



Financial Statements
June 30, 2020 and 2019

North Dakota Department of Trust Lands

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the North Dakota Department of Trust Lands' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

Reporting Entity

As discussed in Note 1, the financial statements of North Dakota Department of Trust Lands are intended to present the financial position and changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the North Dakota Department of Trust Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2020 and 2019 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of North Dakota Department of Trust Lands as of June 30, 2019, were audited by other auditors, whose report dated October 28, 2019, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Contributions to NDPERS Pension Plan, Schedule of Contributions to NDPERS OPEB Plan, Schedule of Employer's Proportionate Share of Net Pension Liability, and Schedule of Employer's Proportionate Share of Net OPEB Liability on pages 76 through 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020 on our consideration of the 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 North Dakota Department of Trust Lands' 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 North Dakota Department of Trust Lands' internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed address and date.

Bismarck, North Dakota
November 2, 2020

As management of the Department of Trust Lands (the Department), our discussion and analysis of the Department's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2020 and 2019. Please read it in conjunction with the basic financial statements, which follow this discussion.

Financial Highlights

- The assets of the Department exceeded its liabilities as of June 30, 2020 and 2019 by \$5,751,626,475 and \$6,165,096,555, respectively.
- The Department's net position decreased by \$413,470,082 for the year ended June 30, 2020 and increased by \$1,097,250,609 for the year ending June 30, 2019. The net position decrease for fiscal year 2020 is due to the significant stress on the investment market as a result of the COVID-19 pandemic as well as a decrease in oil and gas production due to the downturn in the oil economy during the last two quarters of the fiscal year.
- Royalty revenues totaled \$238,441,014 in fiscal year 2020, a decrease of \$83,467,196 over the amount earned in fiscal year 2019. Royalty revenues totaled \$321,908,210 in fiscal year 2019. The decrease in fiscal year 2020 was due to the downturn in the commodity markets and the effects of COVID-19 pandemic on the oil and gas industry.
- Mineral lease bonus revenues totaled \$9,600,028 in fiscal year 2020, an increase of \$5,529,780 when compared to fiscal year 2019. Bonus revenues totaled \$4,070,248 in fiscal year 2019. This increase occurred during the fall auction with one track in the prime Bakken area exceeding a single payment of \$7 million.
- During fiscal year 2020, no gross production tax revenues were received compared to revenues of \$435,343,880 received during fiscal year 2019.
 - During fiscal year 2020 the Strategic Investment and Improvements fund did not receive any gross production tax revenues in fiscal year 2020, compared to revenues of \$433,343,880 in fiscal year 2019. Gross production tax revenues are deposited into the Strategic Investment and Improvements fund as directed by the legislature, which results in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennium versus the first year.
 - The sixty-six legislative assembly did not appropriate any gross production tax revenues to the oil and gas impact grant fund for the 2019-21 biennium. In fiscal year 2019, the gross production tax revenues received by the oil and gas impact grant fund totaled \$2,000,000.
- Oil extraction tax revenues received in fiscal year 2020 totaled \$79,269,261, a decrease of \$354,023,758 over the \$433,293,019 earned in fiscal year 2019.
 - Oil extraction tax revenues received by the Common School Trust fund totaled \$79,269,261 in fiscal year 2020, compared to \$100,523,292 in fiscal year 2019. These tax revenue changes are primarily due to decrease in commodity prices followed by the effects of the COVID-19 pandemic as compared to fiscal year 2019.

- During fiscal year 2020 the Strategic Investment and Improvements fund did not receive any oil extraction tax revenues in fiscal year 2020, compared to revenues of \$332,769,727 in fiscal year 2019. Oil extraction tax revenues are deposited into the Strategic Investment and Improvements fund as directed by the legislature, which results in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year.
- Investment income totaled \$134,368,871 in fiscal year 2020, a decrease of \$16,029,825 over fiscal year 2019. Investment income totaled \$150,398,696 in fiscal year 2018. The decrease in investment income was a result of a significant stress on the investment market as a result of the COVID-19 pandemic.
- The change in fair value of investments, otherwise known as capital gains/loss, totaled \$191,367,722 in net losses for fiscal year 2020, a decline of \$266,158,632 compared to the gain of \$74,790,910 in fiscal year 2019. The decline is attributed to the significant market correction, related to the COVID-19 pandemic, that adversely impacted the permanent trust's master limited partnerships, natural resources equities, and commodity futures investments, which declined by nearly 50%, 40% and 30%, respectively.

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 funds of the Department are governmental funds except for two funds that are private purpose trust funds, Indian Cultural Education Trust and Theodore Roosevelt Presidential Library and Museum Endowment.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Common Schools Trust fund, Coal Development Trust fund, Department of Trust Lands General fund, Oil and Gas Impact Grant fund including the Flood-Impacted Political Subdivision Infrastructure grants and Energy Impact fund, and the Strategic Investment and Improvements fund.

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, 2020, the Department's total net position was \$5,751,626,475. As of June 30, 2019, the Department's total net position was \$6,165,096,555. The largest portion of the Department's net position is represented by investments in financial securities. The Department uses this net position to provide distributions to educational entities and general government.

The following is a comparative summary statement of net position:

Condensed Statement of Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$5,973,887,833	\$6,423,453,973	\$5,304,627,971
Capital assets	<u>8,798,580</u>	<u>7,808,336</u>	<u>7,751,801</u>
Total assets	<u>5,982,686,413</u>	<u>6,431,262,309</u>	<u>5,312,379,772</u>
Deferred outflows of resources:			
Pension	845,960	1,268,258	1,626,412
Other Post-Employment Benefits	<u>34,800</u>	<u>34,834</u>	<u>35,873</u>
	<u>880,760</u>	<u>1,303,092</u>	<u>1,662,285</u>
Long-term liabilities	2,002,074	3,219,895	3,528,278
Other liabilities	<u>228,651,357</u>	<u>263,845,783</u>	<u>242,569,740</u>
Total liabilities	<u>230,653,431</u>	<u>267,065,678</u>	<u>246,098,018</u>
Deferred inflows of resources:			
Pension	1,255,612	379,020	88,766
Other Post-Employment Benefits	<u>31,655</u>	<u>24,148</u>	<u>9,328</u>
	<u>1,287,267</u>	<u>403,168</u>	<u>98,094</u>
Net Position:			
Net position held in capital assets	8,798,580	7,808,336	7,751,801
Restricted net position			
Nonexpendable	70,750,577	70,213,873	69,538,620
Expendable	4,897,656,032	4,925,726,600	4,591,825,365
Unrestricted net position	<u>774,421,286</u>	<u>1,161,347,746</u>	<u>398,730,160</u>
Total net position	<u>\$5,751,626,475</u>	<u>\$6,165,096,555</u>	<u>\$5,067,845,946</u>

During fiscal year 2020, the Department's net position decreased by \$413,470,082. The main change relates to the lack of oil extraction and gross production taxes deposited into the Strategic Investment and Improvements fund during the year, and losses in the fair value of investments.

During fiscal year 2019, the Department's net position increased by \$1,097,250,609. The main change relates to the oil extraction and gross production taxes deposited into the Strategic Investment and Improvements fund during the year.

ND Department of Trust Lands
Management's Discussion and Analysis
June 30, 2020

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

	Changes in Net Position		
	2020	2019	2018
Revenues			
General Revenues:			
Interest on investments	\$16,429,644	\$15,136,269	\$5,117,846
Change in fair value of investments	2,882,713	10,016,548	41,798
Interest income	-	100,445	169,303
Royalties	89,224,480	128,227,190	106,904,748
Bonuses	1,167,696	2,601,964	1,022,818
Rents	245,978	268,279	241,496
Interest on loans	616,240	684,490	729,146
Contributions to perpetual funds	9,515,851	11,014,244	4,393,122
Taxes	80,816,356	870,213,807	132,803,328
Gain on Sale of Capital Asset Land	24,950	-	-
Total General Revenue	<u>200,923,908</u>	<u>1,038,263,236</u>	<u>251,423,605</u>
Program Revenues:			
Interest on loans	713,376	753,945	555,442
Interest on investments	116,609,611	133,723,547	113,405,035
Change in fair value of investments	(194,250,435)	64,774,362	167,967,898
Royalties	149,216,534	193,681,020	186,445,843
Bonuses	8,432,332	1,468,284	1,314,545
Rents	14,314,097	13,295,252	11,920,713
Fees to Maintenance fund	7,960,688	4,567,223	4,693,054
Total Program Revenue	<u>102,996,203</u>	<u>412,263,633</u>	<u>486,302,530</u>
Total Revenues	<u>303,920,111</u>	<u>1,450,526,869</u>	<u>737,726,135</u>
Expenses			
Governmental Activities:			
General government	3,204,107	3,433,657	2,023,380
Intergovernmental	22,220,963	34,160,869	39,519,718
Education	24,350,910	23,306,092	21,224,673
Total Expenses	<u>49,775,980</u>	<u>60,900,618</u>	<u>62,767,771</u>
Excess before transfer	254,144,131	1,389,626,251	674,958,364
Transfers	<u>(667,614,212)</u>	<u>(292,375,641)</u>	<u>(289,318,596)</u>
Increase(decrease) in net position	<u>(413,470,082)</u>	<u>1,097,250,609</u>	<u>385,639,768</u>
Net position - beginning	6,165,096,555	5,067,845,946	4,682,355,712
Change in statement presentation	-	-	(149,534)
Net position – beginning of year restated	-	-	4,682,206,178
Net position - ending	<u>\$5,751,626,475</u>	<u>\$6,165,096,555</u>	<u>\$5,067,845,946</u>

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

During the fiscal year ending June 30, 2019, the Department's revenues increased by a total of \$712,800,736. Royalty revenues increased by \$28,557,619 as commodity prices were higher. Mineral lease bonus revenue increased by \$1,732,885 as some mineral acreage leases were expiring in the area of the Bakken formation. Oil extraction and gross production tax revenues increased by \$336,819,398 and \$400,672,648, respectively, due primarily to the tax distribution formula, which resulted in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year. The change in fair value of investments indicates an additional decline of \$93,218,784 for fiscal year 2019 from the previous year as capital markets produced lower 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, 2020, 2019 and 2018 are \$8,798,580, \$7,808,336 and \$7,751,800 (net of accumulated depreciation for equipment), respectively. These capital assets include land and equipment. The Department purchased new software, Microsoft Dynamics during the year ended June 30, 2020. See Note 15 to Financials Statements for additional details on capital assets.

Economic Factors

During fiscal year 2020, trust assets experienced a decline primarily from the economic effects of a downturn in the commodity markets followed by the COVID-19 pandemic. This economic downturn also resulted in lower oil extraction tax collections for the Common School Trust fund.

Requests for Information

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

ND Department of Trust Lands

Statement of Net Position

June 30, 2020 and 2019

	2020 Governmental Activities	2019 Governmental Activities
Assets:		
Cash	\$145,403,990	\$152,842,159
Investments	5,525,705,618	5,818,936,091
Interest receivable	16,948,628	15,376,736
Accounts receivable	13,790,988	35,159,033
Invested securities lending collateral	209,667,395	244,581,091
Loans		
Farm loans	7,373,088	9,229,153
Energy construction loans	923,408	979,447
School loans - Coal	39,093,077	41,707,151
Energy impact loans	10,540,579	11,269,205
Capital asset – land	7,740,013	7,740,063
Equipment (net of accumulated depreciation)	1,058,567	68,273
Due from other state agencies	4,418,552	93,373,907
Due from state general fund	22,510	-
Total Assets	5,982,686,413	6,431,262,309
Deferred Outflows of Resources:		
Deferred pension outflows	845,960	1,268,258
Deferred Other post-employment benefits outflows	34,800	34,834
Total Deferred Outflows of Resources	880,760	1,303,092
Liabilities:		
Accrued payroll	243,857	261,495
Accounts payable	1,706,091	2,252,347
Securities lending collateral	209,667,395	244,581,091
Due to other state agencies	388,476	199,246
Claimant liability	16,645,538	16,551,604
Long-term liabilities		
Compensated absences due within one year	10,652	10,527
Compensated absences due in more than one year	188,791	186,582
Pension liability	1,694,395	2,895,903
Other post-employment benefits liability	108,236	126,883
Total Liabilities	230,653,431	267,065,678
Deferred Inflows of Resources:		
Deferred pension inflows	1,255,612	379,020
Deferred other post-employment benefits inflows	31,655	24,148
Total Deferred Inflows of Resources	1,287,267	403,168
Net Position:		
Net investment in capital assets	8,798,580	7,808,336
Restricted		
Nonexpendable	70,750,577	70,213,873
Expendable	4,897,656,032	4,925,726,600
Unrestricted	774,421,286	1,161,347,746
Total Net Position	\$5,751,626,475	\$6,165,096,555

ND Department of Trust Lands
Statement of Activities
June 30, 2020

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

ND Department of Trust Lands
Statement of Activities
June 30, 2019

2019				
Functions/Programs of Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$ 3,433,657	\$ -	\$ -	\$ (3,433,657)
Intergovernmental	34,160,869	-	-	(34,160,869)
Education	23,306,092	4,567,223	407,696,410	388,957,540
Total	\$ 60,900,618	\$ 4,567,223	\$ 407,696,410	351,363,014
Net revenue				351,363,014
General revenues:				
Taxes:				
Coal severance				1,576,908
Oil extraction				433,293,019
Gross production				435,343,880
Contributions to special revenue fund				11,014,244
Unrestricted investment earnings				15,136,269
Net increase (decrease) in fair value of investments				10,016,548
Royalties				128,227,190
Bonuses				2,601,964
Rents				268,279
Loan income				684,490
Interest income				100,445
Transfers:				
To/from other state agencies				(139,436,289)
Educational institutions				(152,939,352)
Total general revenues and transfers				745,887,595
Total change in net position				1,097,250,609
Net position – beginning of year				5,067,845,946
Net position – ending				\$ 6,165,096,555

ND Department of Trust Lands
Balance Sheet
June 30, 2020

Assets:	General Fund	Common Schools Trust Fund	Coal Development Fund	Oil and Gas & Energy Impact Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Cash	\$413,975	\$78,494,048	\$180,580	\$8,968,120	\$49,688,266	\$7,659,001	\$145,403,990
Investments	-	4,532,870,215	20,778,277	-	712,756,986	259,300,140	5,525,705,618
Interest receivable	-	14,852,388	71,364	-	1,069,941	954,935	16,948,628
Accounts receivable	315	8,054,248	-	-	4,555,794	1,180,631	13,790,988
Invested securities lending collateral Loans	-	172,833,901	698,744	-	26,245,271	9,889,479	209,667,395
<i>Farm loans</i>	-	6,791,518	-	-	-	581,570	7,373,088
<i>Energy construction loans</i>	-	923,408	-	-	-	-	923,408
<i>School loans - Coal</i>	-	-	39,093,077	-	-	-	39,093,077
<i>Energy impact loans</i>	-	-	10,540,579	-	-	-	10,540,579
Due from other state agencies	-	4,194,151	224,401	-	-	-	4,418,552
Due from state general fund	-	-	22,510	-	-	-	22,510
Total Assets	\$414,290	\$4,819,013,877	\$71,609,532	\$8,968,120	\$794,316,258	\$279,565,756	\$5,973,887,833
Liabilities:							
Accrued payroll	\$ -	\$185,033	\$89	\$1,173	\$42,349	\$15,213	\$243,857
Accounts payable	61,057	1,262,040	3,041	-	309,930	70,023	1,706,091
Securities lending collateral	-	172,833,901	698,744	-	26,245,271	9,889,479	209,667,395
Due to other state agencies	31,144	20,691	157,081	625	177,252	1,683	388,476
Claimant liability	-	16,645,538	-	-	-	-	16,645,538
Total Liabilities	\$92,201	\$190,947,203	\$858,955	\$1,798	\$26,774,802	\$9,976,398	\$228,651,357
Equity:							
Fund Balance:							
Permanent funds							
<i>Nonspendable</i>	\$ -	\$ -	\$70,750,577	\$ -	\$ -	\$ -	\$70,750,577
Special revenue funds							
<i>Restricted</i>	-	4,628,066,674	-	-	-	269,589,358	4,897,656,032
<i>Committed</i>	-	-	-	8,966,322	538,216,407	-	547,182,729
<i>Assigned</i>	-	-	-	-	229,325,049	-	229,325,049
<i>Unassigned</i>	322,089	-	-	-	-	-	322,089
Total Fund Balance	322,089	4,628,066,674	70,750,577	8,966,322	767,541,456	269,589,358	5,745,236,476
Total Liabilities and Fund Balances	\$414,290	\$4,819,013,877	\$71,609,532	\$8,968,120	\$794,316,258	\$279,565,756	\$5,973,887,833

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

Total fund balances - governmental funds	\$5,745,236,476
Capital Asset - Land	7,740,013
Net book value of office equipment	1,058,567
Liability for compensated absences	(199,443)
Net OPEB liability	(108,236)
Deferred OPEB outflows	34,800
Deferred OPEB inflows	(31,655)
Net pension liability	(1,694,395)
Deferred pension outflows	845,960
Deferred pension inflows	(1,255,612)
Net position of governmental activities	\$5,751,626,475

ND Department of Trust Lands
Balance Sheet
June 30, 2019

Assets:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Cash	\$ 5,269,369	\$ 30,119,671	\$ 174,455	\$ 29,191,524	\$ 86,006,046	\$ 2,081,094	\$ 152,842,159
Investments	-	4,577,288,430	16,926,845	-	956,254,442	268,466,374	5,818,936,091
Interest receivable	-	10,863,663	154,655	-	3,601,845	756,573	15,376,736
Accounts receivable	-	21,208,823	-	-	11,919,068	2,031,142	35,159,033
Invested securities lending collateral	-	140,628,570	1,613,262	-	93,636,717	8,702,542	244,581,091
Loans							
Farm	-	8,501,335	-	-	-	727,818	9,229,153
Energy construction	-	979,447	-	-	-	-	979,447
School	-	-	41,707,151	-	-	-	41,707,151
Energy impact	-	-	11,269,205	-	-	-	11,269,205
Due from other state agencies	-	18,323,356	218,911	-	74,831,640	-	93,373,907
Due from other funds	-	2,744,946	-	-	1,891,596	258,033	4,894,575
Total Assets	\$ 5,269,369	\$ 4,810,658,241	\$ 72,064,484	\$ 29,191,524	\$ 1,228,141,354	\$ 283,023,576	\$ 6,428,348,548
Liabilities:							
Accrued payroll	\$ 190,361	\$ 17,446	\$ -	\$ 2,711	\$ 50,977	\$ -	\$ 261,495
Accounts payable	98,227	1,920,242	1,633	22	123,978	108,244	2,252,346
Securities lending collateral	-	140,628,570	1,613,262	-	93,636,717	8,702,542	244,581,091
Due to other state agencies	14,269	24,542	153,238	1,506	3,664	2,027	199,246
Due to other funds	4,894,575	-	-	-	-	-	4,894,575
Claimant liability	-	16,551,604	-	-	-	-	16,551,604
Total Liabilities	5,197,432	159,142,404	1,768,133	4,238	93,815,336	8,812,813	268,740,357
Equity:							
Fund Balance:							
Permanent funds							
Nonspendable	-	-	70,213,873	-	-	-	70,213,873
Committed	-	-	82,478	-	-	-	82,478
Special revenue funds							
Restricted	-	4,651,515,837	-	-	-	274,210,763	4,925,726,600
Committed	-	-	-	29,187,285	905,000,969	-	934,188,254
Assigned	-	-	-	-	229,325,049	-	229,325,049
Unassigned	71,937	-	-	-	-	-	71,937
Total Fund Balance	71,937	4,651,515,837	70,296,351	29,187,285	1,134,326,018	274,210,763	6,159,608,191
Total Liabilities and Fund Balances	\$ 5,269,369	\$ 4,810,658,241	\$ 72,064,484	\$ 29,191,523	\$ 1,228,141,354	\$ 283,023,576	\$ 6,428,348,548

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

Total fund balances - governmental funds	\$6,159,608,191
Capital asset - land	7,740,063
Net book value of office equipment	68,273
Liability for compensated absences	(197,110)
Net OPEB liability	(126,883)
Deferred OPEB outflows	347,834
Deferred OPEB inflows	(24,148)
Net pension liability	(2,895,903)
Deferred pension outflows	1,268,258
Deferred pension inflows	(379,020)
Net position of governmental activities	\$6,165,409,555

ND Department of Trust Lands
Statement of Revenues, Expenditures and Changes in Fund Balance
June 30, 2020

Revenues:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Energy Impact Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Investment income	\$ -	\$107,738,882	\$374,639	\$ -	\$14,939,072	\$6,287,035	\$129,339,628
Loan income							
<i>Farm loans</i>	-	614,539	-	-	-	52,564	667,103
<i>Energy construction loans</i>	-	46,273	-	-	-	-	46,273
<i>School loans - Coal</i>	-	-	616,240	-	-	-	616,240
Net increase (decrease) in fair value of investments	-	(184,010,553)	72,574	-	2,787,437	(10,217,180)	(191,367,722)
Securities lending income	-	2,574,284	25,259	-	948,732	151,352	3,699,627
Royalties	-	138,156,616	-	-	88,216,919	12,067,479	238,441,014
Bonuses	-	8,411,282	-	-	1,166,894	21,852	9,600,028
Rental income	-	13,254,947	-	-	64,823	1,240,305	14,560,075
Coal severance tax	-	-	1,547,095	-	-	-	1,547,095
Gross production tax	-	-	-	-	-	-	-
Oil extraction tax	-	79,269,261	-	-	-	-	79,269,261
Unclaimed property collections	-	9,515,851	-	-	-	-	9,515,851
Indirect recovery costs	7,960,688	-	-	-	-	-	7,960,688
Total Revenues	7,960,688	175,571,382	2,635,807	-	108,123,877	9,603,407	\$303,895,161
Expenditures:							
Current							
<i>General government</i>	-	-	38,647	-	4,024,521	42,623	4,105,791
<i>Intergovernmental</i>	-	-	-	22,220,963	-	-	22,220,963
<i>Education</i>	7,710,536	15,667,545	-	-	-	972,829	24,350,910
Total Expenditures	7,710,536	15,667,545	38,647	22,220,963	4,024,521	1,015,452	50,677,664
Excess of revenue over (under) expenditures	250,152	159,903,837	2,597,160	(22,220,963)	104,099,356	8,587,955	253,217,497
Other Financing Sources (Uses):							
Transfer to Public Instruction	-	(183,378,000)	-	-	-	-	(183,378,000)
Transfer to Educational Institutions	-	-	-	-	-	(10,885,000)	(10,885,000)
Transfer to Lignite Research Fund	-	-	(1,082,966)	-	-	-	(1,082,966)
Transfer to State General Fund	-	-	(1,082,478)	-	(382,200,000)	-	(383,282,478)
Transfer to Facilities Management	-	-	-	-	-	(2,270,000)	(2,270,000)
Transfer to Adjutant General	-	-	-	-	(2,502,253)	-	(2,502,253)
Transfer to Aeronautics Commission	-	-	-	-	(20,000,000)	-	(20,000,000)
Transfer to Bank of North Dakota	-	-	-	-	(25,137,707)	-	(25,137,707)
Transfer to Department of Commerce	-	-	-	-	(3,000,000)	-	(3,000,000)
Transfer to Department of Corrections	-	-	-	-	(1,218,000)	-	(1,218,000)
Transfer to Energy Impact Fund	-	-	-	-	(2,000,000)	-	(2,000,000)
Transfer to Department of Human Services	-	-	-	-	(4,300,030)	-	(4,300,030)
Transfer to Industrial Commission	-	-	-	-	(270,000)	-	(270,000)
Transfer to Information Technology	-	-	-	-	(25,150,000)	-	(25,150,000)
Transfer to NDSU Extension	-	-	-	-	(940,465)	-	(940,465)
Transfer to Office of Management and Budget	-	-	-	-	(663,275)	-	(663,275)
Transfer to Park and Recreation	-	-	-	-	(3,755,000)	-	(3,755,000)
Transfer to State Treasurer	-	-	-	-	(35,000)	-	(35,000)
Transfer to Legislative Council	-	-	-	-	-	(54,360)	(54,360)
Transfer from Attorney General	-	-	-	-	6,387	-	6,387
Transfer from Department of Commerce	-	-	-	-	111,895	-	111,895
Transfer from Department of Health	-	-	-	-	67,310	-	67,310
Transfer from Highway Patrol	-	-	-	-	49,403	-	49,403
Transfer from Public Service Commission	-	-	-	-	52,818	-	52,818
Transfer from Strategic Investment & Improvement fund	-	-	-	2,000,000	-	-	2,000,000
Transfer from State General Fund	-	-	22,510	-	-	-	22,510
Proceeds from sale of capital asset (land)	-	25,000	-	-	-	-	25,000
Total Other Financing Sources (Uses)	-	(183,353,000)	(2,142,934)	2,000,000	(470,883,918)	(13,209,360)	(667,589,212)
Net Change in Fund Balance	250,152	(23,449,163)	454,226	(20,220,963)	(366,784,562)	(4,621,405)	(414,371,715)
Fund Balance - beginning	71,937	4,651,515,837	70,296,351	29,187,285	1,134,326,018	274,210,763	6,159,608,191
Fund Balance - ending	\$322,089	\$4,628,066,674	\$70,750,577	\$8,966,322	\$767,541,456	\$269,589,358	5,745,236,476

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

Net change in fund balance	(\$414,371,716)
Net value of capital asset - land transaction	(50)
Depreciation expense on equipment	(265,755)
Office equipment additions	1,256,049
Increase in compensated absences liability	(2,334)
Decrease in net OPEB liability	18,647
Changes in deferred outflows and inflow resources related to net OPEB liability	(7,541)
Decrease in net pension liability	1,201,508
Changes in deferred outflows and inflows resources related to net pension liability	(1,298,890)
Change in net position of governmental activities	<u>(\$413,470,082)</u>

ND Department of Trust Lands
Statement of Revenues, Expenditures and Changes in Fund Balance
June 30, 2019

Revenues:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Investment income	\$ -	\$ 122,280,427	\$ 304,019	\$ -	\$ 12,619,439	\$ 7,286,316	\$ 142,490,201
Interest income	-	-	-	-	100,445	-	100,445
Loan income	-	-	-	-	-	-	-
Farm	-	651,418	-	-	-	55,717	707,135
Energy construction	-	46,810	-	-	-	-	46,810
School loans - Coal	-	-	684,490	-	-	-	684,490
Net increase (decrease) in fair value of investments	-	61,342,482	201,143	-	9,731,091	3,516,194	74,790,910
Securities lending income	-	4,066,409	34,825	-	2,021,332	247,049	6,369,615
Royalties	-	180,821,535	-	-	126,255,533	14,831,142	321,908,210
Bonuses	-	1,423,851	-	-	2,593,964	52,433	4,070,248
Rental income	-	12,214,906	-	-	100,038	1,248,587	13,563,531
Coal severance tax	-	-	1,576,908	-	-	-	1,576,908
Gross production tax	-	-	-	2,000,000	433,343,880	-	435,343,880
Oil extraction tax	-	100,523,292	-	-	332,769,727	-	433,293,019
Unclaimed property collections	-	11,014,244	-	-	-	-	11,014,244
Indirect recovery costs	4,567,223	-	-	-	-	-	4,567,223
Total Revenues	4,567,223	494,385,374	2,801,385	2,000,000	919,535,449	27,237,438	1,450,526,869
Expenditures:							
Current							
General government	-	-	39,819	-	3,055,746	38,742	3,134,307
Intergovernmental	-	-	-	34,160,869	-	-	34,160,869
Education	4,503,209	17,727,265	-	-	-	1,075,618	23,306,092
Total Expenditures	4,503,209	17,727,265	39,819	34,160,869	3,055,746	1,114,360	60,601,268
Excess of revenue over expenditures	64,014	476,658,109	2,761,566	(32,160,869)	916,479,703	26,123,078	1,389,925,601
Other Financing Sources (Uses):							
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	-	-	(1,103,835)	-	-	-	(1,103,835)
Transfer to State General Fund	-	-	(952,672)	-	(124,000,000)	-	(124,952,672)
Transfer to Facilities Management	-	-	-	-	-	(525,000)	(525,000)
Transfer to Health Department	-	-	-	-	(211,048)	-	(211,048)
Transfer to Adjutant General	-	-	-	-	(300,000)	-	(300,000)
Transfer to State Highway Patrol	-	-	-	-	(358,000)	-	(358,000)
Transfer to Secretary of State	-	-	-	-	(8,200,000)	-	(8,200,000)
Transfer to Department of Commerce	-	-	-	-	(4,000,000)	-	(4,000,000)
Transfer from NDSU - Veterinary Diagnostic Lab	-	-	-	-	214,266	-	214,266
Total Other Financing Sources (Uses)	-	(144,132,000)	(2,056,507)	-	(136,854,783)	(9,332,350)	(292,375,639)
Net Change in Fund Balance	64,014	332,526,109	705,059	(32,160,869)	779,624,920	16,790,728	1,097,549,961
Fund balance - beginning	7,923	4,318,989,728	69,591,292	61,348,154	354,701,097	257,420,037	5,062,058,231
Fund Balance - ending	\$ 71,937	\$ 4,651,515,837	\$ 70,296,351	\$ 29,187,285	\$ 1,134,326,018	\$ 274,210,763	\$ 6,159,608,191

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

Net change in fund balance	\$1,097,549,960
Depreciation expense on equipment	(5,911)
Office equipment additions	62,446
Increase in compensated absences liability	(25,740)
Decrease in net OPEB liability	22,086
Changes in deferred outflows and inflow resources related to net OPEB liability	(15,859)
Increase in net pension liability	312,035
Changes in deferred outflows and inflows resources related to net pension liability	(648,408)
Change in net position of governmental activities	<u>\$1,097,250,609</u>

ND Department of Trust Lands
Statement of Fiduciary Net Position
June 30, 2020 and 2019

	2020 Indian Cultural Education Trust	2019 Indian Cultural Education Trust
<u>Assets</u>		
Cash	\$ 3,333	\$ 470
Investments	1,215,125	1,288,149
Interest Receivable	3,181	2,170
Invested securities lending collateral	46,379	39,457
Total Assets	<u>1,268,019</u>	<u>1,325,246</u>
<u>Liabilities</u>		
Accounts payable	331	524
Securities lending collateral	46,379	39,457
Total Liabilities	<u>46,710</u>	<u>39,981</u>
<u>Net Position</u>		
Net position, restricted for education	<u>1,221,309</u>	<u>1,285,265</u>
Total Net Position	<u>\$ 1,221,309</u>	<u>\$ 1,285,265</u>

ND Department of Trust Lands
Statement of Fiduciary Net Position
June 30, 2020 and 2019

	2020 Theodore Roosevelt Presidential Library and Museum Endowment	2019 Theodore Roosevelt Presidential Library and Museum Endowment
<u>Assets</u>		
Cash	\$ 133,526	\$ 15,050,748
Investments	14,770,119	-
Interest Receivable	19,393	-
Invested securities lending collateral	563,017	-
Total Assets	15,486,055	15,050,748
<u>Liabilities</u>		
Accounts payable	4,017	-
Due to other fund	315	-
Securities lending collateral	563,017	-
Total Liabilities	567,349	-
<u>Net Position</u>		
Net position, restricted for library	14,918,706	15,050,748
Total Net Position	\$ 14,918,706	\$ 15,050,748

ND Department of Trust Lands
Statement of Changes in Fiduciary Net Position
June 30, 2020 and 2019

	2020 Indian Cultural Education Trust	2019 Indian Cultural Education Trust
Additions		
Contributions:		
Donations	\$ -	\$ -
Total Contributions	-	-
Investment income:		
Net change in fair value of investments	(48,688)	16,210
Interest	29,208	34,288
Less investment expense	3,040	3,160
Net Investment Income	(22,520)	47,338
Securities Lending Activity:		
Securities lending income	691	1,141
Net Securities Lending Income	691	1,141
Miscellaneous Income	3,068	2,957
Total Additions	(18,761)	51,436
Deductions		
Payments in accordance with Trust agreement	42,556	34,676
Administrative expenses	2,639	1,202
Total Deductions	45,195	35,878
Change in net position held in Trust for:		
Indian Cultural Education Trust	(63,956)	15,558
Total Change in Net Position	(63,956)	15,558
Net Position – Beginning of Year	1,285,265	1,269,707
Net Position – End of Year	\$ 1,221,309	\$ 1,285,265

ND Department of Trust Lands
Statement of Changes in Fiduciary Net Position
June 30, 2020 and 2019

	2020 Theodore Roosevelt Presidential Library and Museum Endowment	2019 Theodore Roosevelt Presidential Library and Museum Endowment
Additions		
Contributions:		
Donations	\$ -	\$ 15,000,000
Total Contributions	-	15,000,000
Investment income:		
Net change in fair value of investments	(461,887)	-
Interest	272,080	-
Less investment expense	33,206	-
Net Investment Income	(223,013)	-
Securities Lending Activity:		
Securities lending income	8,386	-
Net Securities Lending Income	8,386	-
Miscellaneous Income	82,900	50,748
Total Additions	(131,727)	15,050,748
Deductions		
Payments in accordance with Trust agreement	-	-
Administrative expenses	315	-
Total Deductions	315	-
Change in net position held in Endowment for:		
Presidential Library and Museum	(132,042)	15,050,748
Total Change in Net Position	(132,042)	15,050,748
Net Position – Beginning of Year	15,050,748	-
Net Position – End of Year	\$ 14,918,706	\$ 15,050,748

ND Department of Trust Lands
Statement of Appropriations
June 30, 2020

	Approved 2019-21 Biennial Appropriation	Final Adjusted Appropriation	2020 Expenditures	2021 Expenditures	Unexpended Appropriation
General Fund Appropriated Expenditures:					
Salaries and Wages	\$ 5,725,379	\$ 5,725,379	\$ 2,504,975	\$ -	\$ 3,220,404
Operating Expenses	2,633,022	2,753,022	750,654	-	2,002,368
Capital Assets	-	3,389,529	1,371,416	-	2,018,113
Contingencies	100,000	100,000	-	-	100,000
	<u>\$ 8,458,401</u>	<u>\$ 11,967,930</u>	<u>\$ 4,627,046</u>	<u>\$ -</u>	<u>\$ 7,340,884</u>

Continuing Appropriations:

Investments			\$ 23,071,463	\$ -	
Land Management – Grant and Non-Grant			572,977	-	
County Services - Roads & Bridges			122,865	-	
In Lieu Property Taxes			129,842	-	
Strategic Investment and Improvements fund			1,350,154	-	
Uniform Unclaimed Property			352,315	-	
Total *			<u>\$ 25,599,617</u>	<u>\$ -</u>	

*This total represents the Department's expenditures through the State Treasurer's Office using the State's PeopleSoft system apart from 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 21 to Financial Statements on the Department's continuing appropriation authority of funding.

Oil and Gas Impact Grant Fund:

	Approved 2020-21 Biennial Appropriation	Final Adjusted Appropriation	2020 Expenditures	2021 Expenditures	Unexpended Appropriation
Energy Infrastructure and Impact Grants	\$ 2,000,000	\$ 41,041,401	\$19,578,959	\$ -	\$ 21,462,442
Energy Infrastructure and Impact Operating	-	158,842	39,491	-	119,351
	<u>\$ 2,000,000</u>	<u>\$ 41,200,243</u>	<u>\$19,618,450</u>	<u>\$ -</u>	<u>\$21,581,793</u>

ND Department of Trust Lands
Statement of Appropriations
June 30, 2020

Strategic Investment and Improvements Fund:

	Approved 2019-21 Biennial Appropriation	2020 Expenditures	2021 Expenditures	Unexpended Appropriation
ND Aeronautics Commission (HB 1006)	\$ 20,000,000	\$ 20,000,000	\$ -	\$ -
Energy Infrastructure & Impact Office (HB 1013)	2,000,000	2,000,000	-	-
ND Industrial Commission (HB 1014)	270,000	270,000	-	-
ND Industrial Commission (HB 1014)	25,137,707	25,137,707	-	-
ND Department of Corrections & Rehabilitation (HB 1015)	1,218,000	1,218,000	-	-
ND Department of Commerce (HB 1018)	3,000,000	3,000,000	-	-
NDSU Extension (HB 1020)	940,465	940,465	-	-
ND Information Technology (HB 1021)	4,000,000	4,000,000	-	-
ND Information Technology (HB 1021)	1,150,000	1,150,000	-	-
ND Department of Environmental Quality (HB 1024)	1,040,000	-	-	1,040,000
ND State Radio (HB 1435)	20,000,000	20,000,000	-	-
ND State Treasurer (SB 2005)	35,000	35,000	-	-
ND Department of Human Services (SB 2012)	11,490,695	4,300,030	-	7,190,665
Office of Management & Budget (SB 2015)	100,000	100,000	-	-
Office of Management & Budget (SB 2015)	4,000,000	563,275	-	3,436,725
Office of Management & Budget (SB 2015)	764,400,000	382,200,000	-	382,200,000
ND Department of Veterans Affairs – Adjutant General (SB 2016)	600,000	600,000	-	-
ND Department of Veterans Affairs – Adjutant General (SB 2016)	1,902,253	1,902,253	-	-
ND Park and Recreation (SB 2019)	1,755,000	1,755,000	-	-
ND Park and Recreation (SB 2019)	2,000,000	2,000,000	-	-
Bank of North Dakota (SB 2296)	50,000,000	-	-	50,000,000
	<u>\$ 915,039,120</u>	<u>\$ 471,171,730</u>	<u>\$ -</u>	<u>\$ 443,867,390</u>

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 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.

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 in the Trust is distributed to the State general fund.

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

The Perpetual Education Trust funds account for all assets and proceeds as described in Section 11 through 19 of the Enabling Act of 1889, Article IX of the State Constitution and N.D.C.C. Chapter 15-01-02. The beneficiaries of the Common Schools Trust fund are publicly funded schools, grades K-12. Other beneficiaries of the Perpetual 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 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 Fund 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 Energy Infrastructure and Impact Office provides grant assistance to counties, cities, school districts and other political subdivisions impacted by oil or gas development through the oil and gas impact grant fund. The program is funded with a percentage of the oil and gas gross production tax as enacted by the legislative assembly or legislative funding transfers. In addition, the Energy Infrastructure and Impact Office administers the following:

Energy Impact Fund by providing grants to be awarded to the Williston Airport when federal funding is committed and available for the new airport construction project.

The Department reports the Common Schools Trust fund, Coal Development Trust fund, Department's General fund, Oil and Gas & Energy Impact fund, and Strategic Investment and Improvements Trust fund as major governmental funds.

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.

The Theodore Roosevelt Presidential Library and Museum Endowment fund is created for the purpose of generating income to be used for the operations and maintenance of the library and museum, but only after the Theodore Roosevelt Presidential Library Foundation has raised or secured binding pledges of \$100 million.

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 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.

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

Budgetary Policies and Procedures

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

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

Cash Deposits and Investments

Cash includes all funds deposited with the Bank of North Dakota.

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, 2020 for funding of current operations. A majority of accrued royalty revenue is expected to be collected within the first 90 days following June 30, 2020. All receivables are considered collectible.

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at a specific rate on the unpaid principal balance.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Allowance for Loan Losses

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

The adequacy of the allowance for loan losses and the provisions for loan losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality including estimated value of any underlying collateral, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful. Based on this assessment there was no allowance for loan losses at June 30, 2020 and 2019.

Claimant Liability

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

Capital Assets

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

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 23 and 24 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 23 and 24 to financial statements for additional details on Department's Pension Plan and OPEB Plan.

Compensated Absences Payable

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

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

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

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.

Indirect Recovery Costs

N.D.C.C. Chapter 15-03-01.2 states that the Department needs to create a special state lands maintenance fund (general fund). All expenses paid out of the state lands maintenance fund (general fund) are subject to legislative appropriation. All administrative salaries and operating expenses of the office of the commissioner of the Department must be paid from the state lands maintenance fund (general fund). Indirect recovery costs represent the reimbursement of these appropriated expenditures.

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 Bank of North Dakota as of June 30, 2020 was \$145,403,990, and the bank balance was \$135,872,949. As of June 30, 2019, the carrying amount of deposits with the Bank of North Dakota was \$152,842,159 and the bank balance was \$131,197,799. 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.

NOTE 4 – FUND BALANCE CLASSIFICATION

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

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

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

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

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

The Capitol Building fund was created under the State Constitution for the construction and maintenance of public buildings at the capital. The entire balance of the trust is subject to legislative appropriation each biennium.

The Strategic Investment and Improvements fund has committed 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 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 & Energy Impact fund holds funds appropriated by the state legislature to assist local political subdivisions in dealing with problems arising from oil and gas development. Any changes to the fund balance commitment would require an appropriation bill action of the legislative assembly.

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

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

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

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

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

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

ND Department of Trust Lands
Notes to Financial Statements
June 30, 2020 and 2019

Fund balance classifications

Fiscal Year Ended June 30, 2020

Fund Balances	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Permanent Funds:							
<u>Nonspendable</u>							
Permanent fund principal	\$ -	\$ -	\$ 70,750,577	\$ -	\$ -	\$ -	\$ 70,750,577
<u>Committed</u>							
Designated for transfer to State general fund	-	-	-	-	-	-	-
Special Revenue Funds:							
<u>Restricted</u>							
Distribution to educational beneficiaries	-	4,628,066,674	-	-	-	264,053,572	4,892,120,246
Capitol building maintenance	-	-	-	-	-	5,535,786	5,535,786
<u>Committed</u>							
Grants	-	-	-	8,966,322	-	-	8,966,322
Designated for transfer to(from):							
Adjutant General	-	-	-	-	2,502,253	-	2,502,253
Aeronautics Commission	-	-	-	-	20,000,000	-	20,000,000
Bank of North Dakota	-	-	-	-	25,137,707	-	25,137,707
ND Department of Commerce	-	-	-	-	2,888,105	-	2,888,105
ND Department of Corrections	-	-	-	-	1,218,000	-	1,218,000
Energy Impact Fund	-	-	-	-	2,000,000	-	2,000,000
ND Department of Human Services	-	-	-	-	4,300,030	-	4,300,030
ND Industrial Commission	-	-	-	-	270,000	-	270,000
ND Information Technology	-	-	-	-	25,150,000	-	25,150,000
NDSU Extension	-	-	-	-	940,465	-	940,465
ND Office of Management and Budget	-	-	-	-	663,275	-	663,275
ND Park and Recreation	-	-	-	-	3,755,000	-	3,755,000
ND State Treasurer	-	-	-	-	35,000	-	35,000
ND Attorney General	-	-	-	-	(6,387)	-	(6,387)
ND Department of Health	-	-	-	-	(67,310)	-	(67,310)
ND Highway Patrol	-	-	-	-	(49,403)	-	(49,403)
ND Public Service Commission	-	-	-	-	(52,818)	-	(52,818)
Operating Expenses	-	-	-	-	449,532,490	-	449,532,490
<u>Assigned</u>							
Potential mineral title disputes	-	-	-	-	229,325,049	-	229,325,049
<u>Unassigned</u>							
Operating Expenses	322,089	-	-	-	-	-	-
Total Fund Balances:	<u>\$322,089</u>	<u>\$4,628,066,674</u>	<u>\$70,750,577</u>	<u>\$8,966,322</u>	<u>\$767,541,456</u>	<u>\$269,589,358</u>	<u>\$ 5,744,914,387</u>

ND Department of Trust Lands
Notes to Financial Statements
June 30, 2020 and 2019

Fiscal Year Ended June 30, 2019

Fund Balances	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Permanent Funds:							
<u>Nonspendable</u>							
Permanent fund principal	\$ -	\$ -	\$ 70,213,873	\$ -	\$ -	\$ -	\$ 70,213,873
<u>Committed</u>							
Designated for transfer to State general fund	-	-	82,478	-	-	-	82,478
Special Revenue Funds:							
<u>Restricted</u>							
Distribution to educational beneficiaries	-	4,651,515,837	-	-	-	267,662,156	4,919,177,993
Capitol building maintenance	-	-	-	-	-	6,548,607	6,548,607
<u>Committed</u>							
Grants	-	-	-	29,187,285	-	-	29,187,285
Designated for transfer to(from):							
General Fund of North Dakota	-	-	-	-	124,000,000	-	124,000,000
ND Commerce Department	-	-	-	-	4,000,000	-	4,000,000
ND Department of Health	-	-	-	-	211,048	-	211,048
Adjutant General	-	-	-	-	300,000	-	300,000
ND State Highway Patrol	-	-	-	-	358,000	-	358,000
ND Secretary of State	-	-	-	-	8,200,000	-	8,200,000
NDSU - Veterinary Diagnostic Lab	-	-	-	-	(214,266)	-	(214,266)
Operating Expenses	-	-	-	-	768,146,187	-	768,146,187
<u>Assigned</u>							
Potential mineral title disputes	-	-	-	-	229,325,049	-	229,325,049
<u>Unassigned</u>							
Operating Expenses	71,937	-	-	-	-	-	71,937
Total Fund Balances:	<u>\$71,937</u>	<u>\$4,651,515,837</u>	<u>\$70,296,351</u>	<u>\$29,187,285</u>	<u>1,134,326,018</u>	<u>274,210,763</u>	<u>\$ 6,159,608,190</u>

NOTE 5 – INVESTMENTS

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

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

Interest Rate Risk

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

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2020 and 2019

The following tables show the investments by investment type, amount and maturity as of June 30, 2019 and 2018. When callable, maturity is calculated with the first call date.

Fiscal Year 2020

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

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2020 and 2019

Fiscal Year 2019

Investment Type	Maturity Amount	Weighted Average Maturity (Years)
Asset Backed Securities	\$130,588,526	8.16
Commercial Mortgage-Backed	30,314,382	19.29
Corporate Bonds	460,310,844	4.15
TIPS Fund	96,326,467	8.15
Brandywine Fund	175,994,389	11.15
Low Duration Fund	66,010,056	2.08
JP Morgan Mortgage Back	125,014,036	4.95
Funds – Short Term	120,204,149	-
Government Agencies	123,810,428	2.06
Government Bonds	351,950,852	4.40
Government Mortgage Backed Securities	88,102,138	21.55
Gov't-issued Commercial Mortgage- Backed	17,859,261	5.94
Index Linked Government Bonds	1,384,751	5.55
Municipal/Provincial Bonds	32,823,580	3.48
Non-Government Backed CMOs	41,266,961	20.26
Other Fixed Income	3,368	-
Short Term Bills and Notes	443,675,931	0.14
Funds – Corporate Bond	55,705	-
Funds – Fixed Income ETF	51,685	-
Funds – Other ETF	11,068	-
Total	\$2,305,758,577	
Weighted Average Maturity		5.16

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, 2020 and 2019, respectively, the Board held \$35,754,853 and \$51,805,924 in variable rate CMOs.

Custodial Risk

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

Concentration of Credit Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings, including securities identified as U.S. Government in the tables below, which are U.S. Treasury and Agency debt securities that are either explicitly or implicitly guaranteed by the U.S. government and thus are considered to have no credit risk. Each fixed income securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The following tables present the Board's ratings as of June 30, 2020 and 2019, respectively.

Fiscal Year 2020

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

Fiscal Year 2019

	AAA	AA	A	BBB	BB	B	CCC	Not Rated	US Government	TOTAL
Asset Backed Securities	\$ 62,260,482	\$ 7,007,730	\$ 7,308,392	\$ 4,420,150	\$ 738,782	\$ -	\$ 2,421,089	\$ 46,431,901	\$ -	\$ 130,588,526
Commercial Mortgage-Backed	1,520,508	-	-	2,140,246	1,110,903	-	-	25,542,725	-	30,314,382
Corporate Bonds	1,243,536	75,622,815	216,053,709	163,588,501	945,676	-	-	2,856,606	-	460,310,844
Funds - Government Agencies	-	-	-	-	-	-	-	-	96,378,152	96,378,152
Funds - Other Fixed Income	-	-	-	-	-	-	-	367,021,849	-	367,021,849
Funds - Short Term Investment	29,446	-	-	-	-	-	-	120,174,703	-	120,204,149
Government Agencies	4,992,750	117,853,159	-	592,440	-	-	-	-	372,079	123,810,428
Government Bonds	-	712,195	-	2,324,943	-	-	-	12,807,000	336,106,713	351,950,852
Government Mortgage Backed Securities	-	1,501,523	-	1,973,386	-	703,262	-	715,613	83,208,354	88,102,138
Gov't-issued Commercial Mortgage-Backed	-	-	-	-	-	-	-	-	17,859,261	17,859,261
Index Linked Government Bond	-	-	-	-	-	-	-	-	1,384,751	1,384,751
Municipal/Provincial Bonds	7,895,189	19,915,516	1,115,903	-	-	-	-	3,896,972	-	32,823,580
Non-Government Backed C.M.O.s	1,924,655	7,310,817	7,895,764	1,525,485	1,052,378	-	917,298	20,640,564	-	41,266,961
Short Term Bills and Notes	-	-	-	-	-	-	-	-	443,675,931	443,675,931
Funds - Corporate Bond	-	-	-	-	-	-	-	55,705	-	55,705
Funds - Municipal/Provincial Bond	-	-	-	-	-	-	-	11,068	-	11,068
	\$79,866,566	\$229,923,755	\$232,373,767	\$176,565,150	\$3,847,739	\$703,262	\$3,338,387	\$600,154,708	\$978,985,242	\$2,305,758,577

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

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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 2020

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

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Fiscal Year 2019

Currency	Debt	Equity	Total
Australian Dollar	\$ 18,092,223	\$ 43,296,013	\$ 61,388,236
Brazilian Real	8,641,325	12,761,035	21,402,360
British Pound Sterling	23,237,298	104,220,538	127,457,836
Canadian Dollar	3,581,349	48,047,835	51,629,184
Chilean Peso	11,351,638	1,221,299	12,572,937
Chinese Renminbi	-	20,306,144	20,306,144
Columbian Peso	8,676,523	443,213	9,119,736
Czech Koruna	3,484,689	1,154,469	4,639,158
Danish Krone	-	11,038,570	11,038,570
Egyptian Pounds	-	59,095	59,095
Euro Members	9,275,587	182,522,907	191,798,494
Hong Kong Dollar	-	40,562,103	40,562,103
Hungarian Forint	-	384,118	384,118
Indian Rupee	-	18,331,532	18,331,532
Indonesian Rupiah	8,130,941	6,123,531	14,254,472
Israel Shekel	-	3,124,687	3,124,687
Japanese Yen	-	150,116,060	150,116,060
Kenyan Shilling	-	1,283,142	1,283,142
Malaysian Ringgit	11,210,843	2,925,207	14,136,050
Mexican Peso	22,932,069	5,530,889	28,462,958
New Zealand Dollar	7,022,176	1,749,459	8,771,635
Norwegian Krone	16,649,069	6,795,335	23,444,404
Peruvian Nuevo Sol	-	137,889	137,889
Philippines Peso	-	1,260,695	1,260,695
Polish Zloty	9,714,890	1,428,132	11,143,022
Russian Rubles	2,287,927	1,674,361	3,962,288
Singapore Dollar	-	7,236,221	7,236,221
South African Rand	457,585	11,483,601	11,941,186
South Korean Won	6,934,179	20,367,564	27,301,743
Swedish Krona	14,695,532	18,263,200	32,958,732
Swiss Franc	-	48,773,597	48,773,597
Taiwan dollar	-	22,283,803	22,283,803
Thai Baht	-	5,184,053	5,184,053
Turkish Lira	-	975,069	975,069
UAE dirham	-	296,110	296,110
	<u>\$ 186,375,843</u>	<u>\$ 801,361,476</u>	<u>\$ 987,737,319</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, 2020 and 2019, the Board had one type of derivative security: currency forwards.

Currency Forwards

Currency forwards represent forward exchange contracts that are obtained to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Position with losses of \$424,327 and \$1,608,867 for fiscal years 2020 and 2019, respectfully. At June 30, 2020 and 2019, the Board’s investment portfolio included the currency forwards balances shown below.

Currency	Cost	Purchases	Sales	Fair Value	
				June 30, 2020	June 30, 2019
Great Britain pound sterling	-	-	-	\$ -	\$ 475,585
United States Dollar	-	-	-	-	(474,746)
Total forwards subject to currency risk				\$ -	\$ 839

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 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 76 days as of June 30, 2020 and 50 days as of June 30, 2019.

Cash open collateral is invested in a short-term investment pool, the NDLAN Custom fund, which had an interest sensitivity of 38 days as of this statement date.

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

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

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

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

The following represents the Board's balances related to securities lending transactions at June 30, 2020 and 2019.

Fiscal Year 2020

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non- Cash Collateral	Non-Cash Collateral
GLOBAL Equities	\$ -	\$ -	\$ 107,123	\$ 116,300
US Agencies	11,342,896	11,576,050	5,828,587	5,953,908
US Corporate Fixed	22,322,732	22,725,631	-	-
US Equities	23,761,035	24,186,237	2,225,058	2,242,021
US Government Fixed	148,640,158	151,788,871	18,143,293	18,497,865
	<u>\$ 206,066,821</u>	<u>\$ 210,276,789</u>	<u>\$ 26,304,061</u>	<u>\$ 26,810,094</u>
Market Value of Securities on Loan against Cash Collateral				\$ 206,066,821
Market Value of Securities on Loan against Non-Cash Collateral				<u>26,304,061</u>
Total Market Value of Securities on Loan				<u>\$ 232,730,882</u>

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Fiscal Year 2019

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Agencies	\$ 2,708,479	\$ 2,845,738	\$ 43,991	\$ 47,056
US Agencies	12,687,100	12,971,822	-	-
US Corporate Fixed	49,184,179	50,258,509	172,100	174,094
US Equities	39,663,430	40,342,726	4,788,601	4,846,822
US Government Fixed	135,593,775	138,201,753	431,463,836	440,014,691
	<u>\$239,836,963</u>	<u>\$244,620,548</u>	<u>\$ 436,468,528</u>	<u>\$445,082,663</u>

Market Value of Securities on Loan against Cash Collateral	\$ 239,836,963
Market Value of Securities on Loan against Non-Cash Collateral	<u>436,468,528</u>
Total Market Value of Securities on Loan	<u>\$ 676,305,491</u>

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 can 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.

Level 3 assets are primarily common stock and commercial mortgage-backed fixed income securities. Level 3 assets with non-readily available market prices are based on a cash flow analysis with true-up adjustments provided by Northern Trust.

Assets classified as being measured by NAV include certain investments in four different equity common trust funds that have either daily or monthly liquidity; investments in one bond fund which have daily liquidity; investments in five different open ended real estate funds/partnerships that are priced quarterly by the general partner and have redemption notice requirements of 90 days; and one private debt limited partnership fund that has a 5-year lock up period after the expiration of the commitment period. 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.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	Fair Value at 6/30/20	Fair Value Measures Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments, at fair value				
Short Term Securities				
Short Term Bills and Notes	\$24,407,603	\$ 24,407,603	\$ -	\$ -
Total Short-Term Securities	<u>24,407,603</u>	<u>24,407,603</u>	<u>-</u>	<u>-</u>
Equity Investments				
Common Stock	158,669,035	158,497,328	171,133	574
Equity Funds/ETFs	243,059,985	243,059,985	-	-
Preferred Stock	83,059	83,059	-	-
Total Equity Investments	<u>401,812,079</u>	<u>401,640,372</u>	<u>171,133</u>	<u>574</u>

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Fixed Income Investments				
Asset Backed Securities	112,808,708	-	112,808,708	-
Bond Funds/ETFs	488,043,922	488,043,922	-	-
Collateralized Mortgage	38,896,274	-	38,896,274	-
Commercial Mortgage Backed	28,124,203	-	28,124,203	-
Corporate Bonds	362,458,059	-	362,458,059	-
Government Agencies	55,299,663	-	55,299,663	-
Government Bonds	228,192,383	-	228,192,383	-
Government Mortgage Backed	208,844,123	-	208,844,123	-
Index linked Government Bonds	5,011,842	-	5,011,842	-
Collateralized Debt	18,984,686	-	18,984,686	-
Total Fixed Income Investments	<u>1,546,663,863</u>	<u>488,043,922</u>	<u>1,058,619,941</u>	<u>-</u>
Other Investment Assets				
Currency	6,109,341	6,109,341	-	-
Global Tactical Asset Allocation MF	453,359,745	453,359,745	-	-
Master Limited Partnership	45,372,621	45,372,621	-	-
REITs	6,551,426	6,551,426	-	-
Rights/Warrants	28	28	-	-
Total Other Investment Assets	<u>511,393,161</u>	<u>511,393,161</u>	<u>-</u>	<u>-</u>
Total Investments at Fair Value	<u>\$2,484,276,706</u>	<u>\$1,425,485,058</u>	<u>\$1,058,791,074</u>	<u>\$ 574</u>
		<u>Unfunded</u>	<u>Redemption</u>	<u>Redemption</u>
		<u>Commitments</u>	<u>Frequency</u>	<u>Notice Period</u>
Investments measured at NAV:				
Commingled Funds – Equities	\$1,430,364,056	\$ -	Daily, Monthly	< 5 days
Commingled Funds Fixed Income	179,059,712	-	Daily	< 5 days
Real Estate Funds	723,838,754	-	Quarterly	90 days
Private Debt Fund	152,350,463	-	NA	NA
Total Investments measured at NAV	<u>\$2,485,612,985</u>	<u>\$ -</u>		
Investments at other than fair Value				
Cash and adjustments to Cash	\$ 571,092,074			
Total Investment at other than FV	<u>\$ 571,092,074</u>			
Total Investments	<u>\$5,540,981,765</u>			

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June 30, 2020 and 2019

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2019.

	Fair Value Measures Using			
	Fair Value at 6/30/19	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	\$443,705,377	\$143,721,577	\$299,983,800	\$ -
Total Short-Term Securities	<u>443,705,377</u>	<u>143,721,577</u>	<u>299,983,800</u>	<u>-</u>
Equity Investments				
Common Stock	219,643,984	219,632,856	1,594	9,534
Equity Funds/ETFs	235,633,394	235,633,394	-	-
Convertible Equity	1,889,050	1,889,050	-	-
Preferred Stock	16,417,748	16,417,748	-	-
Total Equity Investments	<u>473,584,176</u>	<u>473,573,048</u>	<u>1,594</u>	<u>9,534</u>
Fixed Income Investments				
Asset Backed Securities	113,553,916	-	113,553,916	-
Bond Funds/ETFs	191,145,918	191,145,918	-	-
Collateralized Mortgage	41,484,435	-	41,484,435	-
Commercial Mortgage Backed	48,173,642	-	45,858,464	2,315,178
Corporate Bonds	460,310,844	-	460,310,844	-
Government Agencies	39,988,756	-	39,988,756	-
Government Bonds	384,774,433	-	384,774,433	-
Government Mortgage Backed	171,706,336	-	171,706,336	-
Index linked Government Bonds	1,384,751	-	1,384,751	-
Collateralized Debt	17,034,610	-	17,034,610	-
Total Fixed Income Investments	<u>1,469,557,641</u>	<u>191,145,918</u>	<u>1,276,096,545</u>	<u>2,315,178</u>
Other Investment Assets				
Currency	20,438,897	20,438,897	-	-
FX Contracts	839	839	-	-
Global Tactical Asset Allocation MF	826,882,966	826,882,966	-	-
Master Limited Partnership	94,989,215	94,989,215	-	-
REITs	8,267,930	8,267,930	-	-
Rights/Warrants	184	184	-	-
Total Other Investment Assets	<u>950,580,031</u>	<u>950,580,031</u>	<u>-</u>	<u>-</u>
Total Investments at Fair Value	<u>\$3,337,427,225</u>	<u>\$1,759,020,574</u>	<u>\$1,576,081,939</u>	<u>\$2,324,712</u>

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		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV:				
Commingled Funds – Equities	\$1,381,897,852	\$ -	Daily, Monthly	< 5 days
Commingled Funds Fixed Income	272,320,857	-	Daily	< 5 days
Real Estate Funds	715,770,515	-	Quarterly	90 days
Private Debt Fund	61,356,246	91,500,000	NA	NA
Total Investments measured at NAV	\$2,431,345,470	\$ 91,500,000		
Investments at other than fair Value				
Cash and adjustments to Cash	\$50,862,258			
Total Investment at other than FV	\$50,862,258			
Total Investments	\$5,819,634,953			

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, 2020, and 2019 the Board held \$339,686 and \$156,277, respectively in unclaimed mutual funds.

The Common Schools Trust Fund owns the building occupied by the Department. For the period ending June 30, 2020 and 2019, the book value of the building was \$498,575 and \$428,010, respectively. The book value of the building is included in the investments line of the balance sheet.

NOTE 8 – INVESTMENT EXPENSES

	2020	2019
Investment managers' fees:		
Large cap equity	\$58,756	\$59,370
Mid cap equity	25,856	23,439
Small cap equity	717,285	647,785
International equity	990,747	845,991
Emerging markets equity	1,569,100	1,408,060
Core fixed income	1,771,827	1,647,968
Non-core fixed income	2,516,912	1,854,609
Loan pools	46,986	49,364
Core real estate	3,460,122	3,621,408
Non-core real estate	3,028,315	3,007,972
Inflation protected	2,275,177	2,445,248
Global tactical	6,020,335	7,051,943
Total investment managers' fees	22,481,418	22,663,157
Custody fees	118,792	159,687
Investment consultant fees	-	163,058
General consultant fees	157,633	-
Specialty consultant fees	15,355	-
Miscellaneous expenses	298,265	240,169
Total investment expenses	\$23,071,463	\$23,226,071

Reconciliation of investment expenses to financial statements

	2020	2019
Investment expenses as reflected in the financial statements	\$10,450,272	\$12,047,496
Plus, investment management fees included in investment income		
Large cap equity	4,897	9,712
Small cap equity	(315)	(13)
International equity	10,795	6,461
Emerging markets equity	1,569,100	1,408,060
Core fixed income	420,654	470,174
Non-core fixed income	1,426,167	845,682
Loan pools	46,986	2,497
Core real estate	(214,940)	-
Non-core real estate	3,028,315	3,007,972
Global tactical	6,289,932	5,428,029
General Consultant fees	39,600	-
Investment expenses per schedule	\$23,071,463	\$23,226,071
	2020	2019
BND loan pool management expenses:		
Expenses as reflected in the financial statements	\$44,469	\$46,867
Plus expenses as reflected in interest income	2,516	2,497
Total loan pool expenses	\$46,985	\$49,364

NOTE 9 – FARM LOAN POOL AND FARM REAL ESTATE

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

As of June 30, 2020, the non-current and current portions of the loans were \$6,594,734 and \$778,354, respectively. As of June 30, 2019, the non-current and current portions of the loans were \$8,276,623 and \$952,528, respectively.

As of June 30, 2020, and 2019, the pool had a net position of \$9,367,768 and \$14,745,136, respectively. For the same period, the pool earned net income of \$622,633 and \$660,268.

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, 2020, the non-current and current portions of the loans were \$892,811 and \$30,597, respectively. As of June 30, 2019, the non-current and current portions of the loans were \$948,850 and \$30,597, respectively.

As of June 30, 2020, and 2019 the program had a net position of \$941,672 and \$1,005,399, respectively. For the same period, the program earned net income of \$46,273 and \$46,810.

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, as governed by N.D.C.C. Chapter 57-62. 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, 2020, the non-current and current portions of the loans were \$9,784,389 and \$756,190, respectively. The same amounts as of June 30, 2019, were \$10,538,555 and \$730,650, respectively.

NOTE 12 - SCHOOL CONSTRUCTION LOAN PROGRAM

The school construction loan program, funded 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 sixty million dollars.

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

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

In 2013, the legislature changed the program to allow certain school districts in oil producing areas to use a portion of the gross production tax due to the district under N.D.C.C. Chapter 57-51 to repay school loans. For gross production tax backed school loans, the amount of the loan does not count as debt for the borrowing entity and repayment of the loan will be accomplished by the State Treasurer capturing a school district's gross production tax payments each month and remitting those funds to appropriate trust fund until such time that year's scheduled loan payment has been captured. As of June 30, 2020, there was one gross production tax backed school construction loan processed with Coal Development Trust funding.

As of June 30, 2020, the non-current and current portions of loans from the Coal Development Trust Fund were \$36,026,854 and \$3,066,223, respectively. The same amounts as of June 30, 2019, were \$38,826,387 and \$2,880,765, respectively.

NOTE 13 – FUEL PRODUCTION FACILITIES LOAN GUARANTEE PROGRAM

The Fuel Production Facility Loan Guarantee Program is administered by the BND and governed by N.D.C.C. Chapter 6-09.7. Under this program, the Bank of North Dakota may use up to \$50 million of the Strategic Investment and Improvements fund to guarantee loans to facilities that use biomass for agriculturally derived fuel production. As of June 30, 2020, there were no loans made from the loan guarantee program.

NOTE 14 - OFFICE LEASE COMMITMENT

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

For the period ending June 30, 2020 and 2019, rent of \$72,156 and \$49,320, respectively, was paid by the non-Common Schools Trusts funds.

NOTE 15 - CAPITAL ASSETS

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

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2020 and 2019

Governmental Activities:	Balance 7/1/18	Additions	Retirements	Balance 6/30/19
Land	\$7,740,063	\$ -	\$ -	\$7,740,063
Equipment	50,867	62,446	(29,601)	83,712
Less accumulated depreciation:				
Equipment	(39,129)	(5,911)	29,601	(15,439)
Net capital assets	<u>\$7,751,801</u>	<u>\$56,535</u>	<u>\$ -</u>	<u>\$7,808,336</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 2020, no acres were acquired, and 5.02 acres were sold. In fiscal year 2019, no acres were acquired or sold.

All lands held by the Department are considered capital assets, except lands acquired through foreclosure that the Board intends to sell.

A total of \$265,755 and \$5,911 in equipment depreciation for fiscal years ending June 30, 2020 and 2019, respectfully, was charged to the education fund.

NOTE 16 - DUE FROM (TO) OTHERS

During the year ended June 30, 2019, there were funds in the general fund that had yet to be allocated to other funds of the Department. The following detail shows amounts that are due from and to other trust funds managed by the Department at June 30, 2020 and 2019:

Fund	2020		2019	
	Due from other funds	Due to other funds	Due from other funds	Due to other funds
General Fund	\$ -	\$ -	\$ -	\$ 4,894,575
Strategic Investment and Improvements fund	-	-	1,891,596	-
Non-major perpetual funds	-	-	258,033	-
Common Schools Trust fund	-	-	2,744,946	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,894,575</u>	<u>\$ 4,894,575</u>

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2020 and 2019

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 Department had \$22,510 due from the state general fund at June 30, 2020 due to overpayment from the Coal Development Trust fund to the state general fund.

The following is detail of amounts due from and to other state agencies as of June 30, 2020 and 2019. Due to other state agencies represent services rendered to the Department during the year ended June 30, 2020 that were not paid as of June 30, 2020. Due from other state agencies represent revenues earned during the year ended June 30, 2020 that were not received as of June 30, 2020.

Fund	2020		2019	
	Due from other state agencies	Due to other state agencies	Due from other state agencies	Due to other state agencies
General fund:				
Attorney General	\$ -	\$ 2,922	\$ -	\$ 4,106
Dept. of Transportation	-	4,431	-	7,768
Information Technology Department	-	20,594	-	-
Central Services	-	2,150	-	2,077
Office of Management and Budget	-	1,046	-	318
	-	31,143	-	14,269
Common School Trust fund:				
State Treasurer	4,194,151	-	18,323,356	-
Attorney General Office	-	315	-	-
Central Services	-	-	-	36
Bank of North Dakota	-	19,669	-	23,693
Information Technology Department	-	584	-	621
Office of Management and Budget	-	123	-	192
	4,194,151	20,691	18,323,356	24,542
Perpetual funds:				
Bank of North Dakota	-	1,683	-	2,027
	-	1,683	-	2,027
Strategic Investment & Improvements fund:				
State Treasurer	-	-	74,831,640	-
Attorney General	-	2,746	-	-
Information Technology Department	-	1,705	-	-
Office of Management and Budget	-	172,802	-	3,664
	-	177,252	74,831,640	3,664
Coal Development Trust fund:				
State Treasurer	224,401	157,081	218,911	153,238
	224,401	157,081	218,911	153,238

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2020 and 2019

Fund	2020		2019	
	Due from other state agencies	Due to other state agencies	Due from other state agencies	Due to other state agencies
Oil and Gas Impact fund				
Information Technology Department	-	620	-	1,448
Office of Management and Budget	-	5	-	-
Department of Transportation	-	-	-	-
Attorney General	-	-	-	57
	-	625	-	1,506
Total Due From/Due To	\$ 4,418,552	\$ 388,476	\$ 93,373,907	\$ 199,246

NOTE 17 – PERPETUAL FUND DISTRIBUTION POLICY

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

NOTE 18 – TRANSFERS FROM (TO) OTHER AGENCIES

The following detail represents amounts transferred to beneficiaries and other state agencies as of June 30, 2020 and 2019.

Fund	2020		2019	
	Transfers from other agencies	Transfers to other agencies	Transfers from other agencies	Transfers to other agencies
Perpetual Funds:				
Department of Public Instruction	\$ -	\$183,378,000	\$ -	\$144,132,000
Ellendale	-	847,000	-	965,944
Industrial School	-	932,000	-	400,406
Mayville State University	-	334,000	-	271,000
ND State University	-	2,958,000	-	2,369,000
School of Mines	-	873,000	-	722,000
School of Science	-	747,000	-	630,000
School of the Blind	-	440,000	-	327,000
School of the Deaf	-	949,000	-	799,000
State Hospital	-	664,000	-	592,000
University of ND	-	1,379,000	-	1,109,000
Valley City State University	-	517,000	-	404,000
Veterans Home	-	245,000	-	218,000
	-	194,263,000	-	152,939,350

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2020 and 2019

Strategic Investment and Improvements :

General Fund of North Dakota	-	382,200,000	-	124,000,000
Adjutant General	-	2,502,253	-	300,000
Aeronautics Commission	-	20,000,000	-	-
Bank of North Dakota	-	25,137,707	-	-
ND Department of Commerce	111,895	3,000,000	-	4,000,000
ND Department of Corrections	-	1,218,000	-	-
Energy Impact Fund	-	2,000,000	-	-
ND Department of Human Services	-	4,300,030	-	-
ND Department of Health	67,310	-	-	211,048
ND State Highway Patrol	49,403	-	-	358,000
ND Secretary of State	-	-	-	8,200,000
ND Industrial Commission	-	270,000	-	-
ND Information Technology	-	25,150,000	-	-
ND Office of Management & Budget	-	663,275	-	-
ND Park and Recreation	-	3,755,000	-	-
Office of ND State Treasurer	-	35,000	-	-
NDSU Extension	-	940,465	-	-
ND Public Service Commission	52,818	-	-	-
ND Attorney General	6,387	-	-	-
ND State University	-	-	214,266	-
	<u>287,813</u>	<u>471,171,730</u>	<u>214,266</u>	<u>137,069,048</u>

Oil & Gas Impact Grant Fund

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

Coal Development Trust:

General Fund of North Dakota	-	1,802,478	-	952,672
Lignite Research Fund	-	1,082,966	-	1,103,835
	<u>-</u>	<u>2,165,444</u>	<u>-</u>	<u>2,056,507</u>

Capitol Building Trust:

Facilities Management	-	2,270,000	-	525,000
Legislative Council	-	54,360	-	-
	<u>-</u>	<u>2,324,360</u>	<u>-</u>	<u>525,000</u>
Total Transfers	<u>\$ 2,287,812</u>	<u>\$ 669,924,534</u>	<u>\$ 214,266</u>	<u>\$ 292,589,907</u>

NOTE 19 – ASSIGNED FUND BALANCE

On July 29, 2020 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 year 2020 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 20 – LITIGATION

The Board of University and School Lands (Board) is currently involved in litigation relating to mineral ownership, royalty payments, and unclaimed property payments. The following is a list of pending lawsuits:

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. The Court issued its Order on December 12, 2018, denying the Motion for Continued Stay. Plaintiffs' filed a Motion for Summary Judgment and the defendants responded. A hearing was held on July 30, 2019. The Order Granting Plaintiffs' Motion for Summary Judgment was entered on September 6, 2019. The Judgment and Notice of Entry of Judgment were filed with the District Court on September 16, 2019. Board of University and School Lands, State Engineer, and Statoil Oil & Gas LP f/k/a Brigham Oil & Gas, LLP appealed to the North Dakota Supreme Court. The North Dakota Supreme Court issued its Opinion of the Court on August 27, 2020.

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. A continued stay was affirmed on November 27, 2018.

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. A motion for continued stay was filed and the stay was granted. Trial is currently scheduled for February 2020. On January 21, 2020 the Court entered an Order for Continued Stay of Proceedings which stays the matter until final disposition of the Sorum lawsuit. The court cancelled the trial scheduled for February 5-7, 2020 and rescheduled the trial to February 1-3, 2021.

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

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

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. An Amended Complaint was filed by Plaintiffs and Defendants filed their Answers to the Amended Complaint. A Status Conference is set for October 11, 2019 and that was continued to January 13, 2020. A status conference was held on April 7, 2020 and a briefing schedule set. The United States and the Board filed separate Motions for Partial Summary Judgment on May 7, 2020, with their responses filed June 5, 2020.

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. On June 24, 2019, the BLM submitted its Request to Take Judicial Notice of North Dakota Law. On March 25, 2020, the Opinion by Administrative Judge Haugrud was issued by the United States Department of Interior, Office of Hearings and Appeals, Interior Board of Land Appeals (Interior Board) denying the state's appeal.

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. Dispositive motions have been filed.

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. 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 was held January 4, 2019. Judgment was entered in April 26, 2019. The parties appealed the Judgment to the North Dakota Supreme Court. Plaintiffs then brought a Motion for Attorneys Fees and a hearing was held on July 18, 2019. On July 19, 2019, the Supreme Court temporarily remanded the case to the trial court for determination of the attorneys fees issue. The amended Judgment was entered on July 31, 2019, and both parties have appealed to the North Dakota Supreme Court. The Supreme Court hearing was held on March 4, 2020. A Supreme Court Opinion was issued on July 30, 2020. Plaintiffs requested a rehearing on August 12, 2020.

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. The parties filed a Joint Motion for Stay, requesting the Court stay all proceedings pending the North Dakota Supreme Court's resolution of the petition for rehearing in the Newfield lawsuit and the Court granted this request.

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 Motion for Summary Judgment and supporting documents on August 13, 2018. Defendants' filed their response and Cross Motion for Summary Judgment on September 12, 2018. A hearing on the Motion for Summary Judgment was held in January 2019 and the Judgment was entered March 1, 2019. Defendant appealed to the North Dakota Supreme Court. On July 11, 2019, the Supreme Court entered its Judgment reversing the Judgment of the McKenzie County District Court. On July 25, 2019 Newfield filed Appellee's Petition for Rehearing and Amicus Curiae Briefs were filed by Western Energy Alliance and the North Dakota Petroleum Council. The North Dakota Supreme Court requested Defendants file a Response to the Petition for Rehearing and the two Amicus Curiae Briefs and that was filed September 4, 2019. A Corrected Opinion was filed by the North Dakota Supreme Court on September 9, 2019, changing the page number of a citation. On September 12, 2019, the North Dakota Supreme Court entered an order denying Newfield's Petition for Rehearing. On September 20, 2019, the opinion and mandate of the Supreme Court was filed with McKenzie County District Court. A Telephonic Status Conference was held October 8, 2019 before the District Court. On October 9, 2019, the District Court issued an Order Setting Briefing Schedule which ordered "the parties to file a brief regarding how they suggest the case proceed after the Supreme Court's decision." The parties filed briefs with the District Court on November 6, 2019. Telephonic Status Conference scheduled for March 17, 2020 before the District Court. On May 14, 2020, the Court scheduled a five-day Court Trial to start on October 4, 2021, McKenzie County Courthouse. On July 28, 2020, a Stipulated Scheduling Order was entered, setting dates for various deadlines.

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

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

Vitesse Oil, LLC; Vitesse Energy, LLC; and Iron Oil Operating LLC v. State of North Dakota; North Dakota Board of University and School Lands; and Jodi A. Smith, Commissioner of University and School Lands

On June 7, 2019, the Attorney General's Office was served with a complaint in the above referenced case. This case is requesting a judgment be entered under Chapter 32-12 of the North Dakota Century Code quieting title in Leases in favor of Plaintiffs; a judgment be entered under Chapter 32-12 of the North Dakota Century Code declaring that the Leases remain valid and in effect with respect to all of the Subject Lands based on the force majeure provision of the Board's lease; that the Court enter a temporary restraining order, preliminary injunction, and permanent injunction, prohibiting Defendants from selling or attempting to sell new leases covering the oil and gas in and under the Subject Lands or otherwise interfering with Plaintiffs exclusive right to explore for and produce the same; and that Plaintiffs be awarded their costs and reasonable attorney fees. The State filed its answer on June 28, 2019. A scheduling conference was held on October 2, 2019. Lessee's Motion for Leave to Amend complaint filed October 14, 2019. Order Granting Plaintiffs' Motion for Leave to Amend was entered on October 30, 2019. On December 17, 2019, a Notice of Telephonic Scheduling Conference was filed by the court, setting a telephonic scheduling conference for January 22, 2020. A three-day court trial is scheduled to start April 20, 2021.

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

In July 16, 2020, the Mandan, Hidatsa, and Arikara Nation (Tribe) filed a Complaint against the United States Department of the Interior (DOI); David Bernhardt, Secretary of DOI; and Daniel Jorjani, DOI Solicitor. Along with its Complaint, the Tribe filed a motion for preliminary injunction asking that the Court to immediately order DOI to refrain from doing anything to implement the Jorjani Opinion until the Court has decided the merits of the Tribe's claims regarding that Opinion. A scheduling conference was held by telephone on July 23, 2020, with a follow up on July 29. The parties agreed the pending motion for preliminary injunction can be considered to be Plaintiff's motion for partial summary judgment on count one and resolved with defendant's cross motion for partial summary judgment as to that count. The merits of count one will be consolidated with any hearing on the motion for preliminary injunction. The Court set certain filing deadlines. The State of North Dakota filed an Expedited Motion to Intervene and that requested was granted. The United States filed its opposition to Plaintiff's Motion for Preliminary Injunction and Cross-Motion for Partial Summary Judgment on September 1, 2020. The State of North Dakota filed its Intervenor-Defendant's Cross-Motion for Partial Summary Judgment and Opposition to Plaintiff's Motion for Preliminary Injunction on September 8, 2020. The Tribe filed a Motion to Complete Administrative Record on September 8, 2020.

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

NOTE 21 – CONTINUING APPROPRIATIONS

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

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

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

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

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

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

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

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

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

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

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

NOTE 22 – 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. The claimant liability increases with collections of escheated property and decreases with claims repaid to the rightful owners or their heirs. Unclaimed property is accreted into net position of the Department based on an estimate of historical claims in the previous ten years. The following is a detail of the changes in claimant liability for the years ended June 30, 2020 and 2019.

Claimant liability - June 30, 2018	\$ 17,510,901
Collections subject to liability - 2019	14,822,744
Claims paid - 2019	(3,406,506)
Accreted into net position - 2019	<u>(12,375,535)</u>
Claimant liability - June 30, 2019	16,551,604
Collections subject to liability - 2020	15,111,069
Claims paid - 2020	(5,308,927)
Accreted into net position - 2020	<u>(9,708,208)</u>
Claimant liability - June 30, 2020	<u><u>\$ 16,645,538</u></u>

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 30th 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.

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

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Governmental Activities- Other long-term liabilities:	Balance <u>7/1/18</u>	<u>Additions</u>	<u>Reductions</u>	Amounts Due Within One <u>Year</u>	Amounts Due <u>Thereafter</u>	Balance <u>6/30/19</u>
Compensated absences	\$171,369	\$122,389	\$ 96,649	\$10,527	\$186,582	\$197,109

The reported liabilities for compensated absences were \$199,443 and \$197,109 at June 30, 2020 and 2019. This balance includes the employer’s share of FICA taxes.

NOTE 24 – PENSION PLAN

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit 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 must 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. For members hired on or after January 1, 2020, member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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

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

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

At June 30, 2020 and 2019, the Department reported a liability of \$1,694,395 and \$2,895,903, respectfully, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2019, the Department's proportion was 0.144564 percent which was a decrease of 0.027034 percent from its proportion measured as of June 30, 2018.

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

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

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

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

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

For the year ended June 30, 2019, the Department recognized pension expense of \$454,578. At June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Resources</u>	
	<u>Outflows</u>	<u>Inflows</u>
Differences between expected and actual experience	\$ 7,665	\$ (98,524)
Changes in assumptions	1,045,361	(41,333)
Net difference between projected and actual earnings on pension plan investment	-	(14,089)
Changes in proportion and differences between employer contributions and proportionate share of contributions	86,417	(225,074)
Employer contributions subsequent to the measurement date	128,815	-
TOTAL	\$1,268,258	\$ (379,020)

The \$128,815 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, 2020.

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

<u>Year ended June 30</u>	<u>Amount of Pension Expense</u>
2020	\$ 274,897
2021	236,331
2022	189,242
2023	73,267
2024	(13,314)
Thereafter	-

Actuarial assumptions.

The total pension liability in the July 1, 2019 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	12.00%
	1	9.50%
	2	7.25%
	Age:	
	Under 30	7.25%
	30 - 39	6.50%
	40 - 49	6.25%
	50 - 59	5.75%
	60+	5.00%

*Age-based salary increase rates apply for employees with three or more years of service.

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

Fiscal Year Ended June 30, 2020

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

The total pension liability in the July 1, 2018 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	12.00%
	1	9.50%
	2	7.25%
	Age:	
	Under 30	7.25%
	30 - 39	6.50%
	40 - 49	6.25%
	50 - 59	5.75%
	60+	5.00%

*Age-based salary increase rates apply for employees with three or more years of service.

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 table:

Fiscal Year Ended June 30, 2019

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
Global Real Assets	19%	5.11%

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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate for the year ending June 30, 2020:

	1% Decrease in Discount Rate <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase in Discount Rate <u>(8.50%)</u>
Employer's proportionate share of the net pension liability	\$2,429,397	\$1,694,395	\$1,076,864

For the fiscal year ending June 30, 2019, the following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 6.32 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 (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease in Discount Rate <u>(5.32%)</u>	Current Discount Rate <u>(6.32%)</u>	1% Increase in Discount Rate <u>(7.32%)</u>
Employer's proportionate share of the net pension liability	\$3,934,994	\$2,895,903	\$2,028,815

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 legislative management.

OPEB Benefits

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

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

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision, and long-term care plan and any other health insurance plan. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The 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.

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

At June 30, 2020 and 2019, the Department reported a liability of \$108,236 and \$126,883, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and 2018, 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, 2019, the Department's proportion was 0.134758 percent, which was a decrease of 0.026349 percent from its proportion measured as of June 30, 2018.

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

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

The \$18,108 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021.

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

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

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For the year ended June 30, 2019, the Department recognized OPEB expense of \$12,698. At June 30, 2019, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Resources	
	Outflows	Inflows
Differences between expected and actual experience	\$ 3,799	\$ (2,622)
Changes in assumptions	10,410	-
Net difference between projected and actual earnings on OPEB plan investment	-	(2,730)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(18,796)
Employer contributions subsequent to the measurement date	20,625	-
TOTAL	\$ 34,834	\$ (24,148)

The \$20,625 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, 2020.

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

<u>Year ended June 30</u>	<u>Pension Expense Amount</u>
2020	\$ (1,921)
2021	(1,921)
2022	(1,921)
2023	(716)
2024	(937)
Thereafter	(2,523)

Actuarial assumptions

The total OPEB liability in the July 1, 2019 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	7.25%, 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%.

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

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

The total OPEB liability in the July 1, 2018 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, 2018 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%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.46%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on these assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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, 2019, calculated using the discount rate of 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease <u>(6.25%)</u>	Current Discount_Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Employer's proportionate share of the net OPEB liability	\$ 138,149	\$ 108,236	\$ 82,630

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease <u>(6.25%)</u>	Current Discount_Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Employer's proportionate share of the net OPEB liability	\$ 160,537	\$ 126,883	\$ 98,032

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 also participates in the North Dakota Fire and Tornado Fund. The Department pays an annual premium to Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund 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. Workforce Safety is a state insurance fund and a “no fault” insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

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

NOTE 27 – ACCOUNTING POLICY UPDATE

The Governmental Accounting Standards Board (GASB) approved the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB-95). The primary objective of this statement is to provide temporary relief from certain new accounting and financial reporting requirements to governments in light of the coronavirus pandemic by postponing the effective dates of certain Statements and Implementation guides by one year. The effect of the delay on the Department’s financial statements for the year ended June 30, 2020 was not significant.

ND Department of Trust Lands
 Combined Balance Sheet – Nonmajor Government Funds
 June 30, 2020

	Special Revenue Funds												Special Revenue Funds	Total	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Non-major Governmental Funds
Assets:															
Cash	\$1,414,045	\$368,243	\$330,406	\$180,570	\$1,263,160	\$242,191	\$322,582	\$781,127	\$953,536	\$516,351	\$143,019	\$860,343	\$7,375,573	\$283,428	\$7,659,001
Investments	68,532,547	12,130,066	20,124,431	13,609,509	21,113,740	12,211,952	7,697,853	22,739,747	17,058,186	20,961,719	4,927,169	33,029,578	254,136,497	5,163,643	259,300,140
Interest receivable	241,796	42,074	70,214	68,131	54,930	46,547	31,225	86,709	68,777	76,481	31,596	113,710	932,190	22,745	954,935
Accounts receivable	168,515	26,643	21,742	10,328	95,251	10,912	25,828	555,341	59,414	73,595	1,528	63,025	1,112,122	68,509	1,180,631
Invested securities lending collateral	2,615,290	462,826	768,001	519,886	805,350	466,015	293,767	867,862	651,183	800,072	188,127	1,260,412	9,698,791	190,688	9,889,479
Loans															
Farm loans	146,601	28,299	40,182	41,171	26,387	33,399	24,040	56,893	41,895	42,278	33,155	67,270	581,570	-	581,570
Total Assets	\$73,118,794	\$13,058,151	\$21,354,976	\$14,429,595	\$23,358,818	\$13,011,016	\$8,395,295	\$25,087,679	\$18,832,991	\$22,470,496	\$5,324,594	\$35,394,338	\$273,836,743	\$5,729,013	\$279,565,756
Liabilities:															
Accrued payroll	\$3,344	\$670	\$813	\$381	\$1,372	\$618	\$544	\$1,302	\$1,055	\$987	\$337	\$2,081	\$13,504	\$1,709	\$15,213
Accounts payable	18,658	3,302	5,479	3,709	5,746	3,325	2,096	6,191	4,645	5,708	1,342	8,992	69,193	830	70,023
Securities lending collateral	2,615,290	462,826	768,001	519,886	805,350	466,015	293,767	867,862	651,183	800,072	188,127	1,260,412	9,698,791	190,688	9,889,479
Due to other state agencies	424	82	116	119	76	97	69	165	121	122	96	196	1,683	-	1,683
Total Liabilities	2,637,716	466,880	774,409	524,095	812,544	470,055	296,476	875,520	657,004	806,889	189,902	1,271,681	9,783,171	193,227	9,976,398
Equity:															
Fund Balance:															
Special revenue funds															
Restricted	70,481,078	12,591,271	20,580,567	13,905,500	22,546,274	12,540,961	8,098,819	24,212,159	18,175,987	21,663,607	5,134,692	34,122,657	264,053,572	5,535,786	269,589,358
Total Fund Balance	70,481,078	12,591,271	20,580,567	13,905,500	22,546,274	12,540,961	8,098,819	24,212,159	18,175,987	21,663,607	5,134,692	34,122,657	264,053,572	5,535,786	269,589,358
Total Liabilities and Fund Balances	\$73,118,794	\$13,058,151	\$21,354,976	\$14,429,595	\$23,358,818	\$13,011,016	\$8,395,295	\$25,087,679	\$18,832,991	\$22,470,496	\$5,324,594	\$35,394,338	\$273,836,743	\$5,729,013	\$279,565,756

ND Department of Trust Lands
 Combined Balance Sheet – Nonmajor Government Funds
 June 30, 2019

	Special Revenue Funds												Special Revenue Funds	Total	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Non-major Governmental Funds
Assets:															
Cash	\$ 275,348	\$ 151,308	\$ 65,200	\$ 46,113	\$ 174,436	\$ 58,262	\$ 85,086	\$ 157,816	\$ 505,722	\$ 229,010	\$ 33,685	\$ 219,283	\$ 2,001,269	\$ 79,825	\$ 2,081,094
Investments	71,124,377	12,347,672	21,050,903	14,425,316	21,511,217	12,764,827	7,830,966	23,651,351	17,155,818	21,343,359	5,263,207	33,630,254	262,099,267	6,367,107	268,466,374
Interest receivable	183,235	31,570	53,104	56,788	36,477	36,233	24,603	67,377	53,793	58,271	27,667	85,027	714,145	42,428	756,573
Accounts receivable	233,103	121,679	36,815	29,837	97,641	34,218	99,313	417,108	181,936	201,800	7,231	213,580	1,674,261	59,881	1,734,142
Invested securities lending collateral	2,189,092	379,999	650,913	447,094	661,461	393,170	241,132	728,077	528,270	656,960	163,494	1,035,975	8,075,637	626,905	8,702,542
Loans - Farm	183,467	35,415	50,287	51,524	33,023	41,798	30,085	71,199	52,430	52,910	41,493	84,187	727,818	-	727,818
Due from other funds	75,608		3,848		8,177	6,731	26,492		3,540	7,533	0	126,104	258,033	-	258,033
Total Assets	\$ 74,264,230	\$ 13,067,643	\$ 21,911,070	\$ 15,056,672	\$ 22,522,432	\$ 13,335,239	\$ 8,337,677	\$ 25,092,928	\$ 18,481,509	\$ 22,549,843	\$ 5,536,777	\$ 35,394,410	\$ 275,550,430	\$ 7,176,146	\$ 282,726,576
Liabilities:															
Accounts payable	\$ 29,171	\$ 5,063	\$ 8,673	\$ 5,957	\$ 8,814	\$ 5,239	\$ 3,213	\$ 9,702	\$ 7,040	\$ 8,755	\$ 2,178	\$ 13,805	\$ 107,610	\$ 634	\$ 108,244
Securities lending collateral	2,189,092	379,999	650,913	447,094	661,461	393,170	241,132	728,077	528,270	656,960	163,494	1,035,975	8,075,637	626,905	8,702,542
Due to other state agencies	510	99	140	143	92	117	84	198	146	147	116	235	2,027	-	2,027
Total Liabilities	2,218,773	385,161	659,726	453,194	670,367	398,526	244,429	737,977	535,456	665,862	165,788	1,050,015	8,185,274	627,539	8,812,813
Equity:															
Fund Balance:															
Special revenue funds															
Restricted	72,045,457	12,682,482	21,251,344	14,603,478	21,852,065	12,936,713	8,093,248	24,651,951	17,946,053	21,883,981	5,370,989	34,344,395	267,662,156	6,548,607	274,210,763
Total Fund Balance	72,045,457	12,682,482	21,251,344	14,603,478	21,852,065	12,936,713	8,093,248	24,651,951	17,946,053	21,883,981	5,370,989	34,344,395	267,662,156	6,548,607	274,210,763
Total Liabilities and Fund Balances	\$ 74,264,230	\$ 13,067,643	\$ 21,911,070	\$ 15,056,672	\$ 22,522,432	\$ 13,335,239	\$ 8,337,677	\$ 25,389,928	\$ 18,481,509	\$ 22,549,843	\$ 5,536,777	\$ 35,394,410	\$ 275,847,430	\$ 7,176,146	\$ 283,023,576

ND Department of Trust Lands
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balance – Nonmajor Government Funds
 June 30, 2020

Revenues:	Special Revenue Funds												Special Revenue Funds	Total	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Non-major Governmental Funds
Investment income	\$1,659,100	\$293,033	\$488,425	\$332,203	\$512,734	\$296,303	\$186,241	\$550,545	\$414,697	\$504,339	\$121,250	\$793,116	\$6,151,986	\$135,049	\$6,287,035
Loan income															
Farm loans	13,250	2,558	3,632	3,721	2,385	3,019	2,173	5,142	3,786	3,821	2,997	6,080	52,564	-	52,564
Change in fair value of investments	(2,753,693)	(492,695)	(805,006)	(540,158)	(857,719)	(488,355)	(312,619)	(912,329)	(689,681)	(851,820)	(193,883)	(1,341,924)	(10,239,882)	22,702	(10,217,180)
Securities lending income	38,954	6,894	11,439	7,743	11,995	6,941	4,376	12,926	9,699	11,917	2,802	18,773	144,459	6,893	151,352
Royalties	2,414,991	526,453	567,328	160,984	1,887,666	276,198	441,728	845,465	1,234,735	1,002,419	49,177	1,652,774	11,059,918	1,007,561	12,067,479
Bonuses	10,760	-	3,698	5,659	(587)	93	408	619	80	-	-	320	21,050	802	21,852
Rental income	263,050	60,271	79,148	38,254	71,839	74,753	52,937	72,195	77,894	60,845	47,140	160,824	1,059,150	181,155	1,240,305
Total Revenues	1,646,412	396,514	348,664	8,406	1,628,313	168,952	375,244	574,563	1,051,210	731,521	29,483	1,289,963	8,249,245	1,354,162	9,603,407
Expenditures:															
Current															
General government	-	-	-	-	-	-	-	-	-	-	-	-	-	42,623	42,623
Education	252,791	47,725	70,441	42,384	87,104	47,704	35,673	82,355	74,276	78,895	20,780	132,701	972,829	-	972,829
Total Expenditures	252,791	47,725	70,441	42,384	87,104	47,704	35,673	82,355	74,276	78,895	20,780	132,701	972,829	42,623	1,015,452
Excess of revenue over expenditures	1,393,621	348,789	278,223	(33,978)	1,541,209	121,248	339,571	492,208	976,934	652,626	8,703	1,157,262	7,276,416	1,311,539	8,587,955
Other Financing Uses:															
Transfer to Educational Institutions	(2,958,000)	(440,000)	(949,000)	(664,000)	(847,000)	(517,000)	(334,000)	(932,000)	(747,000)	(873,000)	(245,000)	(1,379,000)	(10,885,000)	-	(10,885,000)
Transfer to Facilities Management	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,270,000)	(2,270,000)
Transfer to Legislative Council	-	-	-	-	-	-	-	-	-	-	-	-	-	(54,360)	(54,360)
Total Other Financing Uses	(2,958,000)	(440,000)	(949,000)	(664,000)	(847,000)	(517,000)	(334,000)	(932,000)	(747,000)	(873,000)	(245,000)	(1,379,000)	(10,885,000)	(2,324,360)	(13,209,360)
Increase (decrease) in net position	(1,564,379)	(91,211)	(670,777)	(697,978)	694,209	(395,752)	5,571	(439,792)	229,934	(220,374)	(236,297)	(221,738)	(3,608,584)	(1,012,821)	(4,621,405)
Net position - beginning	72,045,457	12,682,482	21,251,344	14,603,478	21,852,065	12,936,713	8,093,248	24,651,951	17,946,053	21,883,981	5,370,989	34,344,395	267,662,156	6,548,607	274,210,763
Net position - ending	\$70,481,078	\$12,591,271	\$20,580,567	\$13,905,500	\$22,546,274	\$12,540,961	\$8,098,819	\$24,212,159	\$18,175,987	\$21,663,607	\$5,134,692	\$34,122,657	\$264,053,572	\$5,535,786	\$269,589,358

ND Department of Trust Lands
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balance – Nonmajor Government Funds
 June 30, 2019

Revenues:	Special Revenue Funds													Special Revenue Funds	Total
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Non-major Governmental Funds
Investment income	\$ 1,937,885	\$ 331,903	\$ 580,957	\$ 400,700	\$ 594,321	\$ 348,569	\$ 210,343	\$ 636,506	\$ 466,682	\$ 578,981	\$ 146,630	\$ 909,718	\$ 7,143,195	\$ 143,121	\$ 7,286,316
Loan income															
Farm	14,045	2,711	3,850	3,944	2,528	3,200	2,303	5,451	4,014	4,050	3,176	6,445	55,717	-	55,717
Change in fair value of investments	932,069	168,211	268,369	179,548	280,357	166,988	104,036	313,280	221,541	280,968	64,975	451,538	3,431,880	84,314	3,516,194
Securities lending income	63,300	10,988	18,822	12,928	19,127	11,369	6,973	21,053	15,275	18,997	4,728	29,956	233,516	13,533	247,049
Royalties	2,874,800	1,178,056	420,111	188,005	1,340,400	501,513	562,757	902,622	1,282,929	1,392,732	64,737	2,150,823	12,859,485	1,971,657	14,831,142
Bonuses	(4,702)	4,000	20,940	(12,679)	5,560	2,080	(800)	(3,440)	24,454	-	-	9,020	44,433	8,000	52,433
Rental income	308,142	62,335	82,008	35,419	72,434	71,691	47,959	66,138	69,420	59,798	41,042	163,960	1,080,346	168,241	1,248,587
Total Revenues	6,125,539	1,758,204	1,395,057	807,865	2,314,727	1,105,410	933,571	1,941,610	2,084,315	2,335,526	325,288	3,721,460	24,848,572	2,388,866	27,237,438
Expenditures:															
Current															
General government	-	-	-	-	-	-	-	-	-	-	-	-	-	38,742	38,742
Education	290,676	52,741	80,895	53,622	90,734	55,677	34,173	95,359	67,560	86,349	23,655	144,177	1,075,618	-	1,075,618
Total Expenditures	290,676	52,741	80,895	53,622	90,734	55,677	34,173	95,359	67,560	86,349	23,655	144,177	1,075,618	38,742	1,114,360
Excess of revenue over expenditures	5,834,863	1,705,463	1,314,162	754,243	2,223,993	1,049,733	899,398	1,846,251	2,016,755	2,249,177	301,633	3,577,283	23,772,954	2,350,124	26,123,078
Other Financing Uses:															
Transfer to Educational Institutions	(2,369,000)	(327,000)	(799,000)	(592,000)	(965,944)	(404,000)	(271,000)	(400,408)	(630,000)	(722,000)	(218,000)	(1,109,000)	(8,807,352)	-	(8,807,352)
Transfer to Facilities Management	-	-	-	-	-	-	-	-	-	-	-	-	-	(525,000)	(525,000)
Total Other Financing Uses	(2,369,000)	(327,000)	(799,000)	(592,000)	(965,944)	(404,000)	(271,000)	(400,408)	(630,000)	(722,000)	(218,000)	(1,109,000)	(8,807,352)	(525,000)	(9,332,352)
Increase (decrease) in net position	3,465,863	1,378,463	515,162	162,243	1,258,049	645,733	628,398	1,445,843	1,386,755	1,527,177	83,633	2,468,283	14,965,602	1,825,124	16,790,726
Net position - beginning as restated	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
Net position - ending	\$ 72,045,457	\$ 12,682,482	\$ 21,251,344	\$ 14,603,478	\$ 21,852,065	\$ 12,936,713	\$ 8,093,248	\$ 24,651,951	\$ 17,946,053	\$ 21,883,981	\$ 5,370,989	\$ 34,344,395	\$ 267,662,156	\$ 6,548,607	\$ 274,210,763

ND Department of Trust Lands
 Schedule of Contributions to NDPERS Pension Plan
 Last Ten Fiscal Years*
 June 30, 2020

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	\$ 145,736	\$ (147,738)	\$ (2,002)	\$2,046,857	7.12%
2018	PERS	\$ 133,932	\$ (133,932)	\$ -	\$1,881,070	7.12%
2019	PERS	\$ 128,815	\$ (128,815)	\$ -	\$1,809,201	7.12%
2020	PERS	\$ 109,479	\$ (139,425)	\$ (29,946)	\$1,503,712	9.27%

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

ND Department of Trust Lands
 Schedule of Employer's Net Pension Liability
 Last Ten Fiscal Years*
 June 30, 2020

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 Position 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%
2019 PERS	0.171598%	\$ 2,895,903	\$ 1,762,859	164.27%	62.80%
2020 PERS	0.144564%	\$ 1,694,395	\$ 1,503,712	112.68%	71.66%

Notes to the Required Supplementary Information:

Changes to benefit terms

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes to assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

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

ND Department of Trust Lands
 Schedule of Contributions to NDPERS OPEB Plan
 Last Ten Fiscal Years*
 June 30, 2019

For the Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered– Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
June 30					
2018	\$ 21,444	\$ (21,444)	\$ -	\$ 1,881,070	1.14%
2019	\$ 20,625	\$ (20,625)	\$ -	\$ 1,809,201	1.14%
2020	\$ 20,677	\$ (19,745)	\$ 932	\$ 1,762,859	1.12%

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

ND Department of Trust Lands
 Schedule of Employer's Net OPEB Liability
 Last Ten Fiscal Years*
 June 30, 2020

For the Fiscal Year Ended	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB Liability (Asset) (a)	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%
2019	0.161107%	\$ 126,883	\$ 1,762,859	7.20%	61.89%
2020	0.134758%	\$ 108,236	\$ 1,503,712	7.20%	63.3%

Notes to the Required Supplementary Information:

Changes to benefit terms

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes to assumptions

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

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



Independent Auditor's 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*

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

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Department of Trust Lands (the Department), a department of the State of North Dakota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated November 2, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

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

Purpose of this Report

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

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
November 2, 2020



**North Dakota Department of Trust Lands
Auditor's Specific Comments Requested by the North Dakota Legislative Audit and
Fiscal Review Committee
Year Ended June 30, 2020**

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

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

Yes

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

No

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

There were no prior year findings or recommendations.

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

No

Audit Committee Communications:

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

None

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

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

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

3. Identify any significant audit adjustments.

None

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

None

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

None

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

None

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

None

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
November 2, 2020