropriations from the Strategic Investment and Improvements fund during the 64th Legislative Assembly (reference Statement of Appropriations section). There was a decrease of $316,342,533 in total assets.

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

Changes in Net Position

	2016	2015
Revenues		
General Revenues:		
Interest on investments	$ 3,381,320	$ 2,067,458
Change in fair value of investments	1,644,442	3,503
Interest income	96,166	212,266
Royalties	65,932,309	104,485,058
Bonuses	6,483,598	3,987,052
Rents	31,935	306,754
Donations	-	300,000
Interest on loans	2,930,054	2,527,842
Contributions to perpetual funds	15,637,987	16,382,336
Taxes	90,353,041	878,902,344
Gain on Sale of Capital Asset - Land	4,632,556	444
Total General Revenue	191,123,408	1,009,175,057
Program Revenues:		
Interest on loans	848,916	1,067,732
Interest on investments	80,789,562	63,750,144
Change in fair value of investments	(88,312,406)	(43,236,227)
Royalties	97,328,745	212,709,784
Bonuses	12,417,390	13,685,188
Rents	12,812,857	15,190,610
Fees to Maintenance fund	4,476,326	4,490,448
Total Program Revenue	120,361,390	267,657,679
Total Revenues	311,484,798	1,276,832,736
Expenses		
Governmental Activities:		
General government	1,246,928	1,061,839
Intergovernmental	114,001,692	112,366,411
Education	17,051,017	13,009,400
Total Expenses	132,299,637	126,437,650
Excess before transfer	179,185,161	1,150,395,086
Transfers	(473,754,550)	(1,485,042,518)
Increase(decrease) in net position	(294,569,389)	(334,647,432)
Net position - beginning	4,640,705,011	4,976,646,230
GASB 68 Implementation	-	(1,293,787)
Net position - beginning of year restated	4,640,705,011	4,975,352,443
Net position - ending	$ 4,346,135,622	$ 4,640,705,011

During the fiscal year ending June 30, 2016, the Department's revenues decreased by a total of $965,347,938. Royalty revenues declined by $138,108,309 as crude prices remained low. Mineral lease bonus revenue declined by $5,254,850 as fewer minerals were available for lease. Oil extraction and gross production tax revenues decreased by $402,119,997 and $386,319,299, respectively, due to legislative changes to the gross production and oil extraction tax distribution formula distributions to the Strategic Investment and Improvements fund are delayed until fiscal year 2017. The change in fair value of investments indicates additional losses of $45,079,682 from the previous year as capital markets produced lower gains during fiscal year 2016.

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.

Investments

Investments in debt and equity securities are carried at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application.* See Note 7 for additional discussion on the new standard. Unrealized gains and losses due to fluctuations in fair value as included in noninterest income. Gains and losses on the sale of securities are recorded on the trade date in noninterest income and are determined using the specific identification method.

Capital Asset

The Department's capital assets for its governmental funds as of June 30, 2016 are $7,762,092 (net of accumulated depreciation for equipment), respectively. These capital assets include land and equipment. See Note 15 to Financial Statements for additional details on capital assets.

Economic Factors

During fiscal year 2016, trust assets experienced a decline primarily by the outflow of funding from SIIF approved during the Sixty-fourth Legislative assembly. Appropriation bills for the 2015-17 biennium will transfer a total $533,366,904 from the SIIF. During fiscal year 2016, a total $514,666,904 was transferred as directed by several of these bills. While crude production remained relatively stable, lower crude oil pricing affected oil and royalties, mineral leasing and bonuses, as well as production tax revenues.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the ND Department of Trust Lands, 1707 N 9th St., PO Box 5523, Bismarck, ND, 58506-5523.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF NET POSITION
JUNE 30, 2016

		Governmental Activities
Assets		
Cash	$	63,516,541
Investments		4,013,205,074
Interest receivable		13,054,567
Accounts receivable		28,829,818
Invested securities lending collateral		161,682,208
Loans		
Farm loans		9,244,407
Energy construction loans		1,288,593
School loans		43,513,032
Energy impact loans		13,315,238
School constructions loans-SCALF		143,176,094
Capital asset - land		7,739,757
Due from other state agencies		10,251,592
Equipment (net of accumulated depreciation)		22,335
Restricted assets:		
Cash and cash equivalents		11,875,288
Total Assets		4,520,714,544
Deferred Outflows of Resources		
Deferred pension outflows		164,533
Liabilities		
Accrued payroll		241,613
Accounts payable		1,789,937
Securities lending collateral		161,682,208
Due to other state agencies		450,441
Claimant liability		9,030,676
Long-term liabilities:		
Compensated absences due within one year		11,682
Compensated absences due in more than one year		207,058
Pension liability		1,195,403
Total Liabilities		174,609,018
Deferred Inflows of Resources		
Deferred pension inflows		134,437
Net Position		
Net investment in capital assets		7,762,092
Restricted		
Nonexpendable		67,997,836
Expendable		3,739,964,835
Unrestricted		530,410,859
Total Net Position	$	4,346,135,622

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs of Governmental activities:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue
General government	$ 1,244,485			$ (1,244,485)
Intergovernmental	114,001,692			(114,001,692)
Education	17,051,017	$ 4,476,326	$ 120,234,621	107,659,930
Total	$ 132,297,194	$ 4,476,326	$ 120,234,621	(7,586,247)
Net revenue				(7,586,247)
General revenues:				
Taxes:				
Coal severance				3,131,146
Oil extraction				59,638,189
Gross production				27,583,706
Contributions to special revenue fund				15,637,987
Unrestricted investment earnings				3,381,320
Net increase (decrease) in fair value of investments				1,644,442
Royalties				65,932,309
Bonuses				6,483,598
Rents				314,935
Loan income				2,930,054
Interest Income				96,166
Gain on sale of capital asset – land				4,632,556
Transfers:				
To/from other state agencies				(368,842,550)
Educational institutions				(109,547,000)
Total general revenues and transfers				(286,983,142)
Total change in net position				(294,569,389)
Net position - beginning of year				4,640,705,011
Net position – ending				$ 4,346,135,622

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

Assets:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Funds	Strategic Investment & Improvements Fund	School Construction Assistance Loan Fund	Other Governmental Funds	Total
Cash	$ 1,115,160	$ 4,802,131	$ 2,635	$ 37,040,806	$ 11,475,847	$ 8,746,413	$ 333,549	$ 63,516,541
Investments		3,468,170,480	11,138,560		321,854,507	-	212,041,527	4,013,205,074
Interest receivable		11,136,761	88,483		865,657	216,466	747,200	13,054,567
Accounts receivable		18,944,892			7,977,971		1,906,955	28,829,818
Invested securities lending collateral		119,703,024	1,027,109		33,161,853		7,790,222	161,682,208
Loans								
Farm		8,515,389					729,018	9,244,407
Energy construction		1,288,593						1,288,593
School			43,513,032					43,513,032
Energy impact			13,315,238					13,315,238
School construction loans-SCALF						143,176,094		143,176,094
Due from other state agencies		9,751,691	499,901					10,251,592
Due from other funds		316,556			430,719		63,600	810,875
Restricted assets:								
Cash and cash equivalents					11,875,288			11,875,288
Total Assets	$ 1,115,160	$ 3,642,629,517	$ 69,584,958	$ 37,040,806	$ 387,641,842	$ 152,138,973	$ 223,612,071	$ 4,513,763,327
Liabilities:								
Accrued payroll	$ 226,773			$ 14,840				$ 241,613
Accounts payable	62,312	$ 1,517,033	$ 3,737	60	$ 120,812	$ 84	$ 85,898	1,789,936
Securities lending collateral		119,703,024	1,027,109		33,161,853		7,790,222	161,682,208
Due to other state agencies	69,509	23,202	349,931	5,814			1,986	450,442
Due to other funds	810,875							810,875
Claimant liability		9,030,676						9,030,676
Total Liabilities	1,169,469	130,273,935	1,380,777	20,714	33,282,665	84	7,878,106	174,005,750
Equity:								
Fund Balance:								
Permanent funds								
Nonspendable			67,997,836					67,997,836
Committed			206,345					206,345
Special revenue funds								
Restricted		3,512,355,582			11,875,288		215,733,965	3,739,964,835
Committed				37,020,092	364,666,904	152,138,889		553,825,885
Assigned					142,325,049			142,325,049
Unassigned	(54,309)				(164,508,064)			(164,562,373)
Total Fund Balance	(54,309)	3,512,355,582	68,204,181	37,020,092	354,359,177	152,138,889	215,733,965	4,339,757,577
Total Liabilities and Fund Balances	$ 1,115,160	$ 3,642,629,517	$ 69,584,958	$ 37,040,806	$ 387,641,842	$ 152,138,973	$ 223,612,071	$ 4,513,763,327

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

Total fund balances - governmental funds	$ 4,339,757,577
Capital Asset - Land	7,739,757
Net book value of equipment	22,335
Liability for compensated absences	(218,740)
Pension liability	(1,195,403)
Deferred pension outflows	164,533
Deferred pension inflows	(134,437)
Net position of governmental activities	$ 4,346,135,622

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Revenues:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Funds	Strategic Investment & Improvements Fund	School Construction Assistance Loan Fund	Other Governmental Funds	Total
Investment income		$ 73,033,940	$ 87,678		$ 3,179,775	$ 237	$ 4,487,932	$ 80,789,562
Interest Income					96,166			96,166
Loan income								
Farm		719,594					61,549	781,143
Energy construction		67,773						67,773
School loans-Coal			791,318					791,318
School constriction loans-SCALF						2,138,736		2,138,736
Net increase (decrease) in fair value of investments		(84,900,767)	(26,918)		1,670,460		(5,055,181)	(88,312,406)
Securities lending income		296,253	2,477		31,312		18,330	348,372
Royalties		105,104,830			64,846,599		9,135,104	179,086,533
Bonuses		3,222,983			6,483,202		2,711,205	12,417,390
Rental income		11,541,808			123,332		1,147,717	12,812,857
Coal severance tax			3,131,146					3,131,146
Gross production tax				$ 27,583,173	533			27,583,706
Oil extraction tax		59,638,189						59,638,189
Unclaimed property collections		6,541,899						6,541,899
Indirect recovery costs	$ 4,476,326							4,476,326
Tobacco settlement		9,096,088						9,096,088
Total Revenues	4,476,326	184,362,590	3,985,701	27,583,173	76,431,379	2,138,973	12,506,656	311,484,798
Expenditures:								
Current								
General government			16,261		1,132,293		34,285	1,182,839
Intergovernmental				113,998,367			3,325	114,001,692
Education	4,664,182	11,573,010				84	813,741	17,051,017
Total Expenditures	4,664,182	11,573,010	16,261	113,998,367	1,132,293	84	851,351	132,235,548
Excess of revenue over (under) expenditures	(187,856)	172,789,580	3,969,440	(86,415,194)	75,299,086	2,138,889	11,655,305	179,249,250
Other Financing Sources (Uses):								
Transfer to Public Instruction		(103,067,000)						(103,067,000)
Transfer to Educational Institutions							(6,480,000)	(6,480,000)
Transfer to Lignite Research Fund			(2,191,802)					(2,191,802)
Transfer to State General Fund			(944,797)					(944,797)
Transfer to Facilities Management							(1,012,500)	(1,012,500)
Transfer to Commerce Department					(8,150,000)			(8,150,000)
Transfer to Bank of North Dakota					(99,891,582)			(99,891,582)
Transfer to NDSU					(3,000,000)			(3,000,000)
Transfer to School Construction Assistance Loan Fund					(150,000,000)			(150,000,000)
Transfer from General Fund						150,000,000		150,000,000
Transfer to Department of Transportation					(240,500,000)			(240,500,000)
Transfer to Industrial Commission					(13,125,322)			(13,125,322)
Transfer to Indian Cultural Trust Fund							(26,547)	(26,547)
Proceeds from sale of capital asset (land)		4,635,000						4,635,000
Total Other Financing Sources (Uses)	-	(98,432,000)	(3,136,599)	-	(514,666,904)	150,000,000	(7,519,047)	(473,754,550)
Net Change in Fund Balance	(187,856)	74,357,580	832,841	(86,415,194)	(439,367,818)	152,138,889	4,136,258	(294,505,300)
Fund Balance - beginning	133,547	3,437,998,002	67,371,340	123,435,286	793,726,995	-	211,597,707	4,634,262,877
Fund Balance - ending	$ (54,309)	$ 3,512,355,582	$ 68,204,181	$ 37,020,092	$ 354,359,177	$ 152,138,889	$ 215,733,965	$ 4,339,757,577

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

Net change in fund balance	$ (294,505,300)
Net value of capital asset - land transaction	(2,550)
Net value of capital asset- acquired land	106
Depreciation expense on equipment	(6,541)
Increase in compensated absences liability	(2,109)
Decrease in net pension liability	(76,783)
Changes in deferred outflows and inflow resources related to net pension liability	23,788
Change in net position of governmental activities	$ (294,569,389)

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF APPROPRIATIONS
JUNE 30, 2016

	Approved 2015-17 Biennial Appropriation	Final Adjusted Appropriation	2016 Expenditures	2017 Expenditures	Unexpended Appropriation
General Fund Appropriated Expenditures:					
Salaries and Wages	$ 6,123,516	$ 6,131,344	$ 2,544,743	$ -	$ 3,586,601
Operating Expenses	2,019,637	2,019,637	573,581	-	1,446,056
Contingencies	100,000	100,000	-	-	100,000
	$ 8,243,153	$ 8,250,981	$ 3,118,324	$ -	$ 5,132,657
Continuing Appropriations:					
Investments			$ 16,768,498	$ -	
Land Management - Grant and Non-Grant			93,906	-	
County Services - Roads & Bridges			119,061	-	
In Lieu of Property Taxes			113,624	-	
Strategic Inestment and Improvements fund			265,920	-	
Uniform Unclaimed Property			311,169	-	
Total*			$ 17,672,178	$ -	

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

	Approved 2015-17 Biennial Appropriation	Final Adjusted Appropriation	2016 Expenditures	2017 Expenditures	Unexpended Appropriation
Oil and Gas Impact Grant Fund:					
Energy Infrastructure and Impact Grants	$ 139,300,000	$ 139,300,000	$ 27,282,739	$ -	$ 112,017,261
Energy Infrastructure and Impact Operating	700,000	700,000	319,313	-	380,687
Flood Infrastructure Development Grants	-	5,981,231	3,301,991	-	2,679,240
	$ 140,000,000	$ 145,981,231	$ 30,904,043	$ -	$ 115,077,188

	Approved 2015-17 Biennial Appropriation	2016 Emergency Clause	2016 Expenditures	2017 Expenditures	Unexpended Appropriation
Strategic Investment and Improvements Fund:					
ND Department of Transportation (HB 1012)	$ 7,000,000	-	$ 3,500,000	-	$ 3,500,000
ND Industrial Commission (HB 1014)	13,625,322	$ 500,000	13,125,322	-	-
ND Commerce Department (HB 1018)	7,500,000	-	7,500,000	-	-
Main Research Center (HB 1020)	18,000,000	-	3,000,000	-	15,000,000
Commission on Legal Counsel for Indigents (HB 1C	200,000	-	-	-	200,000
ND Commerce Department (HB 1285)	650,000	-	650,000	-	-
Bank of North Dakota (HB 1443)	50,000,000	-	50,000,000	-	-
Bank of North Dakota (SB 2012)	49,891,582	-	49,891,582	-	-
Bank of North Dakota (SB 2039)	150,000,000	-	150,000,000	-	-
ND State Treasurer & ND Department					-
of Transportation (SB 2013)	1,100,000,000	863,000,000	237,000,000		-
	$ 1,396,866,904	$ 863,500,000	$ 514,666,904	$ -	$ 18,700,000

See Note 20 to Financial Statements on the Department's continuing appropriation authority of funding.

See Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Reporting Entity

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

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

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

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

Fund Accounting Structure

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

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

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

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

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

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

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

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

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

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

The Energy Infrastructure and Impact Office provides grant assistance to counties, cities, school districts and other political subdivisions impacted by oil or gas development through the oil and gas impact grant fund. The program is funded with a percentage of the oil and gas gross production tax as enacted by the legislative assembly. In addition, the Energy Infrastructure and Impact Office administers the Flood-Impacted Political Subdivision Infrastructure Development Grants program by providing infrastructure development grants to flood-impacted political subdivisions. The program is funded with one-time State general fund moneys and expires June 30, 2017.

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

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

The School Construction Assistance Loan fund is a special revolving loan fund in the State Treasury for the purpose of providing low-interest school construction loans in accordance with N.D.C.C. Chapter 15.1-36. All interest or other earnings of the fund, and all repayments of loans collected by the fund will remain in the fund.

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

Basis for Accounting

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

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

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

Budgetary Policies and Procedures

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

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

Cash Deposits and Investments

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

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

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

Accounts Receivable

Accounts receivable represents accrued amounts on royalty revenue and interest on investments not available on June 30, 2016 for funding of current operations. A majority of the accrued royalty revenue is expected to be collected within the first 90 days following June 30, 2016. All receivables are considered collectible.

Claimant Liability

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

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 estimated fair value on the date of donation.

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

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

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

Pensions

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

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resource (expense/ expenditure) until then. The Department has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the NDPERS pension plans. See Note 22 to financial statements for additional details on Department's Pension Plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will *not* be recognized as an inflow of resources (revenue) until that time. The Department has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. See Note 22 to financial statements for additional details on Department's Pension Plan.

Compensated Absences Payable

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

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

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

Implementation of New Accounting Principle

The Department implemented GASB Statement No. 72 – *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Department's implementation of this statement required no adjustment to prior periods presented.

NOTE 2 – ORGANIZATION AND RELATED PARTY TRANSACTIONS

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

NOTE 3 – CASH

Custodial Credit Risk

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

The carrying amount of deposits with the BND was $51,045,686, while Northern Trust was $12,470,855 as of June 30, 2016, and the bank balances were $17,685,016. These differences result from timing differences of deposits processed by the Bank at year-end. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, deposits held at the BND are guaranteed by the State of North Dakota through N.D.C.C. Chapter 6-09-10. The Department does not have a formal policy regarding deposits.

NOTE 4 – FUND BALANCE CLASSIFICATION

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

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

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

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

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

The Capitol Building fund was created under the State Constitution for the construction and maintenance of public buildings at the capital. The entire balance of the trust is subject to legislative appropriation each biennium.
The Indian Cultural Education fund was established for the purpose of generating income to benefit Indian culture. When requested by the Mandan, Hidatsa and Arikara Nation Cultural Education Foundation trust proceeds are transferred for the purpose of Indian culture education.

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

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

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

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

The Flood-Impacted Political Subdivision Infrastructure Development Grant program is administered by the Energy Infrastructure and Impact Office and allocates funds appropriated by the state legislature to provide infrastructure development grants to flood-impacted political subdivisions. This funding is considered a one-time funding item from the State general fund and expires June 30, 2017. Any changes to the fund balance commitment would require appropriation bill action of the legislative assembly.

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

The School Construction Assistance Loan fund is in the State Treasury and was established by legislation according to N.D.C.C. Chapter 15.1-36. The monies in this fund are appropriated on a continuing basis for the purpose of proving low-interest school construction loans. All interest or other earnings of the fund, and all repayments of loans collected by the fund will remain in the fund. Currently, the Department is recognizing this fund contingent on the passage of Senate Concurrent Resolution No. 4003 by the Sixty-Fourth Legislative Assembly and approval of that measure by the voters of this State.

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.

Fund Balances	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Fund	Strategic Investment & Improvements Fund	School Construction Assistance Loan Fund	Other Governmental Funds	Total
Permanent Funds:								
Nonspendable								
Permanent fund principal			$ 67,997,836					$ 67,997,836
Committed								
Designated for transfer to State general fund			206,345					206,345
Special Revenue Funds:								
Restricted								
Distribution to educational beneificiaries		$ 3,512,355,582					$ 214,694,918	3,727,050,500
Capitol building maintenance							1,012,500	1,012,500
Indian cultural education							26,547	26,547
Fuel production facility - BND					$ 11,875,288			11,875,288
Committed								
Grants				$ 37,020,092				37,020,092
Designated for transfer to:								
State general fund						$ 152,138,889		152,138,889
Bank of North Dakota					99,891,582			99,891,582
State Commerce Department					8,150,000			8,150,000
NDSU Extension					3,000,000			3,000,000
State Department of Transportation					240,500,000			240,500,000
State Industrial Commission					13,125,322			13,125,322
Assigned								
Potential mineral title disputes					142,325,049			142,325,049
Unassigned								
Operating expenses	$ (54,309)				(164,508,064)			(164,562,373)
Total Fund Balances:	$ (54,309)	$ 3,512,355,582	$ 68,204,181	$ 37,020,092	$ 354,359,177	$ 152,138,889	$ 215,733,965	$ 4,339,757,577

NOTE 5 – INVESTMENTS

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Board manages its interest rate risk by maintaining a diversified portfolio that contains a wide variety of maturity dates for the debt securities held. The Board has adopted an asset allocation schedule and approves the hiring of all managers within the various asset classes. The Board does not have a formal policy regarding the maturities of its investments.

The following table shows the investments by investment type, amount and maturity as of June 30, 2016. When callable, maturity is calculated with the first call date.

Investment Type	Maturity Amount	Weighted Average Maturity (Years)
Asset Backed Securities	$ 18,626,288	4.60
Commercial Mortgage-Backed	6,308,696	20.50
Corporate Bonds	466,150,577	5.53
TIPS Fund	73,984,408	8.72
Corporate Convertible Bonds	5,592	
Government Agencies	126,297,087	2.34
Brandywine	86,798,163	12.82
Low Duration Fund	2,156,506	2.00
Fixe Income ETF	113	
Government Bonds	296,462,723	5.43
Government Mortgage Backed Securities	61,564,659	21.75
Gov't-issued Commercial Mortgage-Backed	9,601,201	7.94
Index Linked Government Bonds	1,281,733	
Municipal/Provincial Bonds	13,863,051	10.67
Non-Government Backed CMOs	29,918,258	17.90
Other ETF	17	
Other Fixed Income	113,880,489	5.59
Short Term Bills and Notes	101,408,091	0.14
Short Term Investment Funds	147,753,544	0.15
Total	$ 1,556,061,196	
Weighted Average Maturity		5.93

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

Other investments included above, such as variable rate collateralized mortgage obligations (CMOs), have a high degree of sensitivity to interest rate changes. As of June 30, 2016 the Board held $60,699,755 in variable rate CMOs.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings, including securities identified as U.S. Government in the table 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 Board does not have a formal policy regarding credit risk. The following table presents the Board's ratings as of June 30, 2016.

	AAA	AA	A	BBB	BB	B	CCC	D	Not Rated	Government
Asset Backed Securities	$ 12,814,725	$ 452,719	-	-	$ 15,552	-	-	-	$ 5,343,292	-
Commercial Mortgage-Backed	-	-	-	-	-	-	-	-	6,308,696	-
Corporate Bonds	5,336,855	70,934,196	$ 127,324,316	$ 147,882,752	82,992,791	$ 21,524,491	$ 1,457,750	-	8,697,426	-
TIPS	-	-	-	-	-	-	-	-	73,984,408	-
Corporate Convertible Bonds	-	-	-	-	-	-	-	-	5,592	-
Government Agencies	13,978,014	110,567,054	-	-	-	-	-	-	-	$ 1,752,019
Brandywine Fund	-	-	-	-	-	-	-	-	86,798,163	-
Low Duration Fund	-	-	-	-	-	-	-	-	2,156,506	-
Fixed Income ETF	-	-	-	-	-	-	-	-	113	-
Government Bonds	-	6,773,458	15,436,171	15,101,287	2,876,820	-	-	-	48,324,209	207,950,778
Government Mortgage Backed Securities	-	7,177,099	-	-	-	-	-	-	397,628	53,989,932
Gov't-issued Commercial Mortgage-Back	-	-	-	-	-	-	-	-	2,235,829	7,365,372
Index Linked Government Bond	-	-	-	-	-	-	-	-	-	1,281,733
Municipal/Provincial Bonds	1,630,187	5,992,663	5,835,201	-	-	-	-	-	405,000	-
Non-Government Backed C.M.O.s	5,347,093	-	1,483,067	516,165	-	-	-	$ 640,492	21,931,441	-
Other ETF	-	-	-	-	-	-	-	-	17	-
Other Fixed Income	-	-	-	-	-	-	-	-	113,880,489	-
Short Term Bills and Notes	-	-	-	-	-	-	-	-	-	101,408,091
Short Term Investment Funds	-	-	-	-	-	-	-	-	147,753,544	-
	$ 39,106,874	$ 201,897,189	$ 150,078,755	$ 163,500,204	$ 85,885,163	$ 21,524,491	$ 1,457,750	$ 640,492	$ 518,222,353	$ 373,747,925

Foreign Currency Risk

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

Currency	Debt	Equity	Total
Austrailian Dollar	$ 6,405,793	$ 31,209,270	$ 37,615,063
Brazilian Real	5,514,673	6,640,752	12,155,425
British Pound Sterling	7,557,453	85,648,554	93,206,007
Canadian Dollar	2,030,544	-	2,030,544
Chilean Peso	5,876,236	878,015	6,754,251
Columbian Peso	-	273,289	273,289
Czech Koruna	-	747,695	747,695
Danish Krone	-	8,414,053	8,414,053
Egyptian Pounds	-	46,517	46,517
Euro Members	8,957,587	127,398,090	136,355,677
Hong Kong Dollar	-	31,038,906	31,038,906
Hungarian Forint	3,473,902	881,743	4,355,645
Indian Rupee	4,062,154	13,147,717	17,209,871
Indonesian Rupiah	4,122,913	3,614,104	7,737,017
Israel Shekel	-	3,219,663	3,219,663
Japanese Yen	-	100,110,065	100,110,065
Kenyan Shilling	-	350,744	350,744
Malaysian Ringgit	3,861,407	2,413,088	6,274,495
Mexican Peso	12,012,172	4,205,647	16,217,819
New Romanian Leu	7,980	-	7,980
New Taiwan Dollar	-	13,966,654	13,966,654
New Zealand Dollar	3,355,591	729,790	4,085,381
Norwegian Krone	2,525,827	2,704,517	5,230,344
Peruvian Nuevo Sol	-	11,629	11,629
Philippines Peso	-	1,467,471	1,467,471
Polish Zloty	1,859,050	1,678,663	3,537,713
Russian Rubles	-	802,425	802,425
Singapore Dollar	42,111	5,752,465	5,794,576
South African Rand	2,994,058	8,917,880	11,911,938
South Korean Won	-	10,652,340	10,652,340
Swedish Krona	5,902,275	11,848,361	17,750,636
Swiss Franc	-	39,880,896	39,880,896
Thai Baht	(79,729)	2,918,120	2,838,391
Turkish Lira	-	1,683,235	1,683,235
	$ 80,481,997	$ 523,252,358	$ 603,734,355

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. The investment policies of the Board allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statement of Net Position. At June 30, 2016, the Board had one type of derivative security: currency forwards.

Currency Forwards

Currency forwards represent forward exchange contracts that are obtained to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Position with gains of $6,061,752 for fiscal year 2016. At June 30, 2016, the Board's investment portfolio included the currency forwards balances shown below.

Currency	Cost	Purchases	Sales	Fair Value June 30, 2016
Australian Dollar	$(18,786,870)	$ -	$ (18,934,589)	$ (18,934,589)
Canadian Dollar	(1,735,879)	-	(1,751,995)	(1,751,995)
Euro Members	(25,618,993)	-	(25,285,309)	(25,285,309)
Hungary Forint	(3,118,496)	-	(3,024,794)	(3,024,794)
Malaysian Ringgit	(3,240,978)	-	(3,327,168)	(3,327,168)
Mexico Peso	(6,246,472)	-	(6,179,373)	(6,179,373)
New Romanian Leu	(1,483,905)	-	(1,438,077)	(1,438,077)
New Zealand Dollar	(6,586,420)	-	(6,620,719)	(6,620,719)
Polish Zloty	(6,084,115)	-	(5,994,796)	(5,994,796)
Singapore Dollar	(5,737,766)	-	(5,757,743)	(5,757,743)
South Africa Rand	(3,104,994)	-	(3,319,140)	(3,319,140)
Thai Baht	(3,545,094)	-	(3,554,807)	(3,554,807)
United Kingdom Pound	(18,718,484)	-	(17,273,758)	(17,273,758)
United States Dollar	104,008,466	104,008,466	-	104,008,466
Total forwards subject to currency risk				$ 1,546,198

NOTE 6 – SECURITIES LENDING

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

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

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

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of North Dakota Board of University & School Lands loans was approximately 39 days as of June 30, 2016.

Cash open collateral is invested in a short-term investment pool, the NDLAN Custom fund, which had an interest sensitivity of 45 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, 2016.

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Agencies	$ 2,370,112	$ 2,477,335		
GLOBAL Corporate Fixed	346,205	368,591		
US Agencies	11,610,663	11,867,714		
US Corporate Fixed	39,589,401	40,247,714	$ 576,753	$ 584,333
US Equities	44,447,975	45,184,118	1,408,559	1,426,936
US Government Fixed	60,387,273	61,536,736	1,714,530	1,739,386
	$ 158,751,629	$ 161,682,208	$ 3,699,842	$ 3,750,655

Market Value of Securities on Loan against Cash Collateral	$ 158,751,629
Market Value of Securities on Loan against Non Cash Collateral	3,699,842
Total Market Value of Securities on Loan	$ 162,451,471

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

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

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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

Determination of Fair Value

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

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

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2016.

		Fair Value Measures Using		
	Fair Value at 6/30/16	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	$ 101,408,091		$ 101,408,091	
Total Short Term Securities	101,408,091		101,408,091	
Equity Investments				
Common Stock	172,212,673	$ 172,209,460	3,124	$ 89
Equity Funds/EFTs	116,610,999	116,610,999	-	-
Preferred Stock	30,735,017	30,733,936	1,081	-
Total Equity Investments	319,558,689	319,554,395	4,205	89
Fixed Income Investments				
Asset Backed Securities	18,626,288	-	18,626,288	-
Bond Funds/EFTs	116,045,801	116,045,801	-	-
Collateralized Mortgage Obligations	36,980,318	-	36,980,318	-
Commercial Mortgage Backed	15,909,897	-	15,909,897	-
Corporate Bonds	466,147,475	-	466,147,475	-
Government Agencies	40,383,910	-	40,383,910	-
Government Bonds	310,325,774	-	310,325,774	-
Government Mortgage Backed	140,415,776	-	140,415,776	-
Index linked Government Bonds	1,281,733	-	1,281,733	-
Total Fixed Income Investments	1,146,116,972	116,045,801	1,030,071,171	-
Other Investment Assets				
Commodity ETF	1,576	1,576	-	-
Currency	4,399,848	-	4,399,848	-
Currency ETF	17	17	-	-
FX Contracts	1,546,197	-	1,546,197	-
Global Tactical Asset Allocation MF	492,884,015	492,884,015	-	-
Master Limited Partnership	115,438,758	115,438,758	-	-
REITs	10,508,999	10,508,999	-	-
Rights/Warrants	25	25	-	-
Total Other Investment Assets	624,779,435	618,833,390	5,946,045	-
Total Investments at Fair Value	$ 2,191,863,187	$ 1,054,433,586	$ 1,137,429,512	$ 89
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV:				
Commingled Funds - Equities	$ 1,053,064,313		Daily, Monthly	< 5 days
Commingled Funds - Fixed Income	160,782,571		Daily	< 5 days
Real Estate Funds	478,595,450	$ 113,000,000	Quarterly	90 days
Total Investments measured at NAV	$ 1,692,442,334	$ 113,000,000		
Investments at other than fair value				
Cash and adjustments to cash	$ 127,644,828			
Total Investments at other than fair value	$ 127,644,828			
Total Investments	$ 4,011,950,349			

In addition, the Department holds unclaimed mutual funds and other securities for owners. Actual gains and losses realized will be determined at the time of the sale and will be based on market conditions at that date. AS of June 30, 2016 the Department held $651,660 in unclaimed mutual funds.

The Common Schools Trust Fund owns the building occupied by the Department. For the period ending June 30, 2016, the book value of the building was $603,065. The book value of the building is included in the investments line of the balance sheet.

NOTE 8 – FARM LOAN POOL AND FARM REAL ESTATE

N.D.C.C. Chapter 15-03 authorizes the Board to invest in first mortgage farm loans. All purchased loans are credited to the pool and the investments, repayments, interest and income are credited to the various trusts in proportion to their participation. The pool is administered by the BND in accordance with standard banking practices, including executing all instruments on behalf of the Board and handling foreclosures. As of June 30, 2016, the non-current and current portions of the loans were $8,322,093 and $922,314, respectively.

As of June 30, 2016, the pool had a net position of $11,185,844. For the same period, the pool earned net income of $726,746.

NOTE 9 – ENERGY CONSTRUCTION LOAN PROGRAM

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

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

As of June 30, 2016, the non-current and current portions of the loans were $1,255,757 and $32,836 respectively.

As of June 30, 2016, the program had a net position of $1,330,427. For the same period, the program earned net income of $67,773.

NOTE 10 - COAL WARRANTS

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

30, 2016, the non-current and current portions of the loans were $12,656,096 and $659,142, respectively.

NOTE 11 – SCHOOL CONSTRUCTION LOANS

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

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

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

In 2013, the legislature changed the program to allow certain school districts in oil producing areas to use a portion of the gross production tax due to the district under N.D.C.C. Chapter 57-51 to repay school loans. For gross production tax backed school loans, the amount of the loan does not count as debt for the borrowing entity and repayment of the loan will be accomplished by the State Treasurer capturing a school district's gross production tax payments each month and remitting those funds to appropriate trust fund until such time that year's scheduled loan payment has been captured. As of June 30, 2016, there was one gross production tax backed school construction loan processed with SIIF funding and one loan processed with Coal Development Trust funding.

As of June 30, 2016, the non-current and current portions of loans from the Coal Development Trust Fund were $40,145,290 and $3,367,742, respectively.

NOTE 12 – SCHOOL CONSTRUCTION ASSISTANCE LOAN FUND

In 2015, the legislature amended N.D.C.C. Chapter 15.1-36 to end the loan making authority from SIIF and created the School Construction Assistance revolving loan fund (SCALF) in the State Treasury. The legislative assembly provided for the transfer of one hundred and fifty million dollars of loans from the SIIF for school construction loans. All interest or other earnings of the fund, and all repayments of loans collected by the fund will remain in the fund. The money in this fund is appropriated on a continuing basis for the purpose of providing low-interest school construction loans.

A proposed construction project must be submitted and approved by the superintendent of public instruction. The application may be submitted before or after authorization of a bond issue in accordance with N.D.C.C. Chapter 21-03. The superintendent determines the loan amount, the term of the loan, and the interest rate to be paid. To be eligible for a loan, the

school district must have an existing indebtedness equal to at least fifteen percent of the school district's taxable valuation. The interest rate discount on a loan must be at least one percent, but cannot exceed four percent of the interest rate charged on comparable tax-exempt bond rates.
For all regular school construction loans the BND processes and services all loans. BND receives payments of principal and interest from the school districts and remits these payments to the Department for deposit in the Coal Development Trust fund.

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

Currently, the Department is recognizing this fund contingent on the passage of Senate Concurrent Resolution No. 4003 by the Sixty-Fourth Legislative Assembly and approval of measure by the State voters.

As of June 30, 2016, the non-current and current portions of loans from the SCALF were $135,929,069 and $7,247,025, respectively.

NOTE 13 – FUEL PRODUCTION FACILITIES LOAN GUARANTEE PROGRAM

The Fuel Production Facility Loan Guarantee Program is governed under N.D.C.C. Chapter 6-09.7. Under this program, the BND may use up to $25 million of the SIIF to guarantee loans to facilities that use biomass for agriculturally derived fuel production. The guarantee is limited to 30% of the debt needed to build the project.

On March 6, 2014, $18,000,000 was transferred from SIIF to the BND to guarantee $60 million of loans to Dakota Spirit AgEnergy. The loan guarantee closed on May 12, 2014. The guaranteed funds will be held at BND, on behalf of the SIIF, in an income earning account. Any net income earned and fees collected under the guarantee program will be transferred back into the SIIF periodically. As of June 30, 2016, $11,875,288 of investments held by BND are restricted to the Fuel Production Facility Loan Guarantee Program and are recorded as restricted on the SIIF's financial statements.

NOTE 14 – OFFICE LEASE COMMITMENT

The Board's administrative agent, the Department rents office space owned by the Common Schools Trust Fund. The Department's commitment to rent its office space from the Common Schools Trust is continuous, with periodic adjustments made in accordance with acceptable accounting practices and market conditions. For the period ending June 30, 2016, rent of $52,786 was paid by the non-Common Schools Trusts funds.

NOTE 15 – CAPITAL ASSETS

Governmental Activities:	Balance 7/1/15	Additions	Retirements	Balance 6/30/16
Land	$ 7,742,201	$ 106	$ 2,550	$ 7,739,757
Equipment	43,132	-	-	43,132
Less accumulated depreciation:				
Equipment	(14,256)	(6,541)	-	(20,797)
Net capital assets	$ 7,771,077	$ (6,435)	$ 2,550	$ 7,762,092

Under the provisions of the Enabling Act, land was granted to the State for the support of the common schools and other institutions. Under Constitutional authority, no grant land may be sold for less than ten dollars an acre which is the value per acre used for balance sheet purposes. In fiscal year 2016, 10.55 acres were acquired and 255 acres were sold.

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

A total of $6,541 in equipment depreciation for fiscal year ending June 30, 2016 was charged to the education fund.

NOTE 16 – DUE FROM (TO) OTHERS

The following is a detail of the amounts that are due from and to other trust funds managed by the Department of Trust Lands at June 30, 2016:

Fund	Due from other funds	Due to other funds
General fund		$ 810,875
Strategic Investment and Improvements fund	$ 430,719	
Non-major perpetual funds	63,600	
Common Schools Trust fund	316,556	
	$ 810,875	$ 810,875

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 subdivisions are related parties. The following is detail of amounts due from and to other State agencies as June 30, 2016.

Fund	Due from other state agencies	Due to other state agencies
Coal Development Trust Fund:		
State Treasurer	$ 499,901	$ 349,931
	499,901	349,931
General fund:		
Attorney General		54,640
Dept. of Transportation		5,499
Information Technology Department		7,986
Central Services		8
Office of Management and Budget		1,376
		69,509
Common School Trust Fund:		
State Treasurer	9,751,691	
	9,751,691	
Perpetual funds:		
Bank of North Dakota		25,188
		25,188
Oil and Gas Impact fund:		
Information Technology Department		2,290
Attorney General		3,442
Dept. of Transportation		82
		5,814
Total Due From/Due To	$ 10,251,592	$ 450,442

NOTE 17 – PERPETUAL FUND DISTRIBUTION POLICY

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

NOTE 18 – TRANSFERS FROM (TO) OTHER AGENCIES

The following detail represents amounts transferred to beneficiaries and other State agencies as of June 30, 2016.

Fund	Transfers from other agencies	Transfers to other agencies
Perpetual Funds:		
Department of Public Instruction		$ 103,067,000
ND State University		1,684,000
School for the Blind		228,000
School for the Deaf		590,000
State Hospital		500,000
Ellendale		273,000
Valley City State University		285,000
Mayville State University		191,000
Industrial School		686,000
School of Science		494,000
School of Mines		567,000
Veterans Home		178,000
University of ND		804,000
		109,547,000
Coal Development Trust:		
Lignite Research Fund		2,191,802
General Fund of ND		944,797
		3,136,599
Strategic Investment and Improvements:		
Bank of North Dakota		99,891,582
ND Industrial Commission		13,125,322
ND Commerce Department		8,150,000
NDSU Extension Service		3,000,000
School Construction Assistance Loan Fund		150,000,000
ND Department of Transportation		240,500,000
		514,666,904
Indian Cultural Education:		
Indian Cultural Trust Fund		26,547
		26,547
School Construction Assistance Loan Fund:		
General Fund of ND	$ 150,000,000	
	150,000,000	
Capitol Building Trust:		
Facilities Management		1,012,500
		1,012,500
Total Transfers	$ 150,000,000	$ 628,389,550

NOTE 19 – LITIGATION

The Board of University and School Lands (Board) is currently involved in litigation relating to mineral title ownership along the Missouri River. Riparian owners are challenging the State's determination of the ordinary high watermark. The Board has set aside funds to cover the potential title disputes related to certain riverbed leases until they are resolved.

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

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

<u>Wilkinson Family v. State of North Dakota</u>
On January 10, 2012, the Wilkinson family filed a suit in state court asserting that they own shore zone minerals in about 200 acres west of Williston. In July 2014, the plaintiffs filed an amended complaint and added claims of unconstitutional takings, conversion, constructive trust and unjust enrichment, civil conspiracy and deprivation of rights under 42 U.S.C. § 1983. The plaintiffs allege that the Board should be issuing leases on the west side of the Highway 85 Bridge pursuant to the Phase II delineation study which determined the location of the historic Missouri River channel, prior to the Garrison Dam project. The district court granted a summary judgment motion brought by the State and found in the State's favor determining that the minerals under the property in question are owned by the State of North Dakota and dismissing the remaining counts in the complaint. The plaintiffs and one of the other defendants have appealed this decision to the North Dakota Supreme Court.

<u>EEE Minerals, LLC et. al. v. State of North Dakota; Continental Resources, Inc.</u>
On July 31, 2014, the State was served with a complaint in this case. The plaintiffs allege identical causes of action to what was pled in the Wilkinson amended complaint. The plaintiffs in this case, however, are requesting the case be certified as a class action suit. The class is alleged to include all owners having an interest in the minerals along the Missouri River and Lake Sakakawea from the Montana border to the northern border of the Fort Berthold Reservation. The State served its Answer to the Complaint on September 10, 2014. Some of the defendants have removed this case to United States federal district court. Several motions to dismiss have been filed, including a motion for the Board and North Dakota State Engineer asserting sovereign immunity from suit in federal court.

<u>Whitetail Wave LLC v. XTO Energy, Inc., Board of University and School Lands, and the State of North Dakota</u>
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. The Plaintiffs are requesting that title to the minerals be quieted and have alleged claims of unconstitutional takings, trespass, slander of title and constructive trust/unjust enrichment against the State. The complaint also makes a number of claims against XTO individually. Discovery is ongoing and a jury trial of 6 persons date has been set for March 12-16, 2018.

Statoil Oil & Gas, LP v. Abaco Energy, LLC, et. al.
Statoil filed a suit seeking resolution of a title question and asking the court to require those asserting title to the minerals underlying two spacing units located east of the Highway 85 Bridge containing 15 active wells. Statoil is requesting the Court determine the property interests for the two spacing units so that Statoil can correctly distribute the proceeds from the wells. The federal government claims interest in the disputed lands, Statoil acknowledges that the United States is not amenable to state court jurisdiction. The district court granted a motion to dismiss the case finding that the United States is an indispensable party and not amendable to the jurisdiction of state court. The order dismissing the case has been appealed to the North Dakota Supreme Court.

Statoil Oil & Gas, LP v. 1280 Royalties LLC, et. al.
Statoil filed a suit seeking resolution of a title question and asking the court to require those asserting title to the minerals underlying a spacing unit located east of the Highway 85 Bridge containing one active well. Statoil is requesting the Court determine the property interests for the spacing unit so that Statoil can correctly distribute the proceeds from the well. The federal government claims interest in the disputed lands, however, Statoil acknowledges that the United States is not amendable to the state court jurisdiction. The district court granted a motion to dismiss finding that the United States is an indispensable party and not amendable to jurisdiction in state court. The order dismissing the cash has been appealed to the North Dakota Supreme Court.

Mary K. Starin, as Personal Representative of the Estate of Bruno Herman Weyrauch v. Kelly Schmidt, State Treasurer, et. al.
This is a quiet title action. A deed previously issued by the Department of Trust Lands was lost without being recorded, the plaintiff is seeking a judgment to cure the defect in the chain of title. The tract, however, is located under Lake Sakakawea. The Board has filed an answer claiming any interest in any minerals located below the ordinary high watermark. Discovery is ongoing and a trial has not yet been set.

EOG Resources, Inc. v. Soo Line Railroad Co., et. al.
This case concerns ownership of the minerals underlying the railroad rights-of-way in a section of land in Mountrail County. The railroad acquired an interest in a strip of land through the property in question through a “Right of Way Deed.” At issue is whether the deed granted an easement or fee title to the strip of land. The North Dakota Supreme Court heard this case in November of 2014 and found that the deed in question is ambiguous and remanded the case to the district court for further proceedings.

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

In 1991, the Bank of North Dakota conveyed to Mr. Burk and his wife property in Williams County reserving 50% of the minerals. At the time, the statutory mineral reservation was 100%. Mr. Burk brought this discrepancy to the Board in 2011 and threatened litigation. The Board entered into an agreement with Mr. Burk to convey to him 50% of the minerals he thought were previously conveyed to him. Mr. Burk now claims that he should not have to pay taxes on the royalties he is receiving pursuant to this agreement. The district court granted a summary judgment motion brought by the State and dismissed the case. The district court specifically found that Mr. Burk's claim was frivolous and awarded the State its costs and attorney fees. Mr. Burk has appealed the decision to the North Dakota Supreme Court.

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

NOTE 20 – CONTINUING APPROPRIATIONS

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

N.D.C.C. 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.

N.D.C.C. 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.

N.D.C.C. 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.

N.D.C.C. 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.

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

N.D.C.C. 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.

N.D.C.C. 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.

N.D.C.C. 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.

N.D.C.C. 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.

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

NOTE 21 – LONG TERM LIABILITIES

Compensated Absences Payable

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

Governmental Activities-	Balance 7/1/2015	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter	Balance 6/30/2016
Other long-term liabilities:						
Compensated absences	$216,631	$132,364	$130,255	$11,682	$207,058	$218,740

The reported liabilities for compensated absences were $218,740 at June 30, 2016. This balance includes the employer's share of FICA taxes.

NOTE 22 – PENSION PLAN

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include 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 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

At June 30, 2016, the Department reported a liability of $1,195,403 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on the Department's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the Department's proportion was 0.175799 percent which was a decrease of 0.000439 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Department recognized pension expense of $113,690. At June 30, 2016, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	$ 34,680	-
Changes in actuarial assumptions	-	$ 106,505
Difference between projected and actual investment earnings	-	25,234
Changes in proportion and differenes between employer contributions and proportionate share of contributions	1,389	2,698
Contributions paid to PERS subsequent to the measurement date	128,464	-
Total	$ 164,533	$ 134,437

The $128,464 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, 2016.
Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2017	$ (32,629)
2018	(32,629)
2019	(32,629)
2020	19,515
2021	(19,996)

Actuarial assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back 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 Retiree Mortality Table with ages set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	31.00%	6.90%
International equity	21.00%	7.55%
Private equity	5.00%	11.30%
Domestic fixed income	17.00%	1.52%
International fixed income	5.00%	0.45%
Global real assets	20.00%	5.38%
Cash Equivalents	1.00%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
Employer's proportionate share of the GERF net pension liability:	$ 1,833,091	$ 1,195,403	$ 673,659

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

NOTE 23 – POSTRETIREMENT BENEFITS

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

The benefits, fully paid by the Department, are equal to $5.00 for each of the employee’s or deceased employee’s years of credited service, not to exceed the premium in effect for selected coverage. For this pay-as-you-go plan, total Department expenditures for the period ending June 30, 2016 were $21,941.

NOTE 24 – RISK MANAGEMENT

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

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

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

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

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

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

NOTE 25 – NEW PRONOUNCEMENTS

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

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

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

NOTE 26 PRIOR PERIOD ADJUSTMENT

During fiscal year 2016, a performance audit of the Department identified the misallocation of revenues, dating back to 1989, between the Industrial School and Ellendale trust funds. Consequently, a prior period adjustment reduced the July 1st fund balance of the Industrial School trust fund by $7,148,449 and increased the fund balance of the Ellendale trust fund balance by $7,148,449 that included revenues and investment earnings. Both of these Trusts are non-major funds so the changes will be reported in the supplementary statements.

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Special Revenue Funds													Special Revenue Funds		Total
Assets:	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Indian Cultural Education	Non-major Govern-mental Funds
Cash	$ 71,935	$ 7,948	$ 16,156	$ 13,977	$ 8,811	$ 15,161	$ 14,594	$ 17,960	$ 19,333	$ 19,339	$ 11,119	$ 32,626	$ 248,959	$ 82,268	$ 2,322	$ 333,549
Investments	55,869,715	7,673,759	18,108,211	12,452,356	16,114,676	9,771,115	6,284,202	17,745,211	14,218,018	16,140,949	4,591,804	25,914,966	204,884,982	6,020,646	1,135,899	212,041,527
Interest receivable	188,267	30,674	55,422	58,398	37,796	36,980	25,163	68,788	55,347	59,560	28,245	87,504	732,144	12,714	2,342	747,200
Accounts receivable	330,966	48,689	70,540	90,921	104,948	75,926	32,940	749,213	52,750	106,073	12,671	125,143	1,800,780	106,175		1,906,955
Invested securities lending collateral	1,942,052	266,668	631,033	434,740	516,248	340,485	219,193	655,275	496,092	564,529	160,671	902,751	7,129,737	621,236	39,249	7,790,222
Loans																
Farm loans	183,770	35,473	50,370	51,609	33,077	41,867	30,135	71,317	52,516	52,997	41,561	84,326	729,018			729,018
Due from other funds	49,661		-						9,312			4,627	63,600	-		63,600
Total Assets	$ 58,636,366	$ 8,063,211	$ 18,931,732	$ 13,102,001	$ 16,815,556	$ 10,281,534	$ 6,606,227	$ 19,307,764	$ 14,903,368	$ 16,943,447	$ 4,846,071	$ 27,151,943	$ 215,589,220	$ 6,843,039	$ 1,179,812	$ 223,612,071
Liabilities:																
Accounts payable	$ 22,657	$ 3,111	$ 7,362	$ 5,072	$ 6,023	$ 3,972	$ 2,557	$ 7,645	$ 5,788	$ 6,586	$ 1,875	$ 10,532	$ 83,180	$ 2,260	$ 458	$ 85,898
Securities lending collateral	1,942,052	266,668	631,033	434,740	516,248	340,485	219,193	655,275	496,092	564,529	160,671	902,751	7,129,737	621,236	39,249	7,790,222
Due to other state agencies	500	97	137	140	90	114	82	194	143	144	114	231	1,986			1,986
Total Liabilities	1,965,209	269,876	638,532	439,952	522,361	344,571	221,832	663,114	502,023	571,259	162,660	913,514	7,214,903	623,496	39,707	7,878,106
Equity:																
Fund Balance:																
Special revenue funds																
Restricted	56,671,157	7,793,335	18,293,200	12,662,049	16,293,195	9,936,963	6,384,395	18,644,650	14,401,345	16,372,188	4,683,411	26,238,429	208,374,317	6,219,543	1,140,105	215,733,965
Total Fund Balance	56,671,157	7,793,335	18,293,200	12,662,049	16,293,195	9,936,963	6,384,395	18,644,650	14,401,345	16,372,188	4,683,411	26,238,429	208,374,317	6,219,543	1,140,105	215,733,965
Total Liabilities and Fund Balances	$ 58,636,366	$ 8,063,211	$ 18,931,732	$ 13,102,001	$ 16,815,556	$ 10,281,534	$ 6,606,227	$ 19,307,764	$ 14,903,368	$ 16,943,447	$ 4,846,071	$ 27,151,943	$ 215,589,220	$ 6,843,039	$ 1,179,812	$ 223,612,071

NORTH DAKOTA DEPARTMENT OF TRUST LANDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue Funds													Special Revenue Funds		Total
Revenues:	**N.D.S.U.**	**School for the Blind**	**School for the Deaf**	**State Hospital**	**Ellendale**	**Valley City State U.**	**Mayville State U.**	**Industrial School**	**School of Science**	**School of Mines**	**Veterans Home**	**U.N.D.**	**Total**	**Capitol Building**	**Indian Cultural Education**	**Non-major Govern-mental Funds**
Investment income	$ 1,214,559	$ 164,975	$ 393,653	$ 272,168	$ 89,088	$ 209,156	$ 136,050	$ 609,602	$ 309,112	$ 349,331	$ 100,208	$ 560,873	$ 4,408,775	$ 54,325	$ 24,832	$ 4,487,932
Loan income																
Farm loans	15,515	2,995	4,253	4,357	2,793	3,535	2,544	6,021	4,434	4,474	3,509	7,119	61,549			61,549
Change in fair value of investments	(1,380,373)	(187,580)	(470,729)	(326,873)	(158,353)	(239,345)	(162,001)	(564,424)	(365,885)	(422,733)	(118,757)	(659,028)	(5,056,081)	31,830	(30,930)	(5,055,181)
Securities lending income	4,806	660	1,562	1,076	1,278	843	542	1,622	1,228	1,397	398	2,234	17,646	587	97	18,330
Royalties	2,635,460	391,331	441,000	388,352	834,223	425,006	175,085	865,893	469,074	457,880	112,558	853,532	8,049,394	1,085,710		9,135,104
Bonuses	91,790	573	24,480	26,055	880	992	19	2,537,447	4,000	-	-	24,573	2,710,809	396		2,711,205
Rental income	229,377	65,307	78,557	30,366	66,633	64,179	40,439	67,722	64,899	55,742	37,190	155,704	956,115	189,602	2,000	1,147,717
Donations																-
Total Revenues	2,811,134	438,261	472,776	395,501	836,542	464,366	192,678	3,523,883	486,862	446,091	135,106	945,007	11,148,207	1,362,450	(4,001)	12,506,656
Expenditures:																
Current																
General government														34,285		34,285
Intergovernmental															3,325	3,325
Education	214,417	34,447	67,267	43,262	44,401	43,823	29,591	91,383	54,595	61,278	21,950	107,327	813,741			813,741
Total Expenditures	214,417	34,447	67,267	43,262	44,401	43,823	29,591	91,383	54,595	61,278	21,950	107,327	813,741	34,285	3,325	851,351
Excess of revenue over expenditures	2,596,717	403,814	405,509	352,239	792,141	420,543	163,087	3,432,500	432,267	384,813	113,156	837,680	10,334,466	1,328,165	(7,326)	11,655,305
Other Financing Uses:																
Transfer to Educational Institutions	(1,684,000)	(228,000)	(590,000)	(500,000)	(273,000)	(285,000)	(191,000)	(686,000)	(494,000)	(567,000)	(178,000)	(804,000)	(6,480,000)			(6,480,000)
Transfer to Facilities Management													-	(1,012,500)		(1,012,500)
Proceeds from sale of capital asset (land)												-	-		(26,547)	(26,547)
Total Other Financing Uses	(1,684,000)	(228,000)	(590,000)	(500,000)	(273,000)	(285,000)	(191,000)	(686,000)	(494,000)	(567,000)	(178,000)	(804,000)	(6,480,000)	(1,012,500)	(26,547)	(7,519,047)
Increase (decrease) in net position	912,717	175,814	(184,491)	(147,761)	519,141	135,543	(27,913)	2,746,500	(61,733)	(182,187)	(64,844)	33,680	3,854,466	315,665	(33,873)	4,136,258
Net position - beginning as previously stated	55,758,440	7,617,521	18,477,691	12,809,810	8,625,605	9,801,420	6,412,308	23,046,599	14,463,078	16,554,375	4,748,255	26,204,749	204,519,851	5,903,878	1,173,978	211,597,707
Prior period adjustment					7,148,449			(7,148,449)								-
Net position - beginning - as restated	55,758,440	7,617,521	18,477,691	12,809,810	15,774,054	9,801,420	6,412,308	15,898,150	14,463,078	16,554,375	4,748,255	26,204,749	204,519,851	5,903,878	1,173,978	211,597,707
Net position - ending	$ 56,671,157	$ 7,793,335	$ 18,293,200	$ 12,662,049	$ 16,293,195	$ 9,936,963	$ 6,384,395	$ 18,644,650	$ 14,401,345	$ 16,372,188	$ 4,683,411	$ 26,238,429	$ 208,374,317	$ 6,219,543	$ 1,140,105	$ 215,733,965

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS*
JUNE 30, 2016

Fiscal Year Ending	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Trust Land's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
June 30						
2015	PERS	$ 105,703	$ (105,703)	$ -	$ 1,484,586	7.12%
2016	PERS	118,962	(120,630)	(1,668)	1,195,403	7.60%

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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS*
JUNE 30, 2016

For the Fiscal Year Ended June 30	Trust Land's Proportion of the Net Pension Liability (Asset)	Trust Land's Proportionate Share of the Net Pension Liability (Asset) (a)	Trust Land's Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability
2015 PERS	0.176238%	$ 1,118,320	1,484,586	75.33%	77.70%
2016 PERS	0.175799%	1,195,403	1,566,160	76.33%	77.15%

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

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governor of North Dakota
The Legislative Assembly
North Dakota Department of Trust Lands
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Department of Trust Lands, a department of the State of North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise North Dakota Department of Trust Lands' basic financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Department of Trust Lands' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 20, 2016

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

To the Governor of North Dakota
The Legislative Assembly
State of North Dakota
Bismarck, North Dakota

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

Audit Report Communications:

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

   Unmodified opinion.

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

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

3. **Was internal control adequate and functioning effectively?**

   Yes

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

   No.

5. **Was action taken on prior audit findings and recommendations?**

   No prior year audit finding.

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

   No

Audit Committee Communications:

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

   As described in Note 1 to the financial statements, North Dakota Department of Trust Lands implemented Statement No. 72, Fair Value Measurement and Application. The Department's implementation of this statement required no adjustment to prior periods; however expanded the disclosure requirement for items carried at fair value.

   There was also a prior period adjustment in the non-major funds for misallocation of revenues between the Industrial School and Ellendale Trusts. See Note 26.

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

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

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

9. **Identify any significant audit adjustments.**

   There were no material audit adjustments detected during the audit. The passed (immaterial) audit adjustment is identified in the audit committee letter on page 58.

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

    None.

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

    None.

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

    None.

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

    None.

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

The State Lands Information Management System (SLIMS) is a database application that supports the Department's business process over management of state lands, mineral and surface leases, royalties, investments, grants management, and general ledger accounting. There were no exceptions identified that were directly related to the SLIMS data base application.

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 20, 2016

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

October 20, 2016

To Governor Dalrymple
The Legislative Assembly
North Dakota Department of Trust Lands
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Department of Trust Lands, a department of the State of North Dakota, for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 3, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Department of Trust Lands are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016, except for the disclosure requirements for investments required under GASB Statement No. 72, *Fair Value Measurements and Application*. We noted no transactions entered into by the department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

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

> Management's estimate of the unclaimed property liability is based on the historical average payout percentage per subsequent year to determine the current year liability.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The schedule below summarizes uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

	Debit	Credit
Common Schools Fund		
Fund Balance	$661,687	
Expenditures		$58,621
Investments		$603,066
To remove capital asset that is recorded as an investment		
Strategic Investment & Improvements Fund		
Fund Balance		$81,684
Investments	$81,684	
To correct incorrectly allocated income for tract allocations.		
Non-Major Funds		
Fund Balance	$81,684	
Investments		$81,684
To correct incorrectly allocated income for tract allocations.		

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

<u>Other Matters</u>

We applied certain limited procedures to management's discussion and analysis, Schedule of Contributions and Schedule of Employer's Share of Net Pension Liability, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

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

Sincerely,

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 20, 2016