

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 and 2017

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

Governor Doug Burgum  
The Legislative Assembly  
State of North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, a department of the State of North Dakota, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the North Dakota Department of Trust Lands' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, as of June 30, 2018 and 2017, and the respective changes in financial position and the statement of appropriations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the financial statements of North Dakota Department of Trust Lands are intended to present the net position, revenues and expenses of only that portion of the financial statement of the State of North Dakota that is attributable to the transactions of the North Dakota Department of Trust Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2018 and 2017, the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 1 of the financial statements, the North Dakota Department of Trust Lands adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements 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 15, 2018 on our consideration of North Dakota Department of Trust Lands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



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

October 15, 2018

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018 AND 2017**

As management of the North Dakota 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, 2018 and 2017. Please read it in conjunction with the basic financial statements, which follow this discussion. Please note the 2017 data does not include the implementation of the new accounting principle, GASB Statement No. 75.

**Financial Highlights**

- The assets and deferred outflows of resources of the Department exceeded its liabilities and deferred inflows of resources as of June 30, 2018 and 2017 by \$5,067,845,946 and \$4,682,355,712, respectively.
- The Department's net position increased by \$385,693,768 for the year ending June 30, 2018, and increased by \$337,360,195 for the year ending June 30, 2017. The increase in net position for fiscal year 2018 is driven primarily by gains in royalty revenues and net increase in the fair value of investments.
- Royalty revenues totaled \$293,350,591 in fiscal year 2018, an increase of \$101,311,143 over the amount earned in fiscal year 2017. Royalty revenues totaled \$192,039,448 in fiscal year 2017. The increase in fiscal year 2018 was due to increased oil prices and production.
- Mineral lease bonus revenues totaled \$2,337,363 in fiscal year 2018, a decrease of \$6,385,306 when compared to fiscal year 2017. Bonus revenues totaled \$8,722,669 in fiscal year 2017. 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.
- Gross production tax revenues in fiscal year 2018 totaled \$34,671,232, a decrease of \$69,674,194, compared to revenues of \$104,345,426 in fiscal year 2017.
  - Gross production tax revenues received by the oil and gas impact grant fund total \$34,671,232 in fiscal year 2018, compared to \$46,221,147 in fiscal year 2017. The revenue changes from year to year are a result of a change in the gross production tax formula as directed by the legislature for the biennium.
  - During fiscal year 2018, the Strategic Investment and Improvements fund (SIIF) did not receive any gross production tax revenues. Gross production tax revenues received by SIIF totaled \$58,124,279 in fiscal year 2017. The changes in deposits from fiscal year 2018 to fiscal year 2017 is a result of the distribution formula, which results in higher distributions to the SIIF during the second year of each biennium versus the first year.
- Oil extraction tax revenues received in fiscal year 2018 totaled \$96,473,621, a decrease of \$39,075,586 compared to revenues of \$135,549,207 in fiscal year 2017.
  - Oil extraction tax revenues received by the Common School Trust fund totaled \$82,449,521 in fiscal year 2018, compared to \$57,132,278 in fiscal year 2017. This increase in tax revenue is due primarily to increased production and higher crude prices than fiscal year 2017.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
JUNE 30, 2018 AND 2017

- Oil extraction tax revenues received by the Strategic Investment and Improvements fund (SIIF) totaled \$14,024,100 in fiscal year 2018, compared to \$78,416,929 in fiscal year 2017. Oil extraction tax revenues are deposited into the SIIF in accordance with NDCC 57-51.1-07.5. The decrease in deposits is a result of the distribution formula, which results in higher distributions to the SIIF during the second year of each biennia versus the first year.
- Investment income, including interest income, loan income and securities lending income, totaled \$119,976,772 in fiscal year 2018, an increase of \$17,579,617 over fiscal year 2017. Investment income totaled \$102,397,155 in fiscal year 2017. Most of the increase in investment income is a result of permanent trust growth and higher interest rates, although about \$3.2 million of the increase is due to a change in reporting of securities lending income. In the prior year the securities lending income had been reported as a net number, now to be in compliance with GASB 28 is being reported at gross so both the income and expense were higher.
- The change in fair value of investments, otherwise known as capital gains/losses, totaled \$168,009,696 in net gains for fiscal year 2018, a decline of \$102,364,574 as compared to the \$270,374,270 of net gains earned during fiscal year 2017. The decline is directly related to the permanent trusts' equity and absolute return strategies generating less capital gains.

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

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

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

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

Trust fund, Coal Development fund, Department of Trust Lands General fund, Oil and Gas & Flood Impact Grant fund & Energy Impact Funds, and the Strategic Investment and Improvements fund. The Department is also presenting the results of the School Construction Assistance Loan for fiscal year 2017, however this fund was transferred to the Bank of North Dakota during fiscal year 2017.

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

Activities of the private purpose trust fund are presented separately in the statement of fiduciary net position and statement of changes to fiduciary net position for the Indian Cultural Education Trust.

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, 2018, the Department's total net position was \$5,067,845,946. As of June 30, 2017, the Department's total net position was \$4,682,355,712. 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 both educational entities and general government.



**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

The following is a comparative statement of net position:

**Condensed Statement of Net Position**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 5,304,627,971	\$ 4,896,805,154	\$ 4,512,952,452
Capital assets	<u>7,751,801</u>	<u>7,755,857</u>	<u>7,762,092</u>
Total assets	<u>5,312,379,772</u>	<u>4,904,561,011</u>	<u>4,520,714,544</u>
Deferred outflows of pension resources	1,626,412	710,051	164,533
Deferred outflows of other post-employment benefits resources	<u>35,873</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	<u>1,662,285</u>	<u>710,051</u>	<u>164,533</u>
Long-term liabilities	3,528,278	2,109,611	1,402,461
Other liabilities	<u>242,569,740</u>	<u>220,693,335</u>	<u>173,206,557</u>
Total liabilities	<u>246,098,018</u>	<u>222,802,946</u>	<u>174,609,018</u>
Deferred inflows of pension resources	88,766	112,404	134,437
Deferred inflows of other post-employment benefits resources	<u>9,328</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>98,094</u>	<u>112,404</u>	<u>134,437</u>
Net Position:			
Net position invested in capital assets	7,751,801	7,755,857	7,762,092
Restricted net position			
Nonexpendable	69,538,620	68,887,821	67,997,836
Expendable	4,591,825,365	4,183,723,624	3,739,964,835
Unrestricted net position	<u>398,730,160</u>	<u>421,988,410</u>	<u>530,410,859</u>
Total net position	<u>\$ 5,067,845,946</u>	<u>\$ 4,682,355,712</u>	<u>\$ 4,346,135,622</u>

During fiscal year 2018, the Department's net position increased by \$385,490,234. The change in net position relates to gains in royalty revenues and the net increase in fair value of investment assets.

During fiscal year 2017, the Department's net position increased by \$336,220,090. The main change relates to gains in fair value of investments and oil extraction taxes deposited into the Common Schools Trust fund during the year.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

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

**Changes in Net Position**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b><u>Revenues</u></b>			
<b><i>General Revenues:</i></b>			
Interest on investments	\$ 5,117,846	\$ 5,596,574	\$ 3,381,320
Change in fair value of investments	41,798	(536,525)	1,644,442
Interest income	169,303	75,317	96,166
Royalties	106,904,748	67,956,040	65,932,309
Bonuses	1,022,818	5,229,065	6,483,598
Rents	241,496	269,240	314,934
Interest on loans	729,146	1,774,078	2,930,054
Contributions to perpetual funds	4,393,122	11,895,026	15,637,987
Taxes	132,803,328	243,036,900	90,353,041
Gain on Sale of Capital Asset - Land	-	306	4,632,556
Total General Revenue	<u>251,423,605</u>	<u>335,296,021</u>	<u>191,406,407</u>
<b><i>Program Revenues:</i></b>			
Interest on loans	555,442	633,805	848,916
Interest on investments	113,405,035	94,317,381	77,756,614
Change in fair value of investments	167,967,898	270,910,795	(89,956,848)
Royalties	186,445,843	124,083,408	113,154,224
Bonuses	1,314,545	3,493,604	5,933,792
Rents	11,920,713	12,859,385	12,497,923
Fees to Maintenance fund	4,693,054	5,532,792	4,476,326
Total Program Revenue	<u>486,302,530</u>	<u>511,831,170</u>	<u>124,710,947</u>
Total Revenues	<u>737,726,135</u>	<u>847,127,191</u>	<u>316,117,354</u>
<b><u>Expenses</u></b>			
<b><i>Governmental Activities:</i></b>			
General government	2,023,380	1,430,446	1,244,485
Intergovernmental	39,519,718	26,674,859	114,001,692
Education	21,224,673	19,274,511	17,051,017
Total Expenses	<u>62,767,771</u>	<u>47,379,816</u>	<u>132,297,194</u>
Excess before transfer	674,958,364	799,747,375	183,820,160
Transfers	(289,318,596)	(462,387,180)	(478,389,549)
Increase(decrease) in net position	<u>385,639,768</u>	<u>337,360,195</u>	<u>(294,569,389)</u>
Net position - beginning	4,682,355,712	4,346,135,622	4,640,705,011
Change in statement presentation	(149,534)	(1,140,105)	
Net position - beginning of year restated	<u>4,682,206,178</u>	<u>4,344,995,517</u>	<u>4,640,705,011</u>
Net position - ending	<u>\$ 5,067,845,946</u>	<u>\$ 4,682,355,712</u>	<u>\$ 4,346,135,622</u>

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

During the fiscal year ending June 30, 2017, the Department's revenues increased by a total of \$531,009,837. Royalty revenues increased by \$12,952,915 as commodity prices were higher. Mineral lease bonus revenue declined by \$3,694,721 as most mineral acreage in the area of the Bakken formation are leased. Oil extraction and gross production tax revenues increased by \$75,911,108 and \$76,761,720, respectively, due primarily to the tax distribution formula, which resulted in higher distributions to the SIIF during the second year of each biennia versus the first year. The change in fair value of investments for fiscal year 2017 was a gain of \$358,686,676 from the previous year as capital markets produced stronger gains.

**Financial Analysis of the Government's Funds**

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

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

**Capital Asset**

The Department's capital assets for its governmental funds as of June 30, 2018, 2017 and 2016 are \$7,751,801, \$7,755,857, and \$7,762,092 (net of accumulated depreciation for equipment), respectively. These capital assets include land and equipment. See Note 16 to Financials Statements for additional details on capital assets.

**Economic Factors**

During fiscal year 2018, increases in North Dakota's crude production and crude prices were a major factor in overall trust growth. Increased interest rates and continued strong domestic equity markets were also a big factor in trust growth for the fiscal year.

**Requests for Information**

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b><u>Assets</u></b>	<b>Governmental Activities</b>	<b>Governmental Activities</b>
Cash	\$ 95,762,227	\$ 216,708,012
Investments	4,826,663,561	4,324,726,551
Interest receivable	13,818,117	14,289,804
Accounts receivable	34,568,610	23,333,895
Invested securities lending collateral	222,613,436	207,497,316
Loans		
Farm loans	7,106,931	7,626,699
Energy construction loans	1,040,078	1,216,168
School loans	44,321,823	48,247,859
Energy impact loans	11,973,940	12,659,515
Capital asset - land	7,740,063	7,740,063
Due from other state agencies	31,343,649	34,605,547
Equipment (net of accumulated depreciation)	11,738	15,794
Restricted assets:		
Cash and cash equivalents	15,415,599	5,893,788
Total Assets	<u>5,312,379,772</u>	<u>4,904,561,011</u>
<b><u>Deferred Outflows of Resources</u></b>		
Deferred pension outflows	1,626,412	710,051
Deferred OPEB outflows	35,873	-
Total deferred outflows of resources	<u>1,662,285</u>	<u>710,051</u>
<b><u>Liabilities</u></b>		
Accrued payroll	203,252	253,479
Accounts payable	2,035,993	1,661,118
Securities lending collateral	222,613,436	207,497,316
Due to other state agencies	206,157	405,442
Claimant liability	17,510,901	10,875,980
Long-term liabilities:		
Compensated absences due within one year	9,153	11,763
Compensated absences due in more than one year	162,217	208,484
Pension liability	3,207,938	1,889,364
OPEB liability	148,970	-
Total Liabilities	<u>246,098,017</u>	<u>222,802,946</u>
<b><u>Deferred Inflows of Resources</u></b>		
Deferred pension inflows	88,766	112,404
Deferred OPEB inflows	9,328	-
Total deferred inflows of resources	<u>98,094</u>	<u>112,404</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	7,751,801	7,755,857
Restricted		
Nonexpendable	69,538,620	68,887,821
Expendable	4,591,825,365	4,183,723,624
Unrestricted	398,730,160	421,988,410
Total Net Position	<u>\$ 5,067,845,946</u>	<u>\$ 4,682,355,712</u>

See Notes to the Financial Statements

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

<b>Functions/Programs of Governmental activities:</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
General government	\$ 2,023,380	\$ -	\$ -	\$ (2,023,380)
Intergovernmental	39,519,718	-	-	(39,519,718)
Education	21,224,671	4,693,054	481,609,476	465,077,859
<b>Total</b>	<b>\$ 62,767,769</b>	<b>\$ 4,693,054</b>	<b>\$ 481,609,476</b>	<b>423,534,761</b>
<b>Net revenue</b>				<b>423,534,761</b>
<b>General revenues:</b>				
Taxes:				
Coal severance				1,658,475
Oil extraction				96,473,621
Gross production				34,671,232
Contributions from special revenue fund				4,393,122
Unrestricted investment earnings				5,117,846
Net increase (decrease) in fair value of investments				41,798
Royalties				106,904,748
Bonuses				1,022,818
Rents				241,494
Loan income				729,146
Interest Income				169,303
<b>Transfers:</b>				
To/from other state agencies				(136,379,246)
Educational institutions				(152,939,350)
<b>Total general revenues and transfers</b>				<b>(37,894,993)</b>
<b>Total change in net position</b>				<b>385,639,768</b>
Net position - beginning of year as previously stated				4,682,355,712
Prior period adjustment - See Note 27				(149,534)
Net position - beginning of year, restated				<b>4,682,206,178</b>
Net position - ending				<b>\$ 5,067,845,946</b>

See Notes to the Financial Statements

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs of Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 1,430,446	\$ -	\$ -	\$ (1,430,446)
Intergovernmental	26,674,859	-	-	(26,674,859)
Education	19,274,511	5,532,792	506,298,378	492,556,659
<b>Total</b>	<b>\$ 47,379,816</b>	<b>\$ 5,532,792</b>	<b>\$ 506,298,378</b>	<b>464,451,354</b>
<b>Net revenue</b>				<b>464,451,354</b>
<b>General revenues:</b>				
Taxes:				
Coal severance				3,142,267
Oil extraction				135,549,207
Gross production				104,345,426
Contributions from special revenue fund				11,895,026
Unrestricted investment earnings				5,596,574
Net increase (decrease) in fair value of investments				(536,525)
Royalties				67,956,040
Bonuses				5,229,065
Rents				269,240
Loan income				1,774,078
Interest Income				75,317
Gain on sale of capital asset – land				306
<b>Transfers:</b>				
To/from other state agencies				(352,840,180)
Educational institutions				(109,547,000)
<b>Total general revenues and transfers</b>				<b>(127,091,159)</b>
<b>Total change in net position</b>				<b>337,360,195</b>
Net position - beginning of year				4,344,995,517
Net position - ending				<b>\$ 4,682,355,712</b>

See Notes to the Financial Statements

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

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

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

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

See Notes to the Financial Statements

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

<b>Assets:</b>	<b>General Fund</b>	<b>Common Schools Trust Fund</b>	<b>Coal Development Trust Fund</b>	<b>Oil and Gas &amp; Flood Impact Grant Funds</b>	<b>Strategic Investment &amp; Improvements Fund</b>	<b>School Construction Assistance Loan Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Cash	\$ 3,468,764	\$ 16,313,100	\$ 144,810	\$ 56,576,800	\$ 139,366,637	\$	\$ 837,901	\$ 216,708,012
Investments		3,889,084,286	7,803,244		194,081,810		233,757,211	4,324,726,551
Interest receivable		12,843,762	74,880		530,786		840,376	14,289,804
Accounts receivable		14,683,108			6,965,515		1,685,272	23,333,895
Invested securities lending collateral		160,471,349	1,457,495		35,367,942		10,200,530	207,497,316
Loans								
Farm		7,025,144					601,555	7,626,699
Energy construction		1,216,168						1,216,168
School			48,247,859					48,247,859
Energy impact			12,659,515					12,659,515
Due from other state agencies		9,519,872	509,727		24,575,948			34,605,547
Due from other funds		1,800,881			1,302,434		82,685	3,186,000
Restricted assets:								
Cash and cash equivalents					5,893,788			5,893,788
<b>Total Assets</b>	<b>\$ 3,468,764</b>	<b>\$ 4,112,957,670</b>	<b>\$ 70,897,530</b>	<b>\$ 56,576,800</b>	<b>\$ 408,084,860</b>	<b>\$</b>	<b>\$ 248,005,530</b>	<b>\$ 4,899,991,154</b>
<b>Liabilities:</b>								
Accrued payroll	\$ 244,269			\$ 9,210				\$ 253,479
Accounts payable	36,830	1,477,988	2,279		55,355		88,666	1,661,118
Securities lending collateral		160,471,349	1,457,495		35,367,942		10,200,530	207,497,316
Due to other state agencies	28,572	17,365	356,809	1,210			1,486	405,442
Due to other funds	3,186,000							3,186,000
Claimant liability		10,875,980						10,875,980
<b>Total Liabilities</b>	<b>3,495,671</b>	<b>172,842,682</b>	<b>1,816,583</b>	<b>10,420</b>	<b>35,423,297</b>		<b>10,290,682</b>	<b>223,879,335</b>
<b>Fund Balance:</b>								
Fund Balance:								
Permanent funds								
Nonspendable			68,887,821					68,887,821
Committed			193,126					193,126
Special revenue funds								
Restricted		3,940,114,988			5,893,788		237,714,848	4,183,723,624
Committed				56,566,380	137,442,726			194,009,106
Assigned					229,325,049			229,325,049
Unassigned	(26,907)							(26,907)
<b>Total Fund Balance</b>	<b>(26,907)</b>	<b>3,940,114,988</b>	<b>69,080,947</b>	<b>56,566,380</b>	<b>372,661,563</b>		<b>237,714,848</b>	<b>4,676,111,819</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,468,764</b>	<b>\$ 4,112,957,670</b>	<b>\$ 70,897,530</b>	<b>\$ 56,576,800</b>	<b>\$ 408,084,860</b>	<b>\$</b>	<b>\$ 248,005,530</b>	<b>\$ 4,899,991,154</b>

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

Total fund balances - governmental funds	\$ 4,676,111,819
Capital asset - land	7,740,063
Net book value of equipment	15,794
Liability for compensated absences	(220,247)
Net pension liability	(1,889,364)
Deferred pension outflows	710,051
Deferred pension inflows	(112,404)
Net position of governmental activities	<u>\$ 4,682,355,712</u>

See Notes to the Financial Statements



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

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

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

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

See Notes to the Financial Statements

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2017**

<b>Revenues:</b>	<b>General Fund</b>	<b>Common Schools Trust Fund</b>	<b>Coal Development Trust Fund</b>	<b>Oil and Gas &amp; Flood Impact Grant Funds</b>	<b>Strategic Investments &amp; Improvements Fund</b>	<b>School Construction Assistance Loan Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Investment income		\$ 88,363,607	\$ 144,605		\$ 4,728,592	\$ 12,101	\$ 5,894,412	\$ 99,143,317
Interest Income					75,317			75,317
Loan income								
Farm loans		533,265					45,610	578,875
Energy construction		54,930						54,930
School loans-Coal			704,393					704,393
School construction loans-SCALF						1,069,685		1,069,685
Net increase (decrease) in fair value of investments		255,695,851	(18,123)		(506,057)		15,202,599	270,374,270
Securities lending income		600,720	5,218		126,626		38,074	770,638
Royalties		114,182,691			67,052,863		10,803,994	192,039,448
Bonuses		3,373,437			5,226,025		123,207	8,722,669
Rental income		11,846,054			100,598		1,181,973	13,128,625
Coal severance tax			3,142,267					3,142,267
Gross production tax				\$ 46,221,147	58,124,279			104,345,426
Oil extraction tax		57,132,278			78,416,929			135,549,207
Unclaimed property collections		7,817,110						7,817,110
Indirect recovery costs	\$ 5,532,792							5,532,792
Tobacco settlement		4,077,916						4,077,916
<b>Total revenues</b>	<b>5,532,792</b>	<b>543,677,759</b>	<b>3,978,360</b>	<b>46,221,147</b>	<b>213,345,172</b>	<b>1,081,786</b>	<b>33,289,869</b>	<b>847,126,885</b>
<b>Expenditures:</b>								
Current								
General government			19,943		1,239,432		36,613	1,295,988
Intergovernmental				26,674,859				26,674,859
Education	5,505,390	12,851,353				500	917,268	19,274,511
<b>Total expenditures</b>	<b>5,505,390</b>	<b>12,851,353</b>	<b>19,943</b>	<b>26,674,859</b>	<b>1,239,432</b>	<b>500</b>	<b>953,881</b>	<b>47,245,358</b>
Excess of revenue over (under) expenditures	27,402	530,826,406	3,958,417	19,546,288	212,105,740	1,081,286	32,335,988	799,881,527
<b>Other Financing Sources (Uses):</b>								
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			(2,199,587)					(2,199,587)
Transfer to State General Fund			(882,064)		(155,000,000)			(155,882,064)
Transfer to Facilities Management							(2,735,000)	(2,735,000)
Transfer to NDSU					(16,634,854)			(16,634,854)
Transfer to Bank of North Dakota						(153,220,175)		(153,220,175)
Transfer to Department of Transportation					(3,500,000)			(3,500,000)
Transfer to Department of Human Services					(9,000,000)			(9,000,000)
Transfer to Department of State Treasurer					(8,100,000)			(8,100,000)
Transfer to Legal Counsel for Indigents					(389,000)			(389,000)
Transfer to Adjutant General					(79,500)			(79,500)
Transfer to State Historical Society					(50,000)			(50,000)
Transfer to Department of Health					(250,000)			(250,000)
Transfer to ND Oil & Gas Division					(800,000)			(800,000)
<b>Total other financing sources (uses)</b>		<b>(103,067,000)</b>	<b>(3,081,651)</b>		<b>(193,803,354)</b>	<b>(153,220,175)</b>	<b>(9,215,000)</b>	<b>(462,387,180)</b>
<b>Net Change in Fund Balance</b>	<b>27,402</b>	<b>427,759,406</b>	<b>876,766</b>	<b>19,546,288</b>	<b>18,302,386</b>	<b>(152,138,889)</b>	<b>23,120,988</b>	<b>337,494,347</b>
Fund balance - beginning as previously stated	(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
Change in financial presentation							(1,140,105)	(1,140,105)
Fund balance - beginning as restated	(54,309)	3,512,355,582	68,204,181	37,020,092	354,359,177	152,138,889	214,593,860	4,338,617,472
Fund balance - ending	<b>\$ (26,907)</b>	<b>\$ 3,940,114,988</b>	<b>\$ 69,080,947</b>	<b>\$ 56,566,380</b>	<b>\$ 372,661,563</b>	<b>\$ 152,138,889</b>	<b>\$ 237,714,848</b>	<b>\$ 4,676,111,819</b>
<b>Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities</b>								
Net change in fund balance								\$ 337,494,347
Net value of capital asset - acquired land								306
Depreciation expense on equipment								(6,541)
Increase in compensated absences liability								(1,507)
Increase in net pension liability								(693,961)
Changes in deferred outflows and inflow resources related to net pension liability								567,551
Change in net position of governmental activities								<b>\$ 337,360,195</b>

See Notes to the Financial Statements

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b><u>Assets</u></b>	<b>Indian Cultural Education Trust</b>	<b>Indian Cultural Education Trust</b>
Cash	\$ 3,390	\$ 3,278
Investments	1,264,300	1,218,152
Interest receivable	2,552	2,864
Invested securities lending collateral	47,203	50,248
<b>Total Assets</b>	<b>1,317,445</b>	<b>1,274,542</b>
<b><u>Liabilities</u></b>		
Accounts payable	535	463
Securities lending collateral	47,203	50,248
<b>Total Liabilities</b>	<b>47,738</b>	<b>50,711</b>
<b><u>Net Position</u></b>		
Net position restricted for Indian Cultural Education	1,269,707	1,223,831
<b>Total Net Position</b>	<b>\$ 1,269,707</b>	<b>\$ 1,223,831</b>

See Notes to the Financial Statements

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
	<b>Indian Cultural Education Trust</b>	<b>Indian Cultural Education Trust</b>
<b>Additions</b>		
Contributions:		
Donations	\$ -	\$ -
Total Contributions	-	-
Investment income:		
Net change in fair value of investments	50,746	82,357
Interest	31,921	28,397
Less investment expense	3,792	3,170
Net Investment Income	78,875	107,584
Securities Lending Activity:		
Securities lending income	891	188
Net Securities Lending Income	891	188
Miscellaneous Income	2,940	2,900
<b>Total Additions</b>	<b>82,706</b>	<b>110,672</b>
<b>Deductions</b>		
Payments in accordance with Trust agreement	34,676	26,547
Administrative expenses	2,154	399
<b>Total Deductions</b>	<b>36,830</b>	<b>26,946</b>
Change in net position held in Trust for:		
Private-Purpose	45,876	83,726
<b>Total Change in Net Position</b>	<b>45,876</b>	<b>83,726</b>
Net Position - Beginning of Year	1,223,831	1,140,105
Net Position - End of Year	\$ 1,269,707	\$ 1,223,831

See Notes to the Financial Statements

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

	Approved 2017-19 Biennial Appropriation	Final Adjusted Appropriation	2018 Expenditures	2019 Expenditures	Unexpended Appropriation
<b>General Fund Appropriated Expenditures:</b>					
Salaries and Wages	\$ 6,005,550	\$ 6,005,550	\$ 2,692,587	\$ -	\$ 3,312,963
Operating Expenses	1,775,723	1,775,723	451,620	-	1,324,103
Capital Assets	3,600,000	3,600,000	-	-	3,600,000
Contingencies	400,000	100,000	-	-	100,000
Mineral Revenue Repayments	187,000,000	187,000,000	-	-	187,000,000
	<u>\$ 198,781,273</u>	<u>\$ 198,481,273</u>	<u>\$ 3,144,207</u>	<u>\$ -</u>	<u>\$ 195,337,066</u>

**Continuing Appropriations:**

Investments	\$ 23,782,949
Land Management - Grant and Non-Grant	224,941
County Services - Roads & Bridges	121,439
In Lieu of Property Taxes	116,557
Strategic Investment and Improvements fund	93,127
Uniform Unclaimed Property	241,117
Total*	<u>\$ 24,580,130</u>

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

See Note 22 to the Financial Statements on the Department's continuing appropriation authority of funding.

	Approved 2017-19 Biennial Appropriation	Final Adjusted Appropriation	2018 Expenditures	2019 Expenditures	Unexpended Appropriation
<b>Oil and Gas Impact Grant Fund:</b>					
Energy Infrastructure and Impact Grants	\$ 40,000,000	\$ 101,152,792	\$ 29,161,747	\$ -	\$ 71,991,045
Energy Infrastructure and Impact Operating	-	400,000	127,095	-	272,905
Flood Infrastructure Development Grants	-	1,325,500	1,325,425	-	75
	<u>\$ 40,000,000</u>	<u>\$ 102,878,292</u>	<u>\$ 30,614,267</u>	<u>\$ -</u>	<u>\$ 72,264,025</u>

	Approved 2017-19 Biennial Appropriation	2018 Expenditures	2019 Expenditures	Unexpended Appropriation
<b>Strategic Investment and Improvements Fund:</b>				
ND Attorney General (SB 2191)	\$ 150,000	150,000	\$ -	\$ -
ND Attorney General (HB 1024)	15,872,000	15,872,000	-	-
ND Commerce Department (SB 2018)	4,600,000	600,000	-	4,000,000
ND Department of Agriculture (HB 1009)	1,000,000	1,000,000	-	-
ND Department of Corrections & Rehabilitation (SB 2015)	935,907	935,907	-	-
ND Department of Health (SB 2004)	500,000	-	-	500,000
ND Department of Veterans Affairs - Adjutant General (HB 1016)	300,000	-	-	300,000
ND Highway Patrol (SB 2011)	358,000	-	-	358,000
ND Industrial Commission (SB 2014)	4,000,000	4,000,000	-	-
ND Public Service Commission (HB 1008)	100,000	100,000	-	-
ND State Treasurer (SB 2013)	3,000,000	3,000,000	-	-
Office of Management & Budget (HB 1015)	248,000,000	124,000,000	-	124,000,000
	<u>\$ 278,815,907</u>	<u>\$ 149,657,907</u>	<u>\$ -</u>	<u>\$ 129,158,000</u>

See Notes to the Financial Statements

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Financial Statements and Reporting Entity*

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

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

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

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

*Fund Accounting Structure*

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

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

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

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

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

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

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

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

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

The Strategic Investment and Improvements (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 gross production and oil extraction taxes once certain thresholds are met. In accordance with NDCC 15-08.1-08, the SIIF may be expended as the legislature provide for one-time expenditures related to improving state infrastructure or for initiatives to improve the efficiency and effectiveness of state government.

The Oil and Gas, Flood Impact, and Energy Impact Fund 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, 2019.

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 NDCC 15.1-36. All interest or other earnings of the fund, and all repayments of loans collected

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

by the fund will remain in the fund. In January 2017, the North Dakota legislature approved the transfer of this fund from the Department to the Bank of North Dakota, whom will manage this fund as a revolving loan fund.

The Department reports the Common Schools Trust fund, Coal Development Trust fund, Department's General fund, Oil and Gas, Flood Impact Grant and Energy Impact fund, and Strategic Investment and Improvements Trust fund as major governmental funds. The School Construction Assistance Loan fund was reported as a major fund for only the year ended June 30, 2017.

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

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

*Basis for Accounting*

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

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

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

*Budgetary Policies and Procedures*

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

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



**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

*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, 2018 for funding of current operations. A majority of the accrued royalty revenue is expected to be collected within the first 90 days following June 30, 2018. All receivables are considered collectible.

*Claimant Liability*

Claimant liability represents the value of property escheated to the Department and expected to be repaid to the rightful owners or their heirs. Escheated property can be reclaimed into perpetuity 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 acquisition value on the date of donation.

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

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

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

*Pensions*

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

*Other Post- Employment Benefits (OPEB)*

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

*Deferred Outflows / Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Department has two items reported on the statement of net position as *cost sharing defined benefit pension plan and cost sharing defined benefit OPEB*, which represents actuarial differences within the NDPERS pension plans. See Notes 24 and 25 to financial statements for additional details on Department's Pension Plan and OPEB 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 two types of items, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. See Notes 24 and 25 to financial statements for additional details on Department's Pension Plan and OPEB Plan.

*Implementation of New Accounting Principles*

The Department implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2018. GASB Statement No. 75 established accounting and financial reporting requirements related to other postemployment benefits or OPEB) for governments whose employees are provided with postemployment benefits through postemployment plans that are covered by the scope of this statement, as well as for non-employer governments that have a legal obligation to contribute to those plans. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, for defined benefit plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discounted projected benefit payments to their

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

actuarial present value, and attribute that present value to periods of employee service. This statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of other entity.

*Compensated Absences Payable*

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

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

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

*Accounting Estimates*

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

**NOTE 2 – ORGANIZATION AND RELATED PARTY TRANSACTIONS**

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

**NOTE 3 – CASH**

*Custodial Credit Risk*

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

The carrying amount of deposits with the BND was \$92,632,180 and \$86,051,026 while Northern Trust was \$18,545,646 and \$136,550,774, as of June 30, 2018 and 2017, respectively, and the bank balances were \$25,616,946 and \$149,095,518. These differences result from timing differences of deposits processed by the Bank at year-end. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, deposits held at the BND are guaranteed by the State of North Dakota through N.D.C.C. Chapter 6-09-10.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**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 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 expired June 30, 2017. Any changes to the fund balance commitment would require appropriation bill action of the legislative assembly.

The Strategic Investment and Improvements fund was established by legislation and consists of mineral acres formerly owned by the BND and State Treasurer, minerals located under navigable

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

streams, rivers, and lakes, which are owned by North Dakota as a sovereign state, and various financial assets. The balance of this fund is subject to appropriation by the legislature. Any changes to the fund balance commitment would require action of the legislative assembly to change the North Dakota century code.

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

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

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

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

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

Fiscal Year Ended June 30, 2018

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

Fiscal Year Ended June 30, 2017

<b>Fund Balances</b>	<b>General Fund</b>	<b>Common Schools Trust Fund</b>	<b>Coal Development Trust Fund</b>	<b>Oil and Gas &amp; Flood Impact Grant Fund</b>	<b>Strategic Investment &amp; Improvements Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>Permanent Funds:</b>							
<u>Nonspendable</u>							
Permanent fund principal			\$68,887,821				\$68,887,821
<u>Committed</u>							
Designated for transfer to State general fund			193,126				193,126
<b>Special Revenue Funds:</b>							
<u>Restricted</u>							
Distribution to educational beneficiaries		\$3,940,114,988				\$232,624,972	4,172,739,960
Capitol building maintenance						5,089,876	5,089,876
Fuel production facility - BND					\$5,893,788		5,893,788
<u>Committed</u>							
Grants				\$56,566,380			56,566,380
Designated for transfer to(from):							
Adjutant General					79,500		79,500
General Fund of North Dakota					155,000,000		155,000,000
Legal Counsel of Indigents					389,000		389,000
ND Department of Health					250,000		250,000
ND Department of Human Services					9,000,000		9,000,000
ND Department of Transportation					3,500,000		3,500,000
ND Oil and Gas Division					800,000		800,000
ND State Historical Society					50,000		50,000
ND State University					16,634,854		16,634,854
Office of ND State Treasurer					8,100,000		8,100,000
Operating Expenses					-56360628		(56,360,628)
<u>Assigned</u>							
Potential mineral title disputes					229,325,049		229,325,049
<u>Unassigned</u>							
Operating Expenses	(\$26,907)						(26,907)
<b>Total Fund Balances:</b>	<u>(\$26,907)</u>	<u>\$3,940,114,988</u>	<u>\$69,080,947</u>	<u>\$56,566,380</u>	<u>\$372,661,563</u>	<u>\$237,714,848</u>	<u>\$ 4,676,111,819</u>

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 5 – INVESTMENTS**

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

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

*Interest Rate Risk*

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

The following tables show the investments by investment type, amount, and maturity as of June 30, 2018 and 2017. When callable, maturity is calculated with the first call date.

Fiscal Year 2018		Weighted Average
Investment Type	Maturity Amount	Maturity (Years)
Asset Backed Securities	\$ 31,443,083	7.44
Commercial Mortgage-Backed	4,417,651	24.94
Corporate Bonds	477,800,404	6.89
TIPS Fund	89,457,706	8.40
Brandywine Fund	128,296,491	7.79
Low Duration Fund	2,205,183	2.24
JP Morgan Mortgage Back	112,877,430	5.59
Funds - Short Term	45,081,677	
Government Agencies	63,036,987	1.92
Government Bonds	306,918,602	5.53
Government Mortgage Backed Securities	78,315,993	16.76
Gov't-issued Commerical Mortgage-Backed	15,178,792	6.45
Index Linked Government Bonds	1,325,842	6.54
Municipal/Provincial Bonds	13,823,518	5.74
Non-Government Backed CMOs	10,422,286	22.44
Other Fixed Income	26,330	0.33
Short Term Bills and Notes	122,242,676	0.30
Funds - Corporate Bond	12,520	
Funds - Fixed Income ETF	106	
Funds - Other ETF	16	
Total	<u>\$ 1,502,883,293</u>	
Weighted Average Maturity		<u>6.40</u>



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Fiscal Year 2017

<u>Investment Type</u>	<u>Maturity Amount</u>	<u>Weighted Average Maturity (Years)</u>
Asset Backed Securities	\$ 14,799,636	9.74
Bank Deposits	940,537	
Commercial Mortgage-Backed	6,252,723	19.49
Commerical Paper	2,000,100	0.45
Corporate Bonds	410,818,605	6.67
TIPS Fund	79,556,299	8.49
Government Agencies	121,171,128	1.85
Brandywine Fund	95,423,365	12.03
Low Duration Fund	194,302	2.17
Fixed Income ETF	110	
Government Bonds	284,444,335	6.56
Government Mortgage Backed Securities	86,731,614	21.94
Gov't-issued Commerical Mortgage-Backed	12,930,721	5.52
Index Linked Government Bonds	1,267,630	
Municipal/Provincial Bonds	13,901,862	7.73
Non-Government Backed CMOs	16,829,078	19.46
Other ETF	18	
Other Fixed Income	120,202,243	5.40
Short Term Bills and Notes	106,505,215	0.35
Short Term Investment Funds	78,776,704	0.11
Sukuk	959,500	4.74
Total	<u>\$ 1,453,705,725</u>	
Weighted Average Maturity		<u>6.90</u>

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

Other investments included above, such as variable rate collateralized mortgage obligations (CMOs), have a high degree of sensitivity to interest rate changes. As of June 30, 2018 and 2017, the Board held \$52,246,018 and \$60,657,628, respectively, in variable rate CMOs.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings, including securities identified as U.S. Government in the tables below, which are U.S. Treasury and Agency debt securities that are either explicitly or implicitly guaranteed by the U.S. government and thus are considered to have no credit risk. Each fixed income securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The following tables present the Board's ratings as of June 30, 2018 and 2017, respectively.

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**Fiscal Year 2018**

	AAA	AA	A	BBB	BB	B	Not Rated	Government	Total
Asset Backed Securities	\$ 19,178,375	\$ 414,732	\$ 200,165	\$ 3,082,165			\$ 8,567,645		\$ 31,443,082
Commercial Mortgage-Backed							4,417,651		4,417,651
Corporate Bonds	6,599,478	57,873,743	128,692,790	169,494,300	83,776,189	28,204,351	3,159,553		477,800,404
Funds - Corporate Bond							12,520		12,520
Funds - Fixed Income ETF							106		106
Funds - Government Agencies								89,457,706	89,457,706
Funds - Other ETF							16		16
Funds - Other Fixed Income							243,379,104		243,379,104
Funds - Short Term Investment	45,070,974						10,703		45,081,677
Government Agencies	13,592,080	48,129,922					832,694	482,291	63,036,987
Government Bonds	13,402,427	6,160,423	14,550,323	5,406,552	6,318,433		39,138,090	221,942,354	306,918,602
Government Mortgage Backed Securities		1,966,309					236,067	76,113,617	78,315,993
Gov't-issued Commercial Mortgage-Backed								15,178,792	15,178,792
Index Linked Government Bond								1,325,842	1,325,842
Municipal/Provincial Bonds	2,495,757	5,449,199	3,172,060				2,706,502		13,823,518
Non-Government Backed C.M.O.s	1,028,824	1,199,039	974,503				7,219,921		10,422,287
Other Fixed Income							26,330		26,330
Short Term Bills and Notes								122,242,676	122,242,676
	<u>\$ 101,367,915</u>	<u>\$ 121,193,367</u>	<u>\$ 147,589,841</u>	<u>\$ 177,983,017</u>	<u>\$ 90,094,622</u>	<u>\$ 28,204,351</u>	<u>\$ 309,706,902</u>	<u>\$ 526,743,278</u>	<u>\$ 1,502,883,293</u>

**Fiscal Year 2017**

	AAA	AA	A	BBB	BB	B	Not Rated	Government	Total
Asset Backed Securities	\$6,038,304	\$329,725					\$8,431,607		\$14,799,636
Bank Deposits							940,537		940,537
Commercial Mortgage-Backed							6,252,723		6,252,723
Commercial Paper							2,000,100		2,000,100
Corporate Bonds	10,948,577	32,661,915	\$111,255,635	\$144,312,761	\$76,879,935	\$28,666,776	6,093,006		410,818,605
Funds - Fixed Income ETF							110		110
Funds - Other ETF							18	95,617,667	95,617,685
Government Agencies	16,324,580	104,363,718						\$80,039,129	200,727,427
Government Bonds	9,280,879	7,106,468	18,053,763	17,454,702	3,638,948		38,473,308	190,436,267	284,444,335
Government Mortgage Backed Securities		4,715,483					317,435	81,698,696	86,731,614
Gov't-issued Commercial Mortgage-Backed							1,867,566	11,063,155	12,930,721
Index Linked Government Bond								1,267,630	1,267,630
Municipal/Provincial Bonds	2,609,206	6,888,211	3,297,941				1,106,504		13,901,862
Non-Government Backed C.M.O.s	2,972,452	1,298,519	294,457				12,263,650		16,829,078
Other Fixed Income							120,202,243		120,202,243
Short Term Bills and Notes								106,505,215	106,505,215
Short Term Investment Funds							78,776,704		78,776,704
Sukuk							959,500		959,500
	<u>\$48,173,998</u>	<u>\$157,364,039</u>	<u>\$132,901,796</u>	<u>\$161,767,463</u>	<u>\$80,518,883</u>	<u>\$28,666,776</u>	<u>\$277,685,011</u>	<u>\$566,627,759</u>	<u>\$1,453,705,725</u>

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*Foreign Currency Risk*

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

Fiscal Year 2018

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

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Fiscal Year 2017

<u>Currency</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian Dollar	7,234,871	36,071,682	43,306,553
Brazilian Real	5,108,510	5,729,579	10,838,089
British Pound Sterling	20,034,586	98,792,733	118,827,319
Canadian Dollar	5,592,646	-	5,592,646
Chilean Peso	-	811,891	811,891
Chinese Renminbi	-	566,051	566,051
Columbian Peso	(187,280)	256,058	68,778
Czech Republic Koruna	-	815,215	815,215
Danish Krone	(86,762)	9,724,965	9,638,203
Egyptian Pounds	-	43,717	43,717
European Euro	841,494	147,246,403	148,087,897
Hong Kong Dollar	-	36,738,481	36,738,481
Hungarian Forint	35,276	1,182,839	1,218,115
Indian Rupee	4,446,729	12,280,295	16,727,024
Indonesian Rupiah	4,408,559	3,776,945	8,185,504
Israel Shekel	-	3,721,288	3,721,288
Japanese Yen	-	115,707,238	115,707,238
Kenyan Shilling	-	572,272	572,272
Malaysian Ringgit	5,123,615	2,098,426	7,222,041
Mexican Peso	13,651,513	3,567,726	17,219,239
New Romanian Leu	14,611	-	14,611
New Taiwan Dollar	-	16,411,625	16,411,625
New Zealand Dollar	(151,188)	843,492	692,304
Norwegian Krone	6,432,397	3,125,882	9,558,279
Peruvian Nuevo Sol	-	6,245	6,245
Philippines Peso	-	1,110,617	1,110,617
Polish Zloty	5,785,007	1,826,806	7,611,813
Russian Rubles	-	743,193	743,193
Singapore Dollar	44,379	6,648,701	6,693,080
South African Rand	4,589,083	7,469,252	12,058,335
South Korean Won	-	14,231,931	14,231,931
Swedish Krona	6,212,061	13,694,339	19,906,400
Swiss Franc	-	46,094,350	46,094,350
Thai Baht	81,866	2,869,149	2,951,015
Turkish Lira	276,728	1,969,649	2,246,377
	<u>\$ 89,488,701</u>	<u>\$ 596,749,035</u>	<u>\$ 686,237,736</u>

*Derivative Securities*

Derivatives are financial arrangements between two parties whose payments are based on, or “derived” from, the performance of some agreed upon benchmark. The investment policies of the Board allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statement of Net Position. At June 30, 2018 and 2017, the Board had one type of derivative security: currency forwards.

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*Currency Forwards*

Currency forwards represent forward exchange contracts that are obtained to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Position with losses of \$33,356 and \$1,462,092 for fiscal years 2018 and 2017, respectfully. At June 30, 2018 and 2017, the Board's investment portfolio included the currency forwards balances shown below.

Currency	Cost	Purchases	Sales	Fair Value	Fair Value
				June 30, 2018	June 30, 2017
Australian Dollar	\$(14,421,362)	\$ -	\$ (14,456,611)	\$ (14,456,611)	\$ (21,092,407)
Brazilian Real	(3,062,169)	-	(3,002,470)	(3,002,470)	(3,578,334)
Canadian Dollar	(9,651,202)	-	(9,752,768)	(9,752,768)	(6,320,557)
Columbian Peso	38,261	4,464,276	(4,464,276)	-	(3,928,813)
Danish Krone	(5,172,571)	-	(5,162,608)	(5,162,608)	(9,440,515)
European Euro	(17,500,367)	-	(17,573,408)	(17,573,408)	(11,800,055)
Great Britian Pound Ste	(7,122,082)	-	(7,073,132)	(7,073,132)	-
Hungarian Forint	-	-	-	-	(3,549,441)
Indian Rupee	(2,462,260)	-	(2,447,121)	(2,447,121)	-
Indonesian Rupiah	(2,399,465)	2,505,234	(4,832,961)	(2,327,727)	-
Malaysian Ringgit	(23,796)	6,388,068	(6,388,068)	-	(6,679,285)
Mexican Peso	(5,530,676)	-	(5,728,197)	(5,728,197)	(7,078,983)
New Romanian Leu	-	-	-	-	(1,428,218)
New Zealand Dollar	(6,240,971)	-	(6,127,370)	(6,127,370)	(7,257,656)
Norwegian Krone	(6,519,274)	-	(6,497,436)	(6,497,436)	(6,887,842)
Peruvian Nuevo Sol	(2,768,901)	-	(2,722,951)	(2,722,951)	-
Polish Zloty	(6,086,166)	-	(6,064,819)	(6,064,819)	(6,901,714)
Romanian Leu	(1,352,659)	-	(1,363,173)	(1,363,173)	-
Singapore Dollar	(5,075,575)	1,742,270	(6,591,281)	(4,849,011)	(6,755,989)
South Africa Rand	(3,344,556)	-	(3,293,281)	(3,293,281)	(4,269,344)
Thai Baht	(5,367,754)	-	(5,372,306)	(5,372,306)	(3,944,678)
United Kingdom Pound	(3,031,064)	1,290,657	(4,124,064)	(2,833,407)	(2,473,366)
United States Dollar	107,094,609	123,861,745	(16,767,136)	107,094,609	111,750,443
Total forwards subject to currency risk				\$ 446,813	\$ (1,636,754)

**NOTE 6 – SECURITIES LENDING**

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

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

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transactions. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest.

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

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of North Dakota Board of University & School Lands loans was approximately 64 days as of June 30, 2018 and 79 days as of June 30, 2017.

Cash open collateral is invested in a short-term investment pool, the NDLAN Custom fund, which had an interest sensitivity of 29 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.

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The following represents the Board's balances related to securities lending transactions at June 30, 2018 and 2017.

Fiscal Year 2018

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

Market Value of Securities on Loan against Cash Collateral	\$ 217,368,966
Market Value of Securities on Loan against Non Cash Collateral	61,834,937
Total Market Value of Securities on Loan	<u>\$ 279,203,903</u>

Fiscal Year 2017

	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non- Cash Collateral	Non-Cash Collateral
GLOBAL Agencies	\$ 4,483,718	\$ 4,715,750	\$ -	\$ -
GLOBAL Equities	-	-	907,561	954,525
US Agencies	21,613,008	22,113,048	-	-
US Corporate Fixed	52,379,482	53,666,829	-	-
US Equities	48,650,990	49,804,419	4,836,244	4,936,497
US Government Fixed	75,540,700	77,247,518	23,973,843	24,516,369
	<u>\$ 202,667,898</u>	<u>\$ 207,547,564</u>	<u>\$ 29,717,648</u>	<u>\$ 30,407,391</u>

Market Value of Securities on Loan against Cash Collateral	\$ 202,667,898
Market Value of Securities on Loan against Non Cash Collateral	29,717,648
Total Market Value of Securities on Loan	<u>\$ 232,385,546</u>

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**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.



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

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

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

The table below present the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2017.

	Fair Value at 6/30/17	Fair Value Measures Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments, at fair value				
Short Term Securities				
Short Term Bills and Notes	\$ 106,505,215		\$ 106,505,215	
Total Short Term Securities	<u>106,505,215</u>		<u>106,505,215</u>	
Equity Investments				
Common Stock	258,629,803	\$ 258,629,447	52	\$ 304
Equity Funds/EFTs	124,658,270	124,658,270	-	-
Convertible Equity	2,380,490	2,380,490	-	-
Preferred Stock	<u>32,335,274</u>	<u>32,335,274</u>	-	-
Total Equity Investments	<u>418,003,837</u>	<u>418,003,481</u>	<u>52</u>	<u>304</u>
Fixed Income Investments				
Asset Backed Securities	14,799,636	-	14,799,636	-
Bond Funds/EFTs	120,381,959	120,381,959	-	-
Collateralized Mortgage	21,861,996	-	21,861,996	-
Commercial Mortgage Backed	19,183,443	-	19,183,443	-
Commercial Paper	2,000,100	-	2,000,100	-
Corporate Bonds	411,792,801	-	411,792,801	-
Government Agencies	34,035,598	-	34,035,598	-
Government Bonds	298,346,196	-	298,346,196	-
Government Mortgage Backed	168,834,226	-	168,834,226	-
Index Linked Government Bonds	<u>1,267,630</u>	<u>-</u>	<u>1,267,630</u>	<u>-</u>
Total Fixed Income Investments	<u>1,092,503,585</u>	<u>120,381,959</u>	<u>972,121,626</u>	<u>-</u>
Other Investment Assets				
Currency	24,959,979	-	24,959,979	-
Currency ETF	18	18	-	-
FX Contracts	(1,638,066)	-	(1,638,066)	-
Global Tactical Asset Allocation MF	550,238,037	550,238,037	-	-
Master Limited Partnership	132,640,890	132,640,890	-	-
REITs	17,543,479	17,543,479	-	-
Rights/Warrants	<u>314</u>	<u>316</u>	<u>-</u>	<u>-</u>
Total Other Investment Assets	<u>723,744,651</u>	<u>700,422,740</u>	<u>23,321,913</u>	<u>-</u>
Total Investments at Fair Value	<u>\$ 2,340,757,288</u>	<u>\$ 1,238,808,180</u>	<u>\$ 1,101,948,806</u>	<u>\$ 304</u>
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV:				
Commingled Funds - Equities	\$ 1,129,147,675		Daily, Monthly	< 5 days
Commingled Funds - Fixed Income	174,979,664		Daily	< 5 days
Real Estate Funds	<u>632,915,027</u>		Quarterly	90 days
Total Investments measured at NAV	<u>\$ 1,937,042,366</u>			
Investments at other than fair value				
Cash and adjustments to cash	\$ 47,096,023			
Total Investments at other than fair value	<u>\$ 47,096,023</u>			
Total Investments	<u>\$ 4,324,895,677</u>			

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, 2018 and 2017 the Board held \$1,353,613 and \$504,429, respectively in unclaimed mutual funds.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

The Common Schools Trust Fund owns the building occupied by the Department. For the period ending June 30, 2018 and 2017, the book value of the building was \$483,852 and \$544,597, respectively. The book value of the building is included in the investments line of the balance sheet.

**NOTE 8 – INVESTMENT EXPENSES**

The following is a summary of investment expenses as of June 30, 2018 and 2017.

	2018	2017
Investment managers' fees:		
Large cap equity	\$ 65,893	\$ 63,673
Mid cap equity	22,057	1,784
Small cap equity	646,429	886,536
International equity	421,169	121,178
Emerging markets equity	1,213,856	1,016,120
Core fixed income	1,362,949	-
Non-core fixed income	1,119,552	-
US investment grade fixed income	-	1,327,941
High yield fixed income	-	345,650
International fixed income	-	669,431
Core real estate	3,208,141	3,438,246
Non-core real estate	5,928,262	4,783,604
Inflation protected	2,405,113	2,141,332
Global tactical	6,755,896	6,055,217
Total investment managers' fees	23,149,317	20,850,712
Custody fees	183,019	169,356
Investment consultant fees	148,625	145,000
Miscellaneous expenses	3,430,832	332,618
Total investment expenses	\$26,911,793	\$21,497,686

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

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

	2018	2017
Investments expenses as reflected in the financial statements	\$ 14,227,931	\$ 10,797,209
Large cap equity	8,295	6,479
International equity	5,946	6,848
Emerging markets equity	1,213,856	1,016,120
Core fixed income	327,415	-
US investment grade fixed income	-	296,064
Core real estate	-	(58,678)
Non-core real estate	5,928,262	4,783,604
Inflation protected	690	-
Global tactical	5,199,398	4,650,040
Investment expenses per schedule	\$ 26,911,793	\$ 21,497,686
 BND loan pool management expenses:		
Expenses as reflected in the financial statements	\$ 35,707	\$ 40,356
Plus expenses as reflected in interest income	2,645	3,106
Total loan pool expenses	\$ 38,352	\$ 43,462

**NOTE 9 – FARM LOAN POOL AND FARM REAL ESTATE**

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

As of June 30, 2018, the non-current and current portions of the loans were \$6,361,470 and \$745,461, respectively. As of June 30, 2017, the non-current and current portions of the loans were \$6,867,242 and \$759,457, respectively.

As of June 30, 2018 and 2017, the pool had a net position of \$7,584,867 and \$8,140,363. For the same period, the pool earned net income of \$469,504 and \$538,520.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 10 – ENERGY CONSTRUCTION LOAN PROGRAM**

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

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

As of June 30, 2018, the non-current and current portions of the loans were \$1,009,481 and \$30,597, respectively. As of June 30, 2017, the non-current and current portions of the loans were \$1,183,704 and \$32,464, respectively.

As of June 30, 2018 and 2017 the program had a net position of \$1,068,589 and \$1,248,356, respectively. For the same period, the program earned net income of \$50,232 and \$54,930.

**NOTE 11 - COAL WARRANTS**

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

As of June 30, 2018, the non-current and current portions of the loans were \$11,267,958 and \$705,982, respectively. The same amounts as of June 30, 2017, were \$11,977,360 and \$682,155, respectively.

**NOTE 12 - SCHOOL CONSTRUCTION LOAN PROGRAM**

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

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

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

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

As of June 30, 2018, the non-current and current portions of loans from the Coal Development Trust Fund were \$41,463,869 and \$2,857,954, respectively. The same amounts as of June 30, 2017, were \$45,035,465 and \$3,212,394, respectively.

**NOTE 13 – 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.

With the passage of Senate Concurrent Resolution No. 4003 by the Sixty-Fourth Legislative Assembly and approval of the State voters on November 2, 2016, the Department transferred the administration of the SCALF to the BND on January 17, 2017.

**NOTE 14 – 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, 2018 and 2017, restricted investments held by the BND for the Fuel Production Facility Loan Guarantee Program totaled \$15,415,599 and \$5,893,788, respectively. These investments are recorded as restricted cash on the SIIF's financial statements.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 15 - 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, 2018 and 2017, rent of \$49,320 and \$52,735, respectively, was paid by the non-Common Schools Trusts funds.

**NOTE 16 - CAPITAL ASSETS**

Governmental Activities:	<u>7/1/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/18</u>
Land	\$ 7,740,063	\$ -	\$ -	\$ 7,740,063
Equipment	43,132	7,735	-	50,867
Less accumulated depreciation:				
Equipment	<u>(27,338)</u>	<u>(11,791)</u>	-	<u>(39,129)</u>
Net capital assets	<u>\$ 7,755,857</u>	<u>\$ (4,056)</u>	<u>\$ -</u>	<u>\$ 7,751,801</u>
Governmental Activities:	<u>7/1/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/17</u>
Land	\$ 7,739,757	\$ 306	\$ -	\$ 7,740,063
Equipment	43,132	-	-	43,132
Less accumulated depreciation:				
Equipment	<u>(20,797)</u>	<u>(6,541)</u>	-	<u>(27,338)</u>
Net capital assets	<u>\$ 7,762,092</u>	<u>\$ (6,235)</u>	<u>\$ -</u>	<u>\$ 7,755,857</u>

Under the provisions of the Enabling Act, land was granted to the State for the support of the common schools and other institutions. Under Constitutional authority, no grant land may be sold for less than ten dollars an acre which is the value per acre used for statement of net position purposes. In fiscal year 2018, no acres were acquired or sold. In fiscal year 2017, 30.60 acres were acquired and no acres were sold.

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

A total of \$11,791 and \$6,541 in equipment depreciation for fiscal years ending June 30, 2018 and 2017 was charged to the education fund.

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 17 - DUE FROM (TO) OTHERS**

The following detail shows amounts that are due from and to other trust funds managed by the Department at June 30, 2018 and 2017:

Fund	2018		2017	
	Due from other funds	Due to other funds	Due from other funds	Due to other funds
General fund	\$ -	\$ 5,788,294	\$ -	\$ 3,186,000
Strategic Investment and Improvements fund	2,038,060	-	1,302,434	-
Non-major perpetual funds	386,799	-	82,685	-
Common Schools Trust fund	3,363,435	-	1,800,881	-
	<u>\$ 5,788,294</u>	<u>\$ 5,788,294</u>	<u>\$ 3,186,000</u>	<u>\$ 3,186,000</u>

As stated in Note 1 of these financial statements, the Department is a state agency of North Dakota, as such, the other state agencies of the State and political subdivision are related parties. The following is detail of amounts due from and to other state agencies as of June 30, 2018 and 2017.

Fund	2018		2017	
	Due from other state agencies	Due to other state agencies	Due from other state agencies	Due to other state agencies
General fund				
Attorney General	\$ -	\$ 3,260	\$ -	\$ 10,114
Dept. of Transportation	-	5,105	-	6,009
Information Technology Department	-	7,477	-	11,796
Central Services	-	-	-	653
Office of Management and Budget	-	294	-	-
	<u>-</u>	<u>16,136</u>	<u>-</u>	<u>28,572</u>
Common School Trust Fund:				
State Treasurer	17,077,893	-	9,519,872	-
Bank of North Dakota	-	16,194	-	17,365
	<u>-</u>	<u>600</u>	<u>-</u>	<u>-</u>
	<u>17,077,893</u>	<u>16,794</u>	<u>9,519,872</u>	<u>17,365</u>
Perpetual funds:				
Bank of North Dakota	-	1,387	-	1,486
	<u>-</u>	<u>1,387</u>	<u>-</u>	<u>1,486</u>
Strategic Investment & Improvements fund:				
State Treasurer	14,024,100	-	24,575,948	-
Attorney General	-	916	-	-
	<u>14,024,100</u>	<u>916</u>	<u>24,575,948</u>	<u>-</u>
Coal Development Trust fund:				
State Treasurer	241,656	169,159	509,727	356,809
	<u>241,656</u>	<u>169,159</u>	<u>509,727</u>	<u>356,809</u>
Oil and Gas Impact fund:				
Information Technology Department	-	1,447	-	650
Office of Management and Budget	-	13	-	-
Attorney General	-	280	-	50
Department of Transportation	-	25	-	510
	<u>-</u>	<u>1,765</u>	<u>-</u>	<u>1,210</u>
Total Due From/Due To	<u>\$ 31,343,649</u>	<u>\$ 206,157</u>	<u>\$ 34,605,547</u>	<u>\$ 405,442</u>

**NOTE 18 – PERPETUAL FUND DISTRIBUTION POLICY**

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



**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 19 – TRANSFERS FROM (TO) OTHER AGENCIES**

The following detail represents amounts transferred to beneficiaries and other state agencies as of June 30, 2018 and 2017.

Fund	2018		2017	
	Transfers from other agencies	Transfers to other agencies	Transfers from other agencies	Transfers to other agencies
<b>Perpetual Funds:</b>				
Department of Public Instruction		\$ 144,132,000		\$ 103,067,000
Ellendale		965,944		273,000
Industrial School		400,406		686,000
Mayville State University		271,000		191,000
ND State University		2,369,000		1,684,000
School of Mines		722,000		567,000
School of Science		630,000		494,000
School of the Blind		327,000		228,000
School of the Deaf		799,000		590,000
State Hospital		592,000		500,000
University of ND		1,109,000		804,000
Valley City State University		404,000		285,000
Veterans Home		218,000		178,000
		<u>152,939,350</u>		<u>109,547,000</u>
<b>Strategic Investment and Improvements:</b>				
Adjutant General	-	-		79,500
General Fund of North Dakota	-	124,000,000		155,000,000
Legal Counsel of Indigents	189,000	-		389,000
ND Attorney General	-	16,022,000		-
ND Commerce Department	100,000	600,000		-
ND Department of Agriculture	-	1,000,000		-
ND Department of Corrections	-	935,907		-
ND Department of Health	-	-		250,000
ND Department of Human Services	-	-		9,000,000
ND Department of Transportation	-	-		3,500,000
ND Industrial Commission	329,290	4,000,000		-
ND Oil and Gas Division	-	-		800,000
ND Public Service Commission	-	100,000		-
ND State Historical Society	22,105	-		50,000
ND State University	-	-		16,634,854
Office of ND State Treasurer	-	3,000,000		8,100,000
Political Subdivision Allocation	7,660,518	-		-
	<u>8,300,913</u>	<u>149,657,907</u>		<u>193,803,354</u>
<b>Oil &amp; Gas Impact Grant Fund</b>				
Political Subdivision Allocation	8,000,000	-		-
Strategic Investments & Improvement Fund	3,000,000	-		-
State General Fund	1,325,500	2,695,240		-
	<u>12,325,500</u>	<u>2,695,240</u>		<u>-</u>
<b>Coal Development Trust:</b>				
Lignite Research Fund		1,160,932		2,199,587
General Fund of ND		841,579		882,064
		<u>2,002,511</u>		<u>3,081,651</u>
<b>School Construction Assistance Loan Fund:</b>				
Bank of North Dakota		-		153,220,175
		-		<u>153,220,175</u>
<b>Capitol Building Trust:</b>				
Facilities Management		2,650,000		2,735,000
		<u>2,650,000</u>		<u>2,735,000</u>
Total Transfers	<u>\$ 20,626,413</u>	<u>\$ 309,945,008</u>	<u>\$ -</u>	<u>\$ 462,387,180</u>

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 20 – ASSIGNED FUND BALANCE**

On August 30, 2018 the Board of University and School Lands classified \$229,325,049 of the Strategic Investment and Improvements fund as an assigned fund balance for fiscal years 2018 and 2017 financial statement purposes. This commitment was made by the Board to indicate that these funds should not be transferred out of this fund until potential title disputes related to certain riverbed leases have been resolved.

**NOTE 21 – LITIGATION**

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

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

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

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

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

This is a quiet title action. A deed previously issued by the Department of Trust Lands was lost without being recorded, the plaintiff is seeking a judgment to cure the defect in the chain of title. The tract, however, is located under Lake Sakakawea. The Board has filed an answer claiming any interest in any minerals located below the ordinary high watermark. The district court issued an order dated July 10, 2017 staying these proceedings until such time as final review findings under N.D.C.C. § 61-33.1-03 are adopted by the North Dakota Industrial Commission with the exception that the plaintiff may submit a motion for summary judgment on issues other than the location of the ordinary high watermark.

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

Whiting filed an interpleader for the lands underlying a spacing unit located near the Montana border for which the Yellowstone River runs through. Whiting is requesting the Court determine the property interests for the spacing unit so that Whiting can correctly distribute the proceeds from the well located in the unit. The court trial (no jury) scheduled for August 6-10, 2018 was postponed to April 22 - 26, 2019. The initial scheduling order was amended for the State to conduct field work that could not be completed in the winter. Due to property flooding from high flows on the Yellowstone River, the State has been unable to conduct field work. At an August 16, 2018 status conference, the court suspended any interim deadlines and set a scheduling conference for January 2019 to set a new trial date.

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

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

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

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

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

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

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

In January 2018, Plaintiffs brought an action against the State of North Dakota, the Board of University and School Lands, the North Dakota Industrial Commission, Governor Burgum and Attorney General Stenehjem (Defendants) seeking to declare N.D.C.C. ch. 61-33.1 unconstitutional, and to enjoin Defendants from implementation or enforcement of N.D.C.C. ch. 61-33.1. Plaintiffs argue that the Legislature, by passing Senate Bill 2134, codified at N.D.C.C.

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ch. 61-33.1, has violated the public trust doctrine and the anti-gift (see N.D. Const. art. X, § 18), “equal protection” (see N.D. Const. art. I, § 21), and special laws (see N.D. Const. art. IV, § 13) clauses of the North Dakota Constitution. Plaintiffs are claiming that the legislation results in the unlawful transfer of “approximately \$1.96 billion in cash and State-owned sovereign lands from the citizens of the State ... to a small group of private parties in western North Dakota.” Plaintiffs allege N.D.C.C. ch. 61-33.1 “disclaims [the State’s] perpetual rights to all minerals under Lake Sakakawea, a total of about 108,000 mineral acres.” A summary judgment hearing is scheduled for January 4, 2019.

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

This case concerns ownership of the minerals underlying the railroad rights-of-way in eight tracts located in Mountrail County, only two of which the Board claims interest. 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. The Board has entered into a settlement agreement to resolve this matter.

*In re: Enduro Resource Partners, LLC, et al.*

This is a Chapter 11 bankruptcy case filed by Enduro Resource Partners, LLC, on May 18, 2018. The Board’s interest includes repayment of royalties and reclamation costs associated with wells located on trust lands. On July 23, 2018, the court issued an order authorizing (1) the sale of the North Dakota assets of the Debtors free and clear of all liens, claims, encumbrances, and other interests; (2) the Debtors to enter into and perform their obligations under the North Dakota Purchase Agreement and related documents; (3) the Debtors to assume and assign certain contracts and unexpired leases; and (4) granting related relief.

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

Continental is seeking a Declaratory Judgment that it is currently paying royalties properly under the Board’s lease. Specifically, Continental is asking the Court to order that Continental is allowed to deduct certain costs from royalty payments and that it does not owe the Defendants any additional royalty payments based on previous deductions. A Complaint and Answer with Counterclaims have been filed. Continental filed an Answer to Counterclaims. The parties both completed discovery.

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

Plaintiff is seeking a Declaratory Judgment that it is currently paying gas royalties properly under the Board’s lease. Specifically, Plaintiff is asking the Court to order that gas royalty payments made by the Plaintiff be based on the gross amount received by the Plaintiff from an unaffiliated third-party purchaser, not upon the gross amount paid to a third party by a downstream purchaser, and that Plaintiff does not owe the Defendants any additional gas royalty payments based on previous payments. A Complaint and Answer with Counterclaims have been filed. Newfield filed an Answer to Counterclaims. A Scheduling conference was held July 27, 2018 and a trial was scheduled for September 10 & 11, 2019 at the McKenzie County Courthouse. Newfield filed a

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Motion for Summary Judgment and supporting documents on August 13, 2018. Defendants' filed their response and Cross Motion for Summary Judgment on September 12, 2018.

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

**NOTE 22 – CONTINUING APPROPRIATIONS**

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

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

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

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

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

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

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

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

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

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

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

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**NOTE 23 – LONG TERM LIABILITIES**

***Compensated Absences Payable***

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

	<u>Balance</u> <u>7/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due</u> <u>Thereafter</u>	<u>Balance</u> <u>6/30/2018</u>
Governmental Activities- Other long-term liabilities:						
Compensated absences	\$220,247	\$124,751	\$173,628	\$9,153	\$162,217	\$171,370

  

	<u>Balance</u> <u>7/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due</u> <u>Thereafter</u>	<u>Balance</u> <u>6/30/2017</u>
Other long-term liabilities:						
Compensated absences	\$218,741	\$142,490	\$140,983	\$11,763	\$208,484	\$220,247

The reported liabilities for compensated absences were \$171,370 and \$220,247 at June 30, 2018 and 2017, respectively. This balance includes the employer’s share of FICA taxes.

**NOTE 24 – PENSION PLAN**

*North Dakota Public Employees Retirement System (Main System)*

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

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

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

*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

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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:

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- 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, 2018 and 2017, the Department reported a liability of \$3,207,938 and \$1,889,364 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2017, the Department's proportion was 0.199582 percent which was an increase of 0.005721 percent from its proportion measured as of June 30, 2016 of 0.193861%.

For the years ended June 30, 2018 and 2017, the Department recognized pension expense of \$514,236 and \$270,709, respectively. At June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

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

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

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



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At June 30, 2017, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,382	\$ (17,494)
Changes in actuarial assumptions	174,175	(93,864)
Difference between projected and actual investment earnings	263,594	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	98,164	(1,046)
Contributions paid to PERS subsequent to the measurement date	145,736	-
Total	<u>\$ 710,051</u>	<u>\$ (112,404)</u>

The \$145,736 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, 2018.

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
2018	\$ 83,880
2019	83,880
2020	141,383
2021	97,812
2022	44,956

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

Inflation	2.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age:	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following tables for the years ending June 30, 2018 and 2017:

**Fiscal Year Ended June 30, 2018**

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

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**Fiscal Year Ended June 30, 2017**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	31%	6.90%
International equity	21%	7.55%
Private equity	5%	11.30%
Domestic fixed income	17%	1.52%
International fixed income	5%	0.45%
Global real assets	20%	5.38%
Cash Equivalents	1%	0.00%

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

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

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

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

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

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Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate for the year ending June 30, 2017:

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
Employer's proportionate share of the net pension liability:	<u>\$ 2,680,027</u>	<u>\$ 1,889,364</u>	<u>\$ 1,223,190</u>

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 25 – DEFINED BENEFIT OPEB PLAN**

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

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

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

*OPEB Benefits*

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

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

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

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

At June 30, 2018, the Department reported a liability of \$148,970 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Department's proportion of the net OPEB liability was based on the Department's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the Department's proportion was 0.188329 percent.

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

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

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

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

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37.00%	5.80%
Small Cap Domestic Equities	9.00%	7.50%
International Equities	14.00%	6.20%
Core-Plus Fixed Income	40.00%	1.56%

Discount rate. The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on these assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	<u>1% Decrease</u> <u>(6.50%)</u>	<u>Current Discount</u> <u>Rate (7.50%)</u>	<u>1% Increase</u> <u>(8.50%)</u>
Employer's proportionate share of the net pension liability	\$ 186,493	\$ 148,970	\$ 116,807

**NOTE 26 – 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 \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
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**NOTE 27 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION**

The Department implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. As a result, the beginning net position has been restated to reflect the related net OPEB liability as of July 1, 2017 as follows:

Net Position July 1, 2017, as previously reported	\$ 4,682,355,712
Restatement for pension accounting:	
Net OPEB Liability	<u>(149,534)</u>
Net Position July 1, 2017, as restated	<u>\$ 4,682,206,178</u>

**NOTE 28 – ISSUED BUT NON-EFFECTIVE PRONOUNCEMENTS**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to



**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

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

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

**NOTE 29 – RECLASSIFICATIONS**

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

**NOTE 30 – SUBSEQUENT EVENTS**

No significant events occurred subsequent to Department's year end. Subsequent events have been evaluated through October 15, 2018, which is the date these financial statements were available to be issued

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

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

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

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

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

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

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

For the Fiscal Year Ended June 30	Trust Land's Proportion of the Net 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%
2017 PERS	0.193861%	1,889,364	1,953,665	96.71%	70.46%
2018 PERS	0.199582%	3,207,938	2,037,416	157.45%	61.98%

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

Notes to the Required Supplementary Information:

*Changes of Assumptions*

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, administrative expenses, salary scale, and percent married assumption.

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

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

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

Notes to the Required Supplementary Information:

*Changes of Assumptions*

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, administrative expenses, salary scale, and percent married assumption.

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

	<b>Special Revenue Funds</b>												<b>Trust Fund</b>	<b>Total</b>	
	<b>N.D.S.U.</b>	<b>School for the Blind</b>	<b>School for the Deaf</b>	<b>State Hospital</b>	<b>Ellendale</b>	<b>Valley City State U.</b>	<b>Mayville State U.</b>	<b>Industrial School</b>	<b>School of Science</b>	<b>School of Mines</b>	<b>Veterans Home</b>	<b>U.N.D.</b>	<b>Total</b>	<b>Capitol Building</b>	<b>Non-major Govern- mental Funds</b>
<b>Assets:</b>															
Cash	\$ 147,733	\$ 94,079	\$ 20,422	\$ 29,778	\$ 176,116	\$ 40,410	\$ 9,758	\$ 69,073	\$ 32,286	\$ 72,849	\$ 8,566	\$ 51,113	\$ 752,183	\$ 104,654	\$ 856,837
Investments	67,637,997	10,994,606	20,575,299	14,208,166	20,152,018	12,080,001	7,382,841	22,175,197	16,387,660	20,190,473	5,210,398	31,419,747	248,414,403	4,504,328	252,918,731
Interest receivable	201,053	34,107	58,787	60,674	41,953	39,334	26,412	72,961	58,030	63,704	28,931	93,107	779,053	13,746	792,799
Accounts receivable	379,141	158,681	44,673	106,428	197,470	70,634	18,788	840,532	41,365	(90,146)	8,082	135,077	1,910,725	101,245	2,011,970
Invested securities lending collateral	2,525,553	410,537	771,719	533,054	751,039	451,111	276,564	828,470	614,289	751,972	196,123	1,173,736	9,284,167	764,517	10,048,684
Loans															
Farm loans	141,315	27,278	38,733	39,687	25,436	32,195	23,173	54,841	40,384	40,754	31,960	64,845	560,601	-	560,601
Due from other funds	101,394	-	7,125	2,652	9,621	33,611	7,075	3,052	6,648	87,817	1,724	125,718	386,437	362	386,799
<b>Total Assets</b>	<b>\$ 71,134,186</b>	<b>\$ 11,719,288</b>	<b>\$ 21,516,758</b>	<b>\$ 14,980,439</b>	<b>\$ 21,353,653</b>	<b>\$ 12,747,296</b>	<b>\$ 7,744,611</b>	<b>\$ 24,044,126</b>	<b>\$ 17,180,662</b>	<b>\$ 21,117,423</b>	<b>\$ 5,485,784</b>	<b>\$ 33,063,343</b>	<b>\$ 262,087,569</b>	<b>\$ 5,488,852</b>	<b>\$ 267,576,421</b>
<b>Liabilities:</b>															
Accounts payable	\$ 28,690	\$ 4,664	\$ 8,761	\$ 6,052	\$ 8,535	\$ 5,125	\$ 3,141	\$ 9,413	\$ 6,974	\$ 8,545	\$ 2,226	\$ 13,335	\$ 105,461	\$ 852	\$ 106,313
Securities lending collateral	2,525,553	410,537	771,719	533,054	751,039	451,111	276,564	828,470	614,289	751,972	196,123	1,173,736	9,284,167	764,517	10,048,684
Due to other state agencies	349	68	96	98	63	80	57	135	100	101	79	161	1,387	-	1,387
<b>Total Liabilities</b>	<b>2,554,592</b>	<b>415,269</b>	<b>780,576</b>	<b>539,204</b>	<b>759,637</b>	<b>456,316</b>	<b>279,762</b>	<b>838,018</b>	<b>621,363</b>	<b>760,618</b>	<b>198,428</b>	<b>1,187,232</b>	<b>9,391,015</b>	<b>765,369</b>	<b>10,156,384</b>
<b>Fund Balance:</b>															
Fund Balance:															
Special revenue funds															
Restricted	68,579,594	11,304,019	20,736,182	14,441,235	20,594,016	12,290,980	7,464,850	23,206,108	16,559,298	20,356,804	5,287,356	31,876,112	252,696,554	4,723,483	257,420,037
<b>Total Fund Balance</b>	<b>68,579,594</b>	<b>11,304,019</b>	<b>20,736,182</b>	<b>14,441,235</b>	<b>20,594,016</b>	<b>12,290,980</b>	<b>7,464,850</b>	<b>23,206,108</b>	<b>16,559,298</b>	<b>20,356,804</b>	<b>5,287,356</b>	<b>31,876,112</b>	<b>252,696,554</b>	<b>4,723,483</b>	<b>257,420,037</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 71,134,186</b>	<b>\$ 11,719,288</b>	<b>\$ 21,516,758</b>	<b>\$ 14,980,439</b>	<b>\$ 21,353,653</b>	<b>\$ 12,747,296</b>	<b>\$ 7,744,612</b>	<b>\$ 24,044,126</b>	<b>\$ 17,180,661</b>	<b>\$ 21,117,422</b>	<b>\$ 5,485,784</b>	<b>\$ 33,063,344</b>	<b>\$ 262,087,569</b>	<b>\$ 5,488,852</b>	<b>\$ 267,576,421</b>

**NORTH DAKOTA DEPARTMENT OF TRUST LANDS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	<b>Special Revenue Funds</b>												<b>Trust Fund</b>	<b>Total</b>	
	<b>N.D.S.U.</b>	<b>School for the Blind</b>	<b>School for the Deaf</b>	<b>State Hospital</b>	<b>Ellendale</b>	<b>Valley City State U.</b>	<b>Mayville State U.</b>	<b>Industrial School</b>	<b>School of Science</b>	<b>School of Mines</b>	<b>Veterans Home</b>	<b>U.N.D.</b>	<b>Total</b>	<b>Capital Building</b>	<b>Non-major Govern- mental Funds</b>
<b>Assets:</b>															
Cash	\$ 237,911	\$ 76,915	\$ 19,330	\$ 25,909	\$ 84,081	\$ 52,549	\$ 17,834	\$ 59,023	\$ 28,017	\$ 87,395	\$ 6,551	\$ 71,388	\$ 766,903	\$ 70,998	\$ 837,901
Investments	62,350,578	9,940,396	19,673,400	13,531,521	18,264,781	10,988,293	6,955,517	19,803,603	15,543,194	18,145,956	4,986,754	28,633,856	228,817,849	4,939,362	233,757,211
Interest receivable	215,718	36,288	63,850	64,148	46,047	41,839	28,156	77,533	61,989	67,663	30,266	99,942	833,439	6,937	840,376
Accounts receivable	259,358	79,631	55,067	84,432	93,514	51,862	37,491	701,932	40,463	119,485	6,475	81,905	1,611,615	73,657	1,685,272
Invested securities lending collateral	2,590,397	412,602	818,487	564,223	756,012	456,549	289,184	824,599	646,858	754,816	208,130	1,190,034	9,511,891	688,639	10,200,530
Loans															
Farm loans	151,639	29,271	41,563	42,586	27,294	34,547	24,866	58,847	43,334	43,731	34,295	69,582	601,555		601,555
Due from other funds	50,631	1,141	-	3,511	2,251	556	770	14,693	273	-	4,531	4,328	82,685		82,685
<b>Total Assets</b>	<b>\$ 65,856,232</b>	<b>\$ 10,576,244</b>	<b>\$ 20,671,697</b>	<b>\$ 14,316,330</b>	<b>\$ 19,273,980</b>	<b>\$ 11,626,195</b>	<b>\$ 7,353,818</b>	<b>\$ 21,540,230</b>	<b>\$ 16,364,128</b>	<b>\$ 19,219,046</b>	<b>\$ 5,277,002</b>	<b>\$ 30,151,035</b>	<b>\$ 242,225,937</b>	<b>\$ 5,779,593</b>	<b>\$ 248,005,530</b>
<b>Liabilities:</b>															
Accounts payable	\$ 23,854	\$ 3,800	\$ 7,536	\$ 5,195	\$ 6,962	\$ 4,204	\$ 2,663	\$ 7,593	\$ 5,956	\$ 6,951	\$ 1,916	\$ 10,958	\$ 87,588	\$ 1,078	\$ 88,666
Securities lending collateral	2,590,397	412,602	818,487	564,223	756,012	456,549	289,184	824,599	646,858	754,816	208,130	1,190,034	9,511,891	688,639	10,200,530
Due to other state agencies	374	73	102	105	67	86	61	145	107	108	85	173	1,486		1,486
<b>Total Liabilities</b>	<b>2,614,625</b>	<b>416,475</b>	<b>826,125</b>	<b>569,523</b>	<b>763,041</b>	<b>460,839</b>	<b>291,908</b>	<b>832,337</b>	<b>652,921</b>	<b>761,875</b>	<b>210,131</b>	<b>1,201,165</b>	<b>9,600,965</b>	<b>689,717</b>	<b>10,290,682</b>
<b>Fund Balance:</b>															
Fund Balance:															
Special revenue funds															
Restricted	63,241,607	10,159,769	19,845,572	13,746,807	18,510,939	11,165,356	7,061,910	20,707,893	15,711,207	18,457,171	5,066,871	28,949,870	232,624,972	5,089,876	237,714,848
<b>Total Fund Balance</b>	<b>63,241,607</b>	<b>10,159,769</b>	<b>19,845,572</b>	<b>13,746,807</b>	<b>18,510,939</b>	<b>11,165,356</b>	<b>7,061,910</b>	<b>20,707,893</b>	<b>15,711,207</b>	<b>18,457,171</b>	<b>5,066,871</b>	<b>28,949,870</b>	<b>232,624,972</b>	<b>5,089,876</b>	<b>237,714,848</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 65,856,232</b>	<b>\$ 10,576,244</b>	<b>\$ 20,671,697</b>	<b>\$ 14,316,330</b>	<b>\$ 19,273,980</b>	<b>\$ 11,626,195</b>	<b>\$ 7,353,818</b>	<b>\$ 21,540,230</b>	<b>\$ 16,364,128</b>	<b>\$ 19,219,046</b>	<b>\$ 5,277,002</b>	<b>\$ 30,151,035</b>	<b>\$ 242,225,937</b>	<b>\$ 5,779,593</b>	<b>\$ 248,005,530</b>

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

Revenues:	Special Revenue Funds												Trust Fund	Total	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Non-major Governmental Funds
Investment income	\$ 1,699,464	\$ 271,542	\$ 520,891	\$ 359,966	\$ 565,603	\$ 299,144	\$ 185,617	\$ 685,075	\$ 413,009	\$ 492,421	\$ 132,301	\$ 931,506	\$ 6,556,539	\$ 424,744	\$ 6,981,283
Loan income															
Farm loans	10,035	1,937	2,750	2,818	1,806	2,286	1,645	3,894	2,868	2,894	2,269	4,604	39,806	-	39,806
Change in fair value of investments	2,562,192	410,412	808,466	556,633	748,831	451,390	285,965	822,995	638,071	742,664	205,499	1,179,829	9,412,947	2,881	9,415,828
Securities lending income	47,685	7,751	14,571	10,065	14,181	8,518	5,222	15,643	11,599	14,198	3,703	22,162	175,298	12,590	187,888
Royalties	3,376,788	765,936	333,027	330,879	1,600,580	751,108	171,079	1,363,455	406,524	1,388,115	77,421	1,839,111	12,404,023	1,695,670	14,099,693
Bonuses	23,689	817	2,800	40,080	124,792	(81)	4,986	26,632	-	-	-	8,483	232,198	8,320	240,518
Rental income	255,704	60,193	80,926	35,364	69,730	67,627	49,998	67,544	67,323	59,455	39,024	171,500	1,024,388	179,250	1,203,638
Total Revenues	7,975,557	1,518,588	1,763,431	1,335,805	3,125,523	1,579,992	704,512	2,985,238	1,539,394	2,699,747	460,217	4,157,195	29,845,199	2,323,455	32,168,654
<b>Expenditures:</b>															
Current															
General government	-	-	-	-	-	-	-	-	-	-	-	-	-	39,848	39,848
Education	268,570	47,338	73,821	49,377	76,502	50,368	30,572	86,617	61,303	78,114	21,732	121,953	966,267	-	966,267
Total Expenditures	268,570	47,338	73,821	49,377	76,502	50,368	30,572	86,617	61,303	78,114	21,732	121,953	966,267	39,848	1,006,115
Excess of revenue over expenditures	7,706,987	1,471,250	1,689,610	1,286,428	3,049,021	1,529,624	673,940	2,898,621	1,478,091	2,621,633	438,485	4,035,242	28,878,932	2,283,607	31,162,539
<b>Other Financing Uses:</b>															
Transfer to Educational Institutions	(2,369,000)	(327,000)	(799,000)	(592,000)	(965,944)	(404,000)	(271,000)	(400,406)	(630,000)	(722,000)	(218,000)	(1,109,000)	(8,807,350)	-	(8,807,350)
Transfer to Facilities Management	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,650,000)	(2,650,000)
Total Other Financing Uses	(2,369,000)	(327,000)	(799,000)	(592,000)	(965,944)	(404,000)	(271,000)	(400,406)	(630,000)	(722,000)	(218,000)	(1,109,000)	(8,807,350)	(2,650,000)	(11,457,350)
Increase (decrease) in net position	5,337,987	1,144,250	890,610	694,428	2,083,077	1,125,624	402,940	2,498,215	848,091	1,899,633	220,485	2,926,242	20,071,582	(366,393)	19,705,189
Net position - beginning	63,241,607	10,159,769	19,845,572	13,746,807	18,510,939	11,165,356	7,061,910	20,707,893	15,711,207	18,457,171	5,066,871	28,949,870	232,624,972	5,089,876	237,714,848
Net position - ending	\$ 68,579,594	\$ 11,304,019	\$ 20,736,182	\$ 14,441,235	\$ 20,594,016	\$ 12,290,980	\$ 7,464,850	\$ 23,206,108	\$ 16,559,298	\$ 20,356,804	\$ 5,287,356	\$ 31,876,112	\$ 252,686,554	\$ 4,723,483	\$ 257,420,037



**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, 2017**

Revenues:	Special Revenue Funds													Trust Fund	Total
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Non-major Governmental Funds
Investment income	\$ 1,366,050	\$ 289,773	\$ 459,114	\$ 317,556	\$ 418,578	\$ 252,923	\$ 162,026	\$ 490,688	\$ 362,429	\$ 417,733	\$ 116,779	\$ 663,797	\$ 5,317,446	\$ 576,966	\$ 5,894,412
Loan income															
Farm loans	11,498	2,219	3,151	3,229	2,069	2,619	1,885	4,462	3,286	3,316	2,600	5,276	45,610		45,610
Change in fair value of investments	4,136,794	631,551	1,326,350	914,347	1,198,756	726,976	464,610	1,320,904	1,045,019	1,200,039	337,539	1,912,059	15,214,944	(12,345)	15,202,599
Securities lending income	9,697	1,545	3,064	2,112	2,830	1,709	1,083	3,087	2,421	2,826	779	4,455	35,608	2,466	38,074
Royalties	2,715,139	1,620,226	346,825	380,425	793,308	508,641	222,342	935,676	377,030	1,036,869	89,825	874,511	9,900,817	903,177	10,803,994
Bonuses	5,042	29,233	160	(13,288)	78,281	80	780	2,559	560	1,720	-	15,040	120,167	3,040	123,207
Rental income	251,318	62,535	78,860	28,368	70,323	69,933	49,536	72,147	73,984	58,442	38,110	159,775	1,013,331	168,642	1,181,973
Donations															
Total Revenues	8,495,538	2,637,082	2,217,524	1,632,749	2,564,145	1,562,881	902,262	2,829,523	1,864,729	2,720,945	585,632	3,634,913	31,647,923	1,641,946	33,289,869
<b>Expenditures:</b>															
Current															
General government														36,613	36,613
Education	241,088	42,648	75,152	47,991	73,401	49,488	33,747	80,280	60,867	68,962	24,172	119,472	917,268		917,268
Total Expenditures	241,088	42,648	75,152	47,991	73,401	49,488	33,747	80,280	60,867	68,962	24,172	119,472	917,268	36,613	953,881
Excess of revenue over expenditures	8,254,450	2,594,434	2,142,372	1,584,758	2,490,744	1,513,393	868,515	2,749,243	1,803,862	2,651,983	561,460	3,515,441	30,730,655	1,605,333	32,335,988
<b>Other Financing Uses:</b>															
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														(2,735,000)	(2,735,000)
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)	(2,735,000)	(9,215,000)
Increase (decrease) in net position	6,570,450	2,366,434	1,552,372	1,084,758	2,217,744	1,228,393	677,515	2,063,243	1,309,862	2,084,983	383,460	2,711,441	24,250,655	(1,129,667)	23,120,988
Net position - beginning	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	214,593,860
Net position - ending	\$ 63,241,607	\$ 10,159,769	\$ 19,845,572	\$ 13,746,807	\$ 18,510,939	\$ 11,165,356	\$ 7,061,910	\$ 20,707,893	\$ 15,711,207	\$ 18,457,171	\$ 5,066,871	\$ 28,949,870	\$ 232,624,972	\$ 5,089,876	\$ 237,714,848



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 Doug Burgum  
The Legislative Assembly  
State of North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Department of Trust Lands, a department of the State of North Dakota, as of and for the year ended June 30, 2018, 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 15, 2018.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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



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

October 15, 2018



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

Governor Doug Burgum  
The Legislative Assembly  
State of North Dakota

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

**Audit Report Communications:**

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

*Unmodified opinion.*

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

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

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

*Yes.*

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

*No.*

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

*No prior year audit finding.*

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

*No.*

**Audit Committee Communications:**

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

*The Department adopted GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions during the fiscal year.*

- 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. There were passed (immaterial) audit adjustments which are identified in the audit committee letter on page 77.*

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

*None.*

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

*None.*

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

*None.*

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

*None.*

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

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

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



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

October 15, 2018



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

October 15, 2018

Governor Doug Burgum  
The Legislative Assembly  
State of North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Department of Trust Lands, a department of the State of North Dakota, for the year ended June 30, 2018. 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 6, 2018. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Department of Trust Lands are described in Note 1 to the financial statements. As described in Note 1 to the financial statements the North Dakota Department of Trust Lands changed accounting policies related to the recognition of post employment benefits by adopting Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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.

	<u>Debit</u>	<u>Credit</u>
<u>Common Schools Fund</u>		
Capital Assets	\$605,343	
Investments		\$605,343
To recode capital asset recorded as an investment.		
 <u>Common Schools</u>		
Investments		\$2,737,291
Revenues	\$2,737,291	
To adjust for differences in investment valuations		
 <u>Non-Major</u>		
Investments		\$161,723
Revenues	\$161,723	
To adjust for differences in investment valuations.		

*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 15, 2018.



### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as North Dakota Department of Trust Lands' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

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

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

### Restrictions on Use

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

Sincerely,



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

October 15, 2018