



Financial Statements

June 30, 2022 and 2021

North Dakota Department of Trust Lands

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dakota Department of Trust Lands, an agency of the State of North Dakota, as of and for the years ended June 30, 2022 and 2021, 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.

In our opinion, the accompanying 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, 2022 and 2021, and the respective changes in financial position and the statement of appropriations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of North Dakota Department of Trust Lands and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2022 and 2021, 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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Dakota Department of Trust Lands' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Net Pension Contributions, Schedule of Employer's Share of Net Pension Liability, Schedule of Net OPEB Contributions, and Schedule of Employer's Share of Net OPEB Liability 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.

Supplementary 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 October 21, 2022 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 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.



Bismarck, North Dakota
October 21, 2022

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, 2022, 2021 and 2020. 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, 2022, 2021 and 2020 by \$7,101,953,058, \$6,999,894,777 and \$5,751,626,475, respectively.
- The Department's net position increased by \$102,058,281 for the year ended June 30, 2022 and increased \$1,248,268,302 for the year ended June 30, 2021; and decreased by \$413,470,080 for the year ending June 30, 2020. The net position increase for fiscal year 2022 is due to increase in gross production and oil extraction taxes, as well as a significant collection of oil and gas royalties.
- Royalty revenues totaled \$482,991,618 in fiscal year 2022, an increase of \$206,809,307 over the amount earned in fiscal year 2021. Royalty revenues totaled \$276,182,311 in fiscal year 2021, an increase of \$37,741,297 over the amount earned in fiscal year 2020. Royalty revenues totaled \$238,441,014 in fiscal year 2020. The increase in fiscal year 2022 was due to crude oil prices because of commodity shortages caused by Russia's invasion into Ukraine and ongoing issues from the pandemic. The increase in fiscal year 2021 was due to the downturn in the commodity markets and the effects of COVID-19 pandemic on the oil and gas industry during fiscal year 2020.
- Mineral lease bonus saw a negative balance of \$35,303,613 in fiscal year 2022, a decrease of \$35,607,923 when compared to fiscal year 2021. Bonus revenues totaled \$304,310 fiscal year 2021 and \$9,600,028 in fiscal year 2020. This decrease was due to bonus refunds issued pursuant to N.D.C.C. §61-33.1.
- During fiscal year 2022, gross production tax revenues totaled \$181,708,817 compared to \$218,197,798 in gross production tax revenue during fiscal year 2021. There was no gross production tax revenue during fiscal year 2020. All gross production tax revenue was deposited into the Strategic Investment and Improvements fund as directed by the legislature, which results in higher distributions during the second year of each biennia versus the first year.
- Oil extraction tax revenues received in fiscal year 2022 totaled \$257,257,887, an increase of \$34,590,271 over the \$222,667,616 earned in fiscal year 2021.

- Oil extraction tax revenues received by the Common School Trust fund totaled \$122,357,608 in fiscal year 2022, compared to \$68,855,764 in fiscal year 2021. The tax revenue changes between fiscal year 2022 and 2021 was primarily due to crude oil prices because of commodity shortages caused by Russia's invasion into Ukraine and ongoing issues from the pandemic. Oil extraction tax revenues received by the Common School Trust fund totaled \$79,269,261 in fiscal year 2020. The tax revenue changes between fiscal year 2021 and 2020 was primarily due to swings in production and commodity prices caused by the COVID-19 pandemic.
- Oil extraction tax revenues received by the Strategic Investment and Improvements fund totaled \$134,900,279 in fiscal year 2022. During fiscal year 2021 the Strategic Investment and Improvements fund received \$153,811,852 in oil extraction tax revenues. During fiscal year 2020 the Strategic Investment and Improvements fund did not receive any oil extraction tax revenues. 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 \$199,119,204 in fiscal year 2022, an increase of \$53,578,507 over fiscal year 2021. Investment income totaled \$145,540,697 in fiscal year 2021, an increase of \$11,171,826 over fiscal year 2020. Investment income totaled \$134,368,871 in fiscal year 2020. The increase of investment income was a result of rising interest rates by the federal government.
- The change in fair value of investments, otherwise known as capital gains/loss, totaled \$486,736,082 in net loss for fiscal year 2022, a decrease of \$1,394,507,852 compared to the gain of \$907,771,770 in fiscal year 2021. The change in fair value of investments in fiscal year 2021 increased by \$1,099,139,492 compared to the loss of \$266,158,632 in fiscal year 2020. The loss in fiscal year 2022 is attributed to rising inflation, supply chain disruption and other issues stemming from Russian's invasion into Ukraine and the ongoing pandemic. An accelerated tightening of global monetary policy and falling economic growth estimates led to most major indices ending negatively by June. The gain in fiscal year 2021 is attributed to the strong market rally after the country reopened following COVID restrictions.

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 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 and the Theodore Roosevelt Presidential Library and Museum Endowment.

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

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

Government-Wide Financial Analysis

As noted earlier, changes in net position may, at times, serve as a useful indicator of the Department's financial position. As of June 30, 2022, the Department's total net position was \$7,101,953,058. As of June 30, 2021, the Department's total net position was \$6,999,894,777. As of June 30, 2020, the Department's total net position was \$5,751,626,475. 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

| | 2022 | 2021 | 2020 |
|-------------------------------------|-----------------|-----------------|-----------------|
| Current and other assets | \$7,476,176,037 | \$7,292,333,461 | \$5,973,887,833 |
| Capital assets | 9,761,793 | 8,830,180 | 8,798,580 |
| Total assets | 7,485,937,830 | 7,301,163,641 | 5,982,686,413 |
| Deferred outflows of resources: | | | |
| Pension | 2,678,946 | 3,577,193 | 845,960 |
| Other Post-Employment Benefits | 52,159 | 51,366 | 34,800 |
| | 2,731,105 | 3,628,559 | 880,760 |
| Long-term liabilities | 2,188,690 | 5,794,468 | 2,002,074 |
| Other liabilities | 380,710,908 | 298,017,927 | 228,651,357 |
| Total liabilities | 382,899,598 | 303,812,395 | 230,653,431 |
| Deferred inflows of resources: | | | |
| Pension | 3,868,306 | 1,058,720 | 1,255,612 |
| Other Post-Employment Benefits | (52,027) | 26,308 | 31,655 |
| | 3,816,279 | 1,085,028 | 1,287,267 |
| Net Position: | | | |
| Net position held in capital assets | 9,761,793 | 8,830,180 | 8,798,580 |
| Restricted net position | | | |
| Nonexpendable | 70,296,156 | 71,010,157 | 70,750,577 |
| Expendable | 5,978,730,364 | 6,061,026,839 | 4,897,656,032 |
| Unrestricted net position | 1,043,164,175 | 859,027,601 | 774,421,286 |
| Total net position | \$7,101,953,058 | \$6,999,894,777 | \$5,751,626,475 |

During fiscal year 2022, the Department's net position increased by \$102,058,281. The main change relates to an increase in royalty revenues, investment income and oil extraction taxes during the fiscal year.

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

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

| | Changes in Net Position | | |
|-------------------------------------|--------------------------------|------------------------|------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
| Revenues | | | |
| General Revenues: | | | |
| Interest on investments | \$6,244,814 | \$6,338,605 | \$16,429,644 |
| Change in fair value of investments | (13,902,289) | (3,150,562) | 2,882,713 |
| Interest income | 97 | 21,555 | - |
| Royalties | 194,536,869 | 110,738,895 | 89,224,480 |
| Bonuses, net of refunds | (37,769,279) | (851,997) | 1,167,696 |
| Rents | 226,053 | 255,544 | 245,978 |
| Interest on loans | 360,937 | 594,417 | 616,240 |
| Contributions to perpetual funds | 4,870,341 | 11,162,710 | 9,515,851 |
| Taxes | 440,460,696 | 442,333,437 | 80,816,356 |
| Gain on Sale of Capital Asset Land | (1,640) | 80,761 | 24,950 |
| Total General Revenue | <u>595,026,601</u> | <u>567,523,365</u> | <u>200,923,908</u> |
| Program Revenues: | | | |
| Interest on loans | 333,427 | 418,568 | 713,376 |
| Interest on investments | 192,179,928 | 138,167,552 | 116,609,611 |
| Change in fair value of investments | (472,833,791) | 910,922,332 | (194,250,435) |
| Royalties | 288,454,749 | 165,443,416 | 149,216,534 |
| Bonuses, net of refunds | 2,465,666 | 1,156,307 | 8,432,332 |
| Rents | 14,720,227 | 12,838,966 | 14,314,097 |
| Fees to Maintenance fund | 35,166,626 | 8,013,262 | 7,960,688 |
| Total Program Revenue | <u>60,486,832</u> | <u>1,236,960,403</u> | <u>102,996,203</u> |
| Total Revenues | <u>655,513,431</u> | <u>1,804,483,768</u> | <u>303,920,111</u> |
| Expenses | | | |
| Governmental Activities: | | | |
| General government | 1,590,501 | 2,517,362 | 3,204,107 |
| Intergovernmental | 847,235 | 7,709,625 | 22,220,963 |
| Education | 50,355,442 | 21,596,993 | 24,350,910 |
| Total Expenses | <u>52,793,178</u> | <u>31,823,980</u> | <u>49,775,980</u> |
| Excess before transfer | 602,720,253 | 1,772,659,789 | 254,144,131 |
| Transfers | (500,661,972) | (524,391,487) | (667,614,212) |
| Increase(decrease) in net position | <u>102,058,281</u> | <u>1,248,268,302</u> | <u>(413,470,082)</u> |
| Net position - beginning | 6,999,894,777 | 5,751,626,475 | 6,165,096,555 |
| Net position - ending | <u>\$7,101,953,058</u> | <u>\$6,999,894,777</u> | <u>\$5,751,626,475</u> |

During the fiscal year ending June 30, 2022, the Department's revenues decreased by a total of \$1,148,970,337. Royalty revenues increased by \$206,809,307 as inflation, supply chain disruptions and Russia's invasion into Ukraine and other issues stemming from the ongoing pandemic were exacerbated by soaring energy costs and commodity shortages caused by the war led to a significant increase in oil and gas prices resulting in increased royalty revenues. In addition, oil extraction tax revenues increased by \$34,590,271, primarily due to increased tax revenue to the State. Mineral lease bonus revenue decreased by \$35,607,923 due to bonus refunds issued pursuant to N.D.C.C. §61-33.1. The change in fair value of investments indicates a net loss of \$486,736,080 for fiscal year 2022 attributed to rising inflation, supply chain disruption and other issues stemming from Russian's invasion into Ukraine and the ongoing pandemic. An accelerated tightening of global monetary policy and falling economic growth estimates led to most major indices ending negatively by June.

During the fiscal year ending June 30, 2021, the Department's revenues increased by a total of \$1,500,563,657. Royalty revenues increased by \$37,741,297 as commodity prices recovered following the effects of the COVID-19 pandemic. In addition, oil extraction tax and gross production tax revenues increased by \$143,398,355 and \$218,197,798, respectively, primarily due to the tax distribution formula, which resulted in higher distributions to the Strategic Investment and Improvements fund during the second year of each biennia versus the first year. Mineral lease bonus revenue decreased by \$9,298,718 due to fewer mineral acres available to lease in producing areas and by bonus refunds issued pursuant to N.D.C.C. §61-33.1. The change in fair value of investments indicates a net gain of \$907,771,770 for fiscal year 2021 attributed to the strong market rally after the country reopened following COVID restrictions.

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, 2022, 2021 and 2020 are \$9,761,793, \$8,830,180, and \$8,798,580 (net of accumulated depreciation for equipment), respectively. These capital assets include land, equipment, and the purchasing of Microsoft Dynamics software starting in fiscal year 2020. See Note 14 to Financials Statements for additional details on capital assets.

Economic Factors

Fiscal year 2022 saw persistent rising inflation which cause a lot of concern. When Russia invaded Ukraine, existing factors such as persistent inflation, supply chain disruption, and other issues stemming from the ongoing pandemic were exacerbated by soaring energy costs and commodity shortages cause by the war. An accelerated tightening of global monetary policy and falling economic growth estimates led to most major indices ending negatively by June. These issues contribute to a slight decline in the investment portfolio of the trust assets. Conversely, these very same issues led to the significant increase in commodity prices resulting in an increase of oil and gas royalty revenues during the last quarter of fiscal year 2022.

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, 2022 and 2021

| | 2022 | 2021 |
|--------------------------------------------------|------------------------|------------------------|
| | Governmental | Governmental |
| | Activities | Activities |
| Assets: | | |
| Cash | \$ 574,285,156 | \$ 551,254,547 |
| Investments | 6,170,583,593 | 6,212,800,429 |
| Interest receivable | 26,687,000 | 14,397,445 |
| Accounts receivable | 75,064,576 | 49,786,963 |
| Invested securities lending collateral | 342,589,082 | 278,327,959 |
| Loans | | |
| Farm loans | 4,602,174 | 4,988,533 |
| School loans - Coal | 27,190,349 | 29,864,928 |
| Energy impact loans | 9,007,400 | 9,781,118 |
| Capital asset – land | 7,736,490 | 7,738,774 |
| Equipment (net of accumulate depreciation) | 2,025,303 | 1,091,406 |
| Due from other state agencies | 246,166,707 | 76,761,539 |
| Due from state general fund | - | 64,370,000 |
| Total Assets | 7,485,937,830 | 7,301,163,641 |
| Deferred Outflows of Resources: | | |
| Deferred pension outflows | 2,678,946 | 3,577,193 |
| Deferred Other post-employment benefits outflows | 52,159 | 51,366 |
| Total Deferred Outflows of Resources | 2,731,105 | 3,628,559 |
| Liabilities: | | |
| Accrued payroll | 253,787 | 253,212 |
| Accounts payable | 15,283,432 | 1,311,083 |
| Securities lending collateral | 342,589,082 | 278,327,959 |
| Due to other state agencies | 227,375 | 1,715,320 |
| Claimant liability | 22,357,233 | 16,461,434 |
| Long-term liabilities | | |
| Compensated absences due within one year | 9,615 | 11,559 |
| Compensated absences due in more than one year | 170,390 | 204,863 |
| Pension liability | 1,917,531 | 5,451,961 |
| Other post-employment benefits liability | 91,154 | 126,085 |
| Total Liabilities | 382,899,598 | 303,812,395 |
| Deferred Inflows of Resources: | | |
| Deferred pension inflows | 3,868,306 | 1,058,720 |
| Deferred other post-employment benefits inflows | (52,027) | 26,308 |
| Total Deferred Inflows of Resources | 3,816,279 | 1,085,028 |
| Net Position: | | |
| Net investment in capital assets | 9,761,793 | 8,830,180 |
| Restricted | | |
| Nonexpendable | 70,296,156 | 71,010,157 |
| Expendable | 5,978,730,364 | 6,061,026,839 |
| Unrestricted | 1,043,164,745 | 859,027,601 |
| Total Net Position | \$7,101,953,058 | \$6,999,894,777 |

See Notes to the Financial Statements

ND Department of Trust Lands
Statement of Activities
For the Year Ended June 30, 2022

| 2022 | | | | |
|-----------------------------------------------------------|-------------------------|---------------------------------|---------------------------------------------------|--------------------------------------|
| Functions/Programs of Governmental activities: | Program Revenues | | | Net (Expense) Revenue |
| | Expenses | Charges for Services | Operating Grants and Contributions | |
| General government | \$ 1,590,501 | \$ - | \$ - | \$ (1,590,501) |
| Intergovernmental | 847,235 | - | - | (847,235) |
| Education | 50,355,442 | 35,166,626 | 25,320,204 | 10,131,388 |
| Total | \$ 52,793,178 | \$ 35,166,626 | \$25,320,204 | \$ 7,693,652 |
| Net (expense) revenue | | | | 7,693,652 |
| General revenues: | | | | |
| Taxes: | | | | |
| Coal severance | | | | 1,493,992 |
| Oil extraction | | | | 257,257,887 |
| Gross production | | | | 181,708,817 |
| Contributions to special revenue fund | | | | 4,870,341 |
| Unrestricted investment earnings | | | | 6,244,814 |
| Net increase (decrease) in fair value of investments | | | | (13,902,287) |
| Royalties | | | | 194,536,869 |
| Bonuses, net of bonus refunds | | | | (37,769,279) |
| Rents | | | | 226,503 |
| Loan income | | | | 360,937 |
| Interest Income | | | | 97 |
| Gain on sale of capital asset – land | | | | (1,640) |
| Transfers: | | | | |
| To/from other state agencies | | | | (277,899,472) |
| Educational institutions | | | | (222,762,500) |
| Total general revenues and transfers | | | | 94,364,629 |
| Total change in net position | | | | 102,058,281 |
| Net position – beginning of year | | | | 6,999,894,777 |
| Net position – ending | | | | \$ 7,101,953,058 |

See Notes to the Financial Statements

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

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

See Notes to the Financial Statements

ND Department of Trust Lands
Balance Sheet
June 30, 2022

| Assets: | General Fund | Common Schools Trust Fund | Coal Development Fund | Oil and Gas & Energy Impact Funds | Strategic Investment & Improvements Fund | Other Governmental Funds | Total |
|--------------------------------------------|-------------------------|------------------------------------------|--------------------------------------|------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------|-------------------------|
| Cash | \$ 652,955 | \$ 130,528,879 | \$ 2,584,458 | \$ 409,685 | \$ 423,343,151 | \$ 16,766,028 | \$ 574,285,156 |
| Investments | - | 5,453,313,365 | 31,566,596 | - | 384,567,178 | 301,136,454 | 6,170,583,593 |
| Interest receivable | - | 24,172,624 | 46,992 | - | 1,013,826 | 1,453,558 | 26,687,000 |
| Accounts receivable | - | 37,487,097 | - | - | 33,847,104 | 3,730,375 | 75,064,576 |
| Invested securities lending collateral | - | 220,848,835 | 8,231,482 | - | 100,485,808 | 13,022,957 | 342,589,082 |
| Loans | | | | | | | |
| <i>Farm loans</i> | - | 4,238,931 | - | - | - | 363,243 | 4,602,174 |
| <i>School loans - Coal</i> | - | - | 27,190,349 | - | - | - | 27,190,349 |
| <i>Energy impact loans</i> | - | - | 9,007,400 | - | - | - | 9,007,400 |
| Due from other state agencies | - | 28,985,484 | 238,396 | - | 216,942,827 | - | 246,166,707 |
| Total Assets | \$ 652,955 | \$ 5,899,575,215 | \$ 78,865,673 | \$ 409,685 | \$ 1,160,199,894 | \$ 336,472,615 | \$ 7,476,176,037 |
| Liabilities: | | | | | | | |
| Accrued payroll | \$ - | \$ 181,668 | \$ - | \$ 83 | \$ 57,697 | \$ 14,338 | \$ 253,787 |
| Accounts payable | - | 809,251 | 4,134 | - | 14,426,067 | 43,979 | 15,283,431 |
| Securities lending collateral | - | 220,848,835 | 8,231,482 | - | 100,485,808 | 13,022,957 | 342,589,082 |
| Due to other state agencies | - | 36,004 | 166,877 | 140 | 21,154 | 3,201 | 227,375 |
| Claimant liability | - | 22,357,233 | - | - | - | - | 22,357,233 |
| Total Liabilities | - | 244,232,991 | 8,402,493 | 223 | 114,990,726 | 13,084,475 | 380,710,908 |
| Equity: | | | | | | | |
| Fund Balance: | | | | | | | |
| Permanent funds | | | | | | | |
| <i>Nonspendable</i> | - | - | 70,296,156 | - | - | - | 70,296,156 |
| <i>Committed</i> | - | - | 167,024 | - | - | - | 167,024 |
| Special revenue funds | | | | | | | |
| <i>Restricted</i> | - | 5,655,342,224 | - | - | - | 323,388,140 | 5,978,730,364 |
| <i>Committed</i> | - | - | - | 409,462 | 976,860,128 | - | 977,269,590 |
| <i>Assigned</i> | - | - | - | - | 68,349,040 | - | 68,349,040 |
| <i>Unassigned</i> | 652,955 | - | - | - | - | - | 652,955 |
| Total Fund Balance | 652,955 | 5,655,342,224 | 70,463,180 | 409,462 | 1,045,209,168 | 323,388,140 | 7,095,465,129 |
| Total Liabilities and Fund Balances | \$ 652,955 | \$ 5,899,575,215 | \$ 78,865,673 | \$ 409,685 | \$ 1,160,199,894 | \$ 336,472,615 | \$ 7,476,176,037 |

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

| | |
|------------------------------------------------|------------------------|
| Total fund balances - governmental funds | \$7,095,465,129 |
| Capital Asset - Land | 7,736,490 |
| Net book value of office equipment | 2,025,303 |
| Liability for compensated absences | (180,005) |
| Net OPEB liability | (91,154) |
| Deferred OPEB outflows | 52,159 |
| Deferred OPEB inflows | 52,027 |
| Net pension liability | (1,917,531) |
| Deferred pension outflows | 2,678,946 |
| Deferred pension inflows | (3,868,306) |
| Net position of governmental activities | \$7,101,953,058 |

ND Department of Trust Lands
Balance Sheet
June 30, 2021

| Assets: | General Fund | Common Schools Trust Fund | Coal Development Trust Fund | Oil and Gas & Flood Impact Grant Funds | Strategic Investment & Improvements Fund | Other Governmental Funds | Total |
|--------------------------------------------|-------------------------|------------------------------------------|--------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------|-------------------------|
| Cash | \$ 526,462 | \$ 97,603,607 | \$ 217,977 | \$ 1,257,307 | \$ 444,518,078 | \$ 7,131,116 | \$ 551,254,547 |
| Investments | - | 5,532,596,786 | 31,122,725 | - | 335,071,929 | 314,008,989 | 6,212,800,429 |
| Interest receivable | - | 12,551,175 | 66,970 | - | 951,922 | 827,378 | 14,397,445 |
| Accounts receivable | - | 27,159,338 | - | - | 20,458,978 | 2,168,647 | 49,786,963 |
| Invested securities lending collateral | - | 187,833,903 | 653,760 | - | 73,095,304 | 16,744,992 | 278,327,959 |
| Loans | | | | | | | |
| <i>Farm loans</i> | - | 4,594,849 | - | - | - | 393,684 | 4,988,533 |
| <i>School loans - Coal</i> | - | - | 29,864,928 | - | - | - | 29,864,928 |
| <i>Energy impact loans</i> | - | - | 9,781,118 | - | - | - | 9,781,118 |
| Due from other state agencies | - | 15,467,238 | 214,559 | - | 61,079,742 | - | 76,761,539 |
| Due from state general fund | - | 64,370,000 | - | - | - | - | 64,370,000 |
| Total Assets | \$ 526,462 | \$ 5,942,176,896 | \$ 71,922,037 | \$ 1,257,307 | \$ 935,175,953 | \$ 341,274,806 | \$ 7,292,333,461 |
| Liabilities: | | | | | | | |
| Accrued payroll | \$ - | \$ 187,925 | \$ 105 | \$ - | \$ 51,119 | \$ 14,063 | \$ 253,212 |
| Accounts payable | 37,334 | 1,103,665 | 310 | - | 53,901 | 64,792 | 1,260,002 |
| Securities lending collateral | - | 187,833,903 | 653,760 | - | 73,095,304 | 16,744,992 | 278,327,959 |
| Due to other state agencies | 40,239 | 13,063 | 150,191 | 610 | 1,510,191 | 1,026 | 1,715,320 |
| Claimant liability | - | 16,461,434 | - | - | - | - | 16,461,434 |
| Total Liabilities | 77,573 | 205,599,990 | 804,366 | 610 | 74,710,515 | 16,824,873 | 298,017,927 |
| Equity: | | | | | | | |
| Fund Balance: | | | | | | | |
| Permanent funds | | | | | | | |
| Nonspendable | - | - | 71,010,157 | - | - | - | 71,010,157 |
| Committed | - | - | 107,514 | - | - | - | 107,514 |
| Special revenue funds | | | | | | | |
| Restricted | - | 5,736,576,906 | - | - | - | 324,449,933 | 6,061,026,839 |
| Committed | - | - | - | 1,256,697 | 641,685,321 | - | 642,942,018 |
| Assigned | - | - | - | - | 218,780,117 | - | 218,780,117 |
| Unassigned | 448,889 | - | - | - | - | - | 448,889 |
| Total Fund Balance | 448,889 | 5,736,576,906 | 71,117,671 | 1,256,697 | 860,465,438 | 324,449,933 | 6,994,315,534 |
| Total Liabilities and Fund Balances | \$ 526,462 | \$ 5,942,176,896 | \$ 71,922,037 | \$ 1,257,307 | \$ 935,175,953 | \$ 341,274,806 | \$ 7,292,333,461 |

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

| | |
|------------------------------------------|------------------------|
| Total fund balances - governmental funds | \$6,994,315,534 |
| Capital asset - land | 7,738,774 |
| Net book value of office equipment | 1,091,406 |
| Liability for compensated absences | (216,422) |
| Net OPEB liability | (126,085) |
| Deferred OPEB outflows | 51,366 |
| Deferred OPEB inflows | (26,308) |
| Net pension liability | (5,451,961) |
| Deferred pension outflows | 3,577,193 |
| Deferred pension inflows | (1,058,720) |
| Net position of governmental activities | <u>\$6,999,894,777</u> |

ND Department of Trust Lands
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2022

| Revenues: | General Fund | Common Schools Trust Fund | Coal Development Trust Fund | Oil and Gas & Energy Impact Funds | Strategic Investment & Improvements Fund | Other Governmental Funds | Total |
|------------------------------------------------------|-------------------------|------------------------------------------|--------------------------------------------|------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------|-------------------------|
| Investment income | \$ - | \$ 181,236,925 | \$ 325,108 | \$ - | \$ 5,552,087 | \$ 10,114,198 | \$ 197,228,318 |
| Interest income | 97 | - | - | - | - | - | 97 |
| Loan income | - | - | - | - | - | - | - |
| <i>Farm loans</i> | - | 307,154 | - | - | - | 26,273 | 333,427 |
| <i>School loans - Coal</i> | - | - | 360,937 | - | - | - | 360,937 |
| Net increase (decrease) in fair value of investments | - | (448,361,311) | (1,162,199) | - | (12,615,607) | (24,596,963) | (486,736,080) |
| Securities lending income | - | 870,503 | 20,893 | - | 255,046 | 49,982 | 1,196,424 |
| Royalties | - | 266,787,464 | - | - | 190,853,663 | 25,350,491 | 482,991,618 |
| Bonuses, net of bonus refunds | - | 2,062,168 | - | - | (37,769,279) | 403,498 | (35,303,613) |
| Rental income | - | 13,589,170 | - | - | 12,466 | 1,344,644 | 14,946,280 |
| Coal severance tax | - | - | 1,493,992 | - | - | - | 1,493,992 |
| Gross production tax | - | - | - | - | 181,708,817 | - | 181,708,817 |
| Oil extraction tax | - | 122,357,608 | - | - | 134,900,279 | - | 257,257,887 |
| Unclaimed property collections | - | 4,870,341 | - | - | - | - | 4,870,341 |
| Indirect recovery costs | 35,166,626 | - | - | - | - | - | 35,166,626 |
| Total Revenues | 35,166,723 | 143,720,022 | 1,038,731 | - | 462,897,472 | 12,692,123 | 655,515,071 |
| Expenditures: | | | | | | | |
| Current | - | - | - | - | - | - | - |
| <i>General government</i> | - | - | 39,913 | - | 2,407,579 | 53,979 | 2,501,471 |
| <i>Intergovernmental</i> | - | - | - | 847,235 | - | - | 847,235 |
| <i>Education</i> | 34,962,657 | 14,445,348 | - | - | - | 947,436 | 50,355,441 |
| Total Expenditures | 34,962,657 | 14,445,348 | 39,913 | 847,235 | 2,407,579 | 1,001,415 | 53,704,147 |
| Excess of revenue over (under) expenditures | 204,066 | 129,274,674 | 998,818 | (847,235) | 460,489,893 | 11,690,708 | 601,810,924 |
| Other Financing Sources (Uses): | | | | | | | |
| Transfer to Public Instruction | - | (210,510,000) | - | - | - | - | (210,510,000) |
| Transfer to Educational Institutions | - | - | - | - | - | (12,252,500) | (12,252,500) |
| Transfer to Lignite Research Fund | - | - | (1,045,795) | - | - | - | (1,045,795) |
| Transfer to Attorney General | - | - | - | - | (3,000,000) | - | (3,000,000) |
| Transfer to Agricultural Department | - | - | - | - | (5,000,000) | - | (5,000,000) |
| Transfer to Insurance Commissioner | - | - | - | - | (200,000) | - | (200,000) |
| Transfer to Office of Management & Budget | - | - | - | - | (215,487,626) | - | (215,487,626) |
| Transfer to Office of the Adjutant General | - | - | - | - | (1,000,000) | - | (1,000,000) |
| Transfer to Innovation Loan Fund (BND) | - | - | - | - | (15,000,000) | - | (15,000,000) |
| Transfer to University System | - | - | - | - | (19,000,000) | - | (19,000,000) |
| Transfer to Department of Commerce | - | - | - | - | (15,000,000) | - | (15,000,000) |
| Transfer to Upper Great Plains Transportation | - | - | - | - | (2,073,000) | - | (2,073,000) |
| Transfer to State General Fund | - | - | (607,514) | - | - | - | (607,514) |
| Transfer to Facilities Management | - | - | - | - | - | (500,000) | (500,000) |
| Transfer State General Fund | - | - | - | - | 14,463 | - | 14,463 |
| Proceeds from sale of capital asset (land) | - | 644 | - | - | - | - | 644 |
| Total Other Financing Sources (Uses) | - | (210,509,356) | (1,653,309) | - | (275,746,163) | (12,752,500) | (500,661,328) |
| Net Change in Fund Balance | 204,066 | (81,234,682) | (654,491) | (847,235) | 184,743,730 | (1,061,792) | 101,149,596 |
| Fund Balance - beginning | 448,889 | 5,736,576,906 | 71,117,671 | 1,256,697 | 860,465,438 | 324,449,932 | 6,994,315,533 |
| Fund Balance - ending | <u>\$ 652,955</u> | <u>\$ 5,655,342,224</u> | <u>\$ 70,463,180</u> | <u>\$ 409,462</u> | <u>\$ 1,045,209,168</u> | <u>\$ 323,388,140</u> | <u>\$ 7,095,465,129</u> |

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

| | |
|-------------------------------------------------------------------------------------|----------------------|
| Net change in fund balance | \$101,149,596 |
| Net value of capital asset - land transaction | (4,805) |
| Net value of capital asset - acquired land | 2,521 |
| Depreciation expense on equipment | (689,089) |
| Office equipment additions | 1,622,986 |
| Decrease in compensated absences liability | 36,417 |
| Increase in net OPEB liability | 34,931 |
| Changes in deferred outflows and inflow resources related to net OPEB liability | 79,128 |
| Increase in net pension liability | 3,534,430 |
| Changes in deferred outflows and inflows resources related to net pension liability | (3,707,833) |
| Change in net position of governmental activities | <u>\$102,058,281</u> |

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

| Revenues: | General Fund | Common Schools Trust Fund | Coal Development Trust Fund | Oil and Gas & Flood Impact Grant Funds | Strategic Investment & Improvements Fund | Other Governmental Funds | Total |
|------------------------------------------------------|---------------------|----------------------------------|------------------------------------|---------------------------------------------------|-----------------------------------------------------|---------------------------------|-------------------------|
| Investment income | \$ - | \$ 130,235,307 | \$ 347,962 | \$ - | \$ 5,792,985 | \$ 7,477,107 | \$ 143,853,361 |
| Interest income | 23 | - | - | - | 21,532 | - | 21,555 |
| Loan income | - | - | - | - | - | 30,995 | 393,387 |
| <i>Farm loans</i> | - | 362,392 | - | - | - | - | 25,181 |
| <i>Energy construction loans</i> | - | 25,181 | - | - | - | - | 594,417 |
| <i>School loans - Coal</i> | - | - | 594,417 | - | - | - | - |
| Net increase (decrease) in fair value of investments | - | 862,501,389 | (196,739) | - | (2,921,994) | 48,389,141 | 907,771,797 |
| Securities lending income | - | 482,128 | 1,174 | - | 131,271 | 38,223 | 652,796 |
| Royalties | - | 153,825,247 | - | - | 109,747,506 | 12,609,558 | 276,182,311 |
| Bonuses, net of bonus refunds | - | 1,103,212 | - | - | (854,157) | 55,255 | 304,310 |
| Rental income | - | 11,769,950 | - | - | 67,873 | 1,256,687 | 13,094,510 |
| Coal severance tax | - | - | 1,468,023 | - | - | - | 1,468,023 |
| Gross production tax | - | - | - | - | 218,197,798 | - | 218,197,798 |
| Oil extraction tax | - | 68,855,764 | - | - | 153,811,852 | - | 222,667,616 |
| Unclaimed property collections | - | 11,162,710 | - | - | - | - | 11,162,710 |
| Indirect recovery costs | 8,013,262 | - | - | - | - | - | 8,013,262 |
| Total Revenues | 8,013,285 | 1,240,323,280 | 2,214,837 | - | 483,994,666 | 69,856,966 | 1,804,403,034 |
| Expenditures: | | | | | | | |
| Current | - | - | 20,127 | - | 1,644,730 | 43,014 | 1,707,871 |
| General government | - | - | 20,127 | - | 1,644,730 | 43,014 | 1,707,871 |
| Intergovernmental | - | - | - | 7,709,625 | - | - | 7,709,625 |
| Education | 7,886,485 | 12,887,048 | - | - | - | 823,460 | 21,596,993 |
| Total Expenditures | 7,886,485 | 12,887,048 | 20,127 | 7,709,625 | 1,644,730 | 866,474 | 31,014,489 |
| Excess of revenue over expenditures | 126,800 | 1,227,436,232 | 2,194,710 | (7,709,625) | 482,349,936 | 68,990,492 | 1,773,388,545 |
| Other Financing Sources (Uses): | | | | | | | |
| Transfer to Public Instruction | - | (183,378,000) | - | - | - | - | (183,378,000) |
| Transfer to Educational Institutions | - | - | - | - | - | (10,885,000) | (10,885,000) |
| Transfer to Lignite Research Fund | - | - | (1,027,616) | - | - | - | (1,027,616) |
| Transfer to State General Fund | - | - | (800,000) | - | (382,200,000) | - | (383,000,000) |
| Transfer to Agricultural Department | - | - | - | - | (92,071) | (2,200,000) | (2,292,071) |
| Transfer to Attorney General | - | - | - | - | (422,685) | - | (422,685) |
| Transfer to Dakota College at Bottineau | - | - | - | - | (2,500,000) | - | (2,500,000) |
| Transfer to Department of Human Services | - | - | - | - | (1,296,969) | - | (1,296,969) |
| Transfer to Environmental Quality | - | - | - | - | (1,057,658) | - | (1,057,658) |
| Transfer to Facilities Management | - | - | - | - | (500,000) | - | (500,000) |
| Transfer to Industrial Commission | - | - | - | - | (1,219,082) | - | (1,219,082) |
| Transfer to Lake Region State College | - | - | - | - | (363,000) | - | (363,000) |
| Transfer to Tax Commissioner | - | - | - | - | (13,683) | - | (13,683) |
| Transfer to Office of Management & Budget | - | - | - | - | (872,680) | - | (872,680) |
| Transfer to Legislative Council | - | - | - | - | - | (74,918) | (74,918) |
| Transfer to Supreme Court | - | - | - | - | - | (970,000) | (970,000) |
| Transfer from Department of Commerce | - | - | - | - | 119,262 | - | 119,262 |
| Transfer from Department of Corrections | - | - | - | - | 123,426 | - | 123,426 |
| Transfer from Environmental Quality | - | - | - | - | 126,023 | - | 126,023 |
| Transfer from Information Technology | - | - | - | - | 743,163 | - | 743,163 |
| Transfer from State General Fund | - | 64,370,000 | - | - | - | - | 64,370,000 |
| Proceeds from sale of capital asset (land) | - | 82,000 | - | - | - | - | 82,000 |
| Total Other Financing Sources (Uses) | - | (118,926,000) | (1,827,616) | - | (389,425,954) | (14,129,918) | (524,309,488) |
| Net Change in Fund Balance | 126,800 | 1,108,510,232 | 367,094 | (7,709,625) | 92,923,981 | 54,860,574 | 1,249,079,058 |
| Fund balance - beginning | 322,089 | 4,628,066,674 | 70,750,577 | 8,966,322 | 767,541,456 | 269,589,358 | 5,745,236,476 |
| Fund Balance - ending | \$ 448,889 | \$ 5,736,576,906 | \$ 71,117,671 | \$ 1,256,697 | \$ 860,465,437 | \$ 324,449,932 | \$ 6,994,315,534 |

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

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

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2022 and 2021

| | 2022 Indian Cultural Education Trust | 2021 Indian Cultural Education Trust |
|----------------------------------------|--------------------------------------------|--------------------------------------------|
| <u>Assets</u> | | |
| Cash | \$ 422 | \$ 2,102 |
| Investments | 1,324,232 | 1,436,653 |
| Interest Receivable | 5,333 | 2,584 |
| Invested securities lending collateral | 53,655 | 48,796 |
| Total Assets | <u>1,383,642</u> | <u>1,490,138</u> |
| <u>Liabilities</u> | | |
| Accounts payable | 189 | 280 |
| Securities lending collateral | 53,655 | 48,796 |
| Total Liabilities | <u>53,844</u> | <u>49,076</u> |
| <u>Net Position</u> | | |
| Net position, restricted for education | <u>1,329,798</u> | <u>1,441,059</u> |
| Total Net Position | <u>\$ 1,329,798</u> | <u>\$ 1,441,059</u> |

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2022 and 2021

| | 2022 | 2021 |
|----------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| | Theodore Roosevelt Presidential Library and Museum Endowment | Theodore Roosevelt Presidential Library and Museum Endowment |
| <u>Assets</u> | | |
| Cash | \$ 20,207 | \$ 132,929 |
| Investments | 52,219,779 | 56,140,784 |
| Interest Receivable | 111,396 | 1,056 |
| Invested securities lending collateral | 2,111,831 | 1,903,436 |
| Total Assets | 54,463,213 | 58,178,205 |
| <u>Liabilities</u> | | |
| Accounts payable | 7,436 | 10,917 |
| Loan Payable | - | 17,500,000 |
| Interest Payable | - | 317,158 |
| Securities lending collateral | 2,111,831 | 1,903,436 |
| Total Liabilities | 2,119,267 | 19,731,510 |
| <u>Net Position</u> | | |
| Net position, restricted for library | 52,343,946 | 38,446,695 |
| Total Net Position | \$ 52,343,946 | \$ 38,446,695 |

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 and 2021

| | 2022 Indian Cultural Education Trust | 2021 Indian Cultural Education Trust |
|---------------------------------------------|--------------------------------------------|--------------------------------------------|
| Additions | | |
| Contributions: | | |
| Donations | \$ - | \$ - |
| Total Contributions | <u>-</u> | <u>-</u> |
| Investment income: | | |
| Net change in fair value of investments | (109,295) | 228,427 |
| Interest | 44,865 | 34,715 |
| Less investment expense | (2,361) | (2,286) |
| Net Investment Income | <u>(66,792)</u> | <u>260,855</u> |
| Securities Lending Activity: | | |
| Securities lending income | 211 | 125 |
| Net Securities Lending Income | <u>211</u> | <u>125</u> |
| Miscellaneous Income | 2,460 | 2,906 |
| Total Additions | <u>(64,120)</u> | <u>263,886</u> |
| Deductions | | |
| Payments in accordance with Trust agreement | 46,052 | 42,556 |
| Administrative expenses | 1,088 | 1,580 |
| Total Deductions | <u>47,140</u> | <u>44,136</u> |
| Change in net position held in Trust for: | | |
| Indian Cultural Education Trust | (111,261) | 219,750 |
| Total Change in Net Position | <u>(111,261)</u> | <u>219,750</u> |
| Net Position – Beginning of Year | 1,441,059 | 1,221,309 |
| Net Position – End of Year | <u>\$ 1,329,798</u> | <u>\$ 1,441,059</u> |

See Notes to the Financial Statements

NORTH DAKOTA DEPARTMENT OF TRUST LANDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|-----------------------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| | <u>Theodore Roosevelt Presidential Library and Museum Endowment</u> | <u>Theodore Roosevelt Presidential Library and Museum Endowment</u> |
| Additions | | |
| Contributions: | | |
| Donations | \$ 17,500,000 | \$ 17,500,000 |
| Total Contributions | 17,500,000 | 17,500,000 |
| Investment income: | | |
| Net change in fair value of investments | (4,294,495) | 5,447,322 |
| Interest | 1,751,285 | 963,321 |
| Less investment expense | (92,299) | (70,104) |
| Net Investment Income | (2,635,509) | 6,340,539 |
| Securities Lending Activity: | | |
| Securities lending income | 8,324 | 4,886 |
| Net Securities Lending Income | 8,324 | 4,886 |
| Miscellaneous Income | 79 | 221 |
| Total Additions | 14,872,895 | 23,845,646 |
| Deductions | | |
| Payments in accordance with Trust agreement | 912,215 | - |
| Administrative expense | 63,428 | 500 |
| Interest expense | - | 317,158 |
| Total Deductions | 975,643 | 317,658 |
| Change in net position held in Endowment for: | | |
| Presidential Library and Museum | 13,897,251 | 23,527,989 |
| Total Change in Net Position | 13,897,251 | 23,527,989 |
| Net Position – Beginning of Year | 38,446,695 | 14,918,706 |
| Net Position – End of Year | \$ 52,343,946 | \$ 38,446,695 |

See Notes to the Financial Statements

ND Department of Trust Lands
Statement of Appropriations
June 30, 2022

| | Approved 2021-23 Biennial Appropriation | Final Adjusted Appropriation | 2022 Expenditures | 2023 Expenditures | Unexpended Appropriation |
|------------------------------------------------|--------------------------------------------------|---------------------------------|----------------------|----------------------|-----------------------------|
| General Fund Appropriated Expenditures: | | | | | |
| Salaries and Wages | \$ 6,473,127 | \$ 6,475,647 | \$ 3,065,906 | \$ - | \$ 3,409,741 |
| Operating Expenses | 2,229,872 | 2,229,872 | 661,106 | - | 1,568,766 |
| Capital Assets | 1,600,000 | 3,009,054 | 1,686,167 | - | 1,322,888 |
| Contingencies | 100,000 | 100,000 | - | - | 100,000 |
| | <u>\$ 10,402,999</u> | <u>\$ 11,814,573</u> | <u>\$ 5,413,179</u> | <u>\$ -</u> | <u>\$ 6,401,394</u> |

Continuing Appropriations:

| | | | | | |
|--------------------------------------------|--|--|---------------------|-------------|--|
| Investments | | | \$49,376,155 | \$ - | |
| Land Management – Grant and Non-Grant | | | 375,385 | - | |
| County Services - Roads & Bridges | | | 130,368 | - | |
| In Lieu Property Taxes | | | 137,357 | - | |
| Strategic Investment and Improvements fund | | | 395,668 | - | |
| Office Building | | | 53,855 | - | |
| Uniform Unclaimed Property | | | 322,208 | - | |
| Total * | | | <u>\$50,790,996</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 20 to Financial Statements on the Department's continuing appropriation authority of funding.

Oil and Gas Impact Grant Fund:

| | Approved 2021-23 Biennial Appropriation | Final Adjusted Appropriation | 2022 Expenditures | 2023 Expenditures | Unexpended Appropriation |
|--------------------------------------------|--------------------------------------------------|---------------------------------|----------------------|----------------------|-----------------------------|
| Energy Infrastructure and Impact Grants | \$ - | \$ 16,167,624 | \$837,196 | \$ - | \$ 15,330,428 |
| Energy Infrastructure and Impact Operating | | 99,473 | 11,002 | - | 88,470 |
| | <u>\$ -</u> | <u>\$ 16,267,096</u> | <u>\$ 848,198</u> | <u>\$ -</u> | <u>\$ 15,418,898</u> |

ND Department of Trust Lands
Statement of Appropriations
June 30, 2022

Strategic Investment and Improvements Fund:

| | Approved 2021-23 Biennial Appropriation | 2022 Expenditures | 2023 Expenditures | 2023-25 Biennial Emergency Clause (68 th Legislative Assembly) | Unexpended Appropriation |
|----------------------------------------------------------|--------------------------------------------------|-----------------------|----------------------|------------------------------------------------------------------------------------|-----------------------------|
| Bank of North Dakota (SB 2230) | \$ 30,000,000 | \$ - | \$ - | \$ - | \$ 30,000,000 |
| Innovation Loan Fund (HB 1141) | 15,000,000 | 15,000,000 | - | - | - |
| ND Agriculture Department (HB 1009) | 5,000,000 | 5,000,000 | - | - | - |
| ND Office of Attorney General (HB 1003) | 3,000,000 | 3,000,000 | - | - | - |
| ND Council of the Arts (HB 1015) | 1,000,000 | - | - | - | 1,000,000 |
| ND Department of Commerce (SB 2018) | 29,000,000 | 15,000,000 | - | - | 14,000,000 |
| ND Insurance Commissioner (HB 1010) | 200,000 | 200,000 | - | - | - |
| ND Office of Management & Budget (HB 1015) | 413,251,304 | 205,987,626 | - | - | 207,263,678 |
| ND Industrial Commission (SB 2014) | 9,500,000 | 9,500,000 | - | - | - |
| ND University System (SB 2003) | 19,000,000 | 19,000,000 | - | - | - |
| Office of the ND Adjutant General (HB 1016) | 1,000,000 | 1,000,000 | - | - | - |
| Upper Great Plains Transportation Institute (SB 2020) | 2,298,000 | 2,073,000 | - | - | 225,000 |
| | <u>\$ 528,249,304</u> | <u>\$ 275,760,626</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 252,488,678</u> |

See Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Reporting Entity

The North Dakota Department of Trust Lands (Department) is an agency of the State of North Dakota. The Board of University and School Lands (Board) was created under Article IX, Section 3 of the North Dakota State Constitution, and operates through the legislative authority of the N.D.C.C. Title 15, Chapters 47-30.1 and 57-62. The Board is the governing authority of the Department. 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 criterion 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 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 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 47-30.2.

The Strategic Investment and Improvements fund (the SIIF) accounts for producing and non-producing mineral interests formerly owned by the Bank of North Dakota (the 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 (the EIIO) 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 enacted by the legislative assembly. The legislative assembly did not provide any funding to the EIIO for the 2021-23 biennium.

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

The 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.

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.

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

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

Budgetary Policies and Procedures

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

Commission authorization, initiative, or referendum action. Unexpended appropriations lapse at the end of the biennium.

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

Cash Deposits and Investments

Cash includes all funds deposited with the 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, 2022, for funding of current operations. A majority of accrued royalty revenue is expected to be collected within the first 90 days following June 30, 2022. 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 of loan losses charged to operations and reduced by net charge-offs.

The adequacy of the allowance for loan losses and the provisions for loan losses charged to operations are based on management's evaluation of several factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality including estimated value of any underlying collateral, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful. Based on this assessment there was no allowance for loan losses on June 30, 2022 or 2021.

Claimant Liability

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

Long-Term Debt

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

Capital Assets

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

All other capital assets with an original cost of \$5,000 or more per unit, and an estimated useful life of more than 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 created a special fund designated as the state lands maintenance fund (general fund), which is funded by the trust fund assets. All administrative salaries and operating expenses of the Department must be paid from the state lands maintenance fund (general fund). The indirect recovery costs represent the reimbursement of these 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 as of June 30, 2022, was \$574,285,156 and the bank balance was \$574,305,783. As of June 30, 2021, the carrying amount of deposits was \$551,254,547 and the bank balance was \$551,389,581. 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.

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

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

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

ND Department of Trust Lands
Notes to Financial Statements
June 30, 2022 and 2021

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.

| Fiscal Year Ended June 30, 2022 | | | | | | | |
|-----------------------------------------------|------------------|---------------------------|-----------------------------|---------------------------------------|------------------------------------------|--------------------------|-------------------------|
| Fund Balances | General Fund | Common Schools Trust Fund | Coal Development Trust Fund | Oil and Gas & Flood Impact Grant Fund | Strategic Investment & Improvements Fund | Other Governmental Funds | Total |
| Permanent Funds: | | | | | | | |
| <i>Nonspendable</i> | | | | | | | |
| Permanent fund principal | \$ - | \$ - | \$70,296,156 | \$ - | \$ - | \$ - | \$70,296,156 |
| <i>Committed</i> | | | | | | | |
| Designated for transfer to State general fund | - | - | 167,024 | - | - | - | 167,024 |
| Special Revenue Funds: | | | | | | | |
| <i>Restricted</i> | | | | | | | |
| Distribution to educational beneficiaries | - | 5,655,342,224 | - | - | - | 316,615,642 | 5,971,957,866 |
| Capitol building maintenance | - | - | - | - | - | 6,772,498 | 6,772,498 |
| <i>Committed</i> | | | | | | | |
| Grants | - | - | - | 409,462 | - | - | 409,462 |
| Designated for transfer to(from): | | | | | | | |
| Agricultural Department | - | - | - | - | 5,000,000 | - | 5,000,000 |
| Attorney General Office | - | - | - | - | 3,000,000 | - | 3,000,000 |
| Department of Commerce | - | - | - | - | 15,000,000 | - | 15,000,000 |
| Innovation Loan Fund (BND) | - | - | - | - | 15,000,000 | - | 15,000,000 |
| Insurance Commissioner | - | - | - | - | 200,000 | - | 200,000 |
| Office of Management and Budget | - | - | - | - | 215,487,626 | - | 215,487,626 |
| Office of the Adjutant General | - | - | - | - | 1,000,000 | - | 1,000,000 |
| University System | - | - | - | - | 19,000,000 | - | 19,000,000 |
| Upper Great Plains Transportation | - | - | - | - | 2,073,000 | - | 2,073,000 |
| Operating Expenses | - | - | - | - | 701,099,502 | - | 701,099,502 |
| <i>Assigned</i> | | | | | | | |
| Potential mineral title disputes | - | - | - | - | 68,349,040 | - | 68,349,040 |
| <i>Unassigned</i> | | | | | | | |
| Operating Expenses | 652,955 | - | - | - | - | - | 652,955 |
| Total Fund Balances: | <u>\$652,955</u> | <u>\$5,655,342,224</u> | <u>\$70,463,180</u> | <u>\$409,462</u> | <u>1,045,209,168</u> | <u>\$323,388,140</u> | <u>\$ 7,095,465,129</u> |

ND Department of Trust Lands
Notes to Financial Statements
June 30, 2022 and 2021

| Fiscal Year Ended June 30, 2021 | | | | | | | |
|-----------------------------------------------|------------------|---------------------------|-----------------------------|---------------------------------------|------------------------------------------|--------------------------|-------------------------|
| Fund Balances | General Fund | Common Schools Trust Fund | Coal Development Trust Fund | Oil and Gas & Flood Impact Grant Fund | Strategic Investment & Improvements Fund | Other Governmental Funds | Total |
| Permanent Funds: | | | | | | | |
| <i>Nonspendable</i> | | | | | | | |
| Permanent fund principal | \$ - | \$ - | \$71,010,157 | \$ - | \$ - | \$ - | \$71,010,157 |
| <i>Committed</i> | | | | | | | |
| Designated for transfer to State general fund | - | - | 107,514 | - | - | - | 107,514 |
| Special Revenue Funds: | | | | | | | |
| <i>Restricted</i> | | | | | | | |
| Distribution to educational beneficiaries | - | 5,736,576,906 | - | - | - | 320,987,447 | 6,057,564,353 |
| Capitol building maintenance | - | - | - | - | - | 3,462,486 | 3,462,486 |
| <i>Committed</i> | | | | | | | |
| Grants | - | - | - | 1,256,697 | - | - | 1,256,697 |
| Designated for transfer to(from): | | | | | | | |
| Agricultural Department | - | - | - | - | 92,071 | - | 92,071 |
| Attorney General Office | - | - | - | - | 422,685 | - | 422,685 |
| Bank of North Dakota | - | - | - | - | 29,664,702 | - | 29,664,702 |
| Dakota College at Bottineau | - | - | - | - | 2,500,000 | - | 2,500,000 |
| Department of Commerce | - | - | - | - | (119,262) | - | (119,262) |
| ND Department of Corrections | - | - | - | - | (123,426) | - | (123,426) |
| Department of Human Services | - | - | - | - | 1,296,969 | - | 1,296,969 |
| Department of Environmental Quality | - | - | - | - | 931,635 | - | 931,635 |
| Facility Management (OMB) | - | - | - | - | 500,000 | - | 500,000 |
| Industrial Commission | - | - | - | - | 1,219,082 | - | 1,219,082 |
| Information Technology | - | - | - | - | (743,163) | - | (743,163) |
| Lake Region State College | - | - | - | - | 363,000 | - | 363,000 |
| Office of Management and Budget | - | - | - | - | 383,072,680 | - | 383,072,680 |
| Office of State Tax Commissioner | - | - | - | - | 13,683 | - | 13,683 |
| Operating Expenses | - | - | - | - | 222,594,665 | - | 222,594,665 |
| <i>Assigned</i> | | | | | | | |
| Potential mineral title disputes | - | - | - | - | 218,780,117 | - | 218,780,117 |
| <i>Unassigned</i> | | | | | | | |
| Operating Expenses | 448,889 | - | - | - | - | - | 448,889 |
| Total Fund Balances: | <u>\$448,889</u> | <u>\$5,736,576,906</u> | <u>\$71,117,671</u> | <u>\$1,256,697</u> | <u>860,465,438</u> | <u>\$324,449,933</u> | <u>\$ 6,994,315,534</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.

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The following tables show the investments by investment type, amount and maturity as of June 30, 2022 and 2021, respectively. When callable, maturity is calculated with the first call date.

Fiscal Year 2022

| <u>Investment Type</u> | <u>Total Fair Value</u> | Less than 1 <u>Year</u> | <u>1 to 6 Years</u> | <u>6 to 10 Years</u> | More than 10 <u>Years</u> | <u>Maturity Undetermined</u> | <u>Reason Undetermined</u> |
|------------------------------------|-------------------------|----------------------------|----------------------|----------------------|------------------------------|----------------------------------|-------------------------------------------------------------------------------|
| Asset Backed Securities | 117,132,687 | 118,591 | 89,072,948 | 11,173,777 | 16,767,371 | - | |
| Bank Loans | 10,949,277 | - | 5,989,630 | 4,959,647 | - | - | |
| Commerical Mortgage-Backed | 15,138,949 | - | 706,727 | 1,099,296 | 13,332,926 | - | |
| Corporate Bonds | 378,910,138 | 14,617,990 | 231,825,546 | 77,212,650 | 55,253,952 | - | |
| Corporate Convertible Bonds | 4,774,367 | 73,678 | 1,573,338 | 353,475 | 2,773,876 | - | |
| Government Agencies | 39,678,608 | 10,152,474 | 27,252,337 | 1,030,307 | 1,243,490 | - | |
| Government Bonds | 253,645,280 | 57,062,020 | 124,913,651 | 10,911,525 | 60,758,084 | - | |
| Gov't Mortgage Back Securities | 100,913,805 | - | 1,285,866 | 3,973,593 | 95,654,346 | - | |
| Municipal/Provincial Bonds | 87,735,925 | 22,185,635 | 57,681,252 | 4,273,777 | 3,595,261 | - | |
| Non-Government Backed CMOs | 10,690,297 | - | 1,843,843 | 1,839,774 | 7,006,680 | - | |
| Short Term Bills and Notes | 11,164,678 | 11,164,678 | - | - | - | - | |
| Sukuk | 1,031,908 | - | - | 1,031,908 | - | - | |
| Funds – Other Fixed Income | 552,121,805 | (67,060,438) | 197,483,964 | 137,406,670 | 88,363,809 | 195,927,800 | Unclaimed Property Non-Fixed Income |
| Funds – Short Term | 122,727,394 | 122,677,766 | - | - | - | 49,628 | Unclaimed Property |
| Funds – Corporate Bond | 72,558 | - | - | - | - | 72,558 | Unclaimed Property |
| Funds – Municipal/Provincial Bonds | 10,975 | - | - | - | - | 10,975 | Unclaimed Property |
| Funds – Gov't Agencies | 2 | - | - | - | - | 2 | Unclaimed Property |
| Total | <u>\$1,706,698,653</u> | <u>\$170,992,394</u> | <u>\$739,629,102</u> | <u>\$255,266,399</u> | <u>\$344,749,795</u> | <u>\$196,060,963</u> | |
| Limited Partnerships (LP) | \$864,502,091 | \$116,644,066 | \$521,758,243 | \$88,951,044 | \$42,831,046 | \$94,317,692 | Includes: Preferred Equity, Asset Acquisitions, Equity Upside & Restructuring |

ND Department of Trust Lands
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Fiscal Year 2021

| <u>Investment Type</u> | <u>Total Fair Value</u> | Less than 1 <u>Year</u> | <u>1 to 6 Years</u> | <u>6 to 10 Years</u> | More than 10 <u>Years</u> | <u>Maturity Undetermined</u> | <u>Reason Undetermined</u> |
|------------------------------------|-------------------------|----------------------------|------------------------|----------------------|------------------------------|----------------------------------|-------------------------------------------------------------------------------------|
| Asset Backed Securities | 156,969,372 | 472,898 | 71,013,139 | 25,602,596 | 59,880,739 | - | |
| Bank Loans | 5,592,530 | - | - | 5,592,530 | - | - | |
| Collateralized Bonds | 2,099,042 | - | - | - | 2,099,042 | - | |
| Commerical Mortgage-Backed | 29,640,858 | - | - | 3,570,639 | 26,070,219 | - | |
| Corporate Bonds | 606,843,432 | 124,704,401 | 321,174,456 | 82,599,567 | 78,365,008 | - | |
| Corporate Convertible Bonds | 5,191,037 | - | 1,697,925 | - | 3,493,112 | - | |
| Government Agencies | 147,226,072 | 82,369,133 | 63,567,145 | 1,289,794 | - | - | |
| Government Bonds | 276,294,010 | 39,144,113 | 145,547,779 | 40,363,241 | 51,238,877 | - | |
| Gov't Mortgage Back Securities | 92,434,687 | - | 1,440,477 | 8,158,838 | 82,835,372 | - | |
| Municipal/Provincial Bonds | 88,848,552 | 17,531,536 | 65,634,106 | 5,682,910 | - | - | |
| Non-Government Backed CMOs | 94,611,600 | - | 4,750,041 | 42,761,465 | 47,100,094 | - | |
| Short Term Bills and Notes | 229,699,699 | 229,699,699 | - | - | - | - | |
| Funds – Other Fixed Income | 732,481,080 | (127,967,006) | 490,243,496 | 136,190,860 | 231,584,960 | 2,428,770 | Cash/Currency Forwards Unclaimed Property |
| Funds – Short Term | 23,029,646 | 22,973,627 | - | - | - | 56,019 | Unclaimed Property |
| Funds – Corporate Bond | 74,232 | - | - | - | - | 74,232 | |
| Funds – Municipal/Provincial Bonds | 12,206 | - | - | - | - | 12,206 | |
| Funds – Gov't Agenices | 3,281 | - | - | - | - | 3,281 | Unclaimed Property |
| Total | <u>\$2,491,051,336</u> | <u>\$388,928,401</u> | <u>\$1,165,068,564</u> | <u>\$351,812,440</u> | <u>\$582,667,423</u> | <u>\$2,574,508</u> | |
| Limited Partnerships (LP) | \$283,256,214 | \$11,723,329 | \$219,945,440 | \$21,737,434 | \$5,431,607 | \$24,418,404 | Includes: Preferred Equity, Asset Acquisitions, Equity Upside & Restructuring |

Custodial Risk

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

Concentration of Credit Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings, including securities identified as U.S. Government in the tables below, which are U.S. Treasury and Agency debt securities that are either explicitly or implicitly guaranteed by the U.S. government and thus are considered to have no credit risk. Each fixed income securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The following tables present the Board's ratings as of June 30, 2022 and 2021, respectively.

ND Department of Trust Lands
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Fiscal Year 2022

| | AAA | AA | A | BBB | BB | B | CCC | CC | Not Rated | US Government | Total |
|---------------------------------------|---------------|--------------|---------------|---------------|--------------|--------------|-------------|----------|---------------|---------------|-----------------|
| Asset Backed Securities | \$ 61,431,077 | \$ 2,783,509 | \$ 6,699,703 | \$ 9,286,953 | \$ - | \$ - | \$ - | \$ - | \$ 36,931,445 | \$ - | \$ 117,132,687 |
| Bank Loans | - | - | - | - | 2,721,145 | 6,396,128 | - | - | 1,832,004 | - | 10,949,277 |
| Commercial Mortgage-Backed | - | - | - | - | - | - | - | - | 15,138,949 | - | 15,138,949 |
| Corporate Bonds | 14,220,467 | 20,689,046 | 149,811,391 | 162,261,604 | 13,044,912 | 7,190,291 | 1,410,584 | 19,000 | 10,262,843 | - | 378,910,138 |
| Corporate Convertible Bonds | - | - | 193,199 | 827,415 | 912,960 | 817,922 | - | - | 2,022,870 | - | 4,774,366 |
| Government Agencies | 17,580,042 | 18,924,642 | - | 1,872,476 | - | - | - | - | - | 1,301,448 | 39,678,608 |
| Government Bonds | 6,950,598 | 483,095 | 217,326 | 2,302,761 | - | - | - | - | 3,590,508 | 240,100,993 | 253,645,281 |
| Government Mortgage Backed Securities | - | - | - | 860,277 | 686,345 | - | - | - | - | 99,367,183 | 100,913,805 |
| Municipal/Provincial Bonds | 28,540,429 | 41,644,441 | 9,301,738 | - | - | - | - | - | 8,249,317 | - | 87,735,925 |
| Non-Government Backed C.M.O.s | 74,606 | 297,579 | - | - | 425,595 | - | - | - | 9,892,517 | - | 10,690,297 |
| Short Term Bills and Notes | - | - | - | - | - | - | - | - | - | 11,164,678 | 11,164,678 |
| Sukuk | - | - | - | 1,031,908 | - | - | - | - | - | - | 1,031,908 |
| Funds - Other Fixed Income | - | - | - | - | - | - | - | - | 552,121,805 | - | 552,121,805 |
| Funds - Short Term Investment | - | - | - | - | - | - | - | - | 122,727,394 | - | 122,727,394 |
| Funds - Corporate Bond | - | - | - | - | - | - | - | - | 72,558 | - | 72,558 |
| Funds - Municipal/Provincial Bond | - | - | - | - | - | - | - | - | 10,975 | - | 10,975 |
| Funds - Government Agencies | - | - | - | - | - | - | - | - | - | 2 | 2 |
| | \$128,797,219 | \$84,822,312 | \$166,223,357 | \$178,443,394 | \$17,790,957 | \$14,404,341 | \$1,410,584 | \$19,000 | \$762,853,185 | \$351,934,304 | \$1,706,698,653 |

Fiscal Year 2021

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

Foreign Currency Risk

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

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Fiscal Year 2022

| Currency | Debt | Equity | Total |
|------------------------|--------------------|-------------------------|-------------------------|
| Australian Dollar | \$ - | \$ 66,965,724 | \$ 66,965,724 |
| Brazilian Real | - | 10,735,271 | 10,735,271 |
| British Pound Sterling | (8,621) | 116,203,815 | 116,195,194 |
| Canadian Dollar | - | 87,239,420 | 87,239,420 |
| Chilean Peso | - | 925,028 | 925,028 |
| Chinese Renminbi | - | 7,698,575 | 7,698,575 |
| Chinese Yuan | - | 34,770,591 | 34,770,591 |
| Columbian Peso | - | 343,440 | 343,440 |
| Czech Koruna | - | 1,583,944 | 1,583,944 |
| Danish Krone | - | 19,985,108 | 19,985,108 |
| Egyptian Pounds | - | (42,235) | (42,235) |
| European Euro | (27,216) | 220,507,755 | 220,480,540 |
| Greek drachma | - | 52,053 | 52,053 |
| Hong Kong Dollar | - | 50,923,303 | 50,923,303 |
| Hungarian Forint | - | 325,197 | 325,197 |
| Indian Rupee | - | 2,771,991 | 2,771,991 |
| Indonesian Rupiah | - | 3,883,627 | 3,883,627 |
| Israel Shekel | - | 10,938,467 | 10,938,467 |
| Japanese Yen | - | 181,697,390 | 181,697,390 |
| Kuwaiti dinar | - | 1,559,261 | 1,559,261 |
| Malaysian Ringgit | - | 703,247 | 703,247 |
| Mexican Peso | - | 457,570 | 457,570 |
| Moroccan Dirham | - | (36,485) | (36,485) |
| New Zealand Dollar | - | 2,125,398 | 2,125,398 |
| Norwegian Krone | - | 10,298,106 | 10,298,106 |
| Peruvian Nuevo Sol | - | 45,807 | 45,807 |
| Philippines Peso | - | 277,612 | 277,612 |
| Polish Zloty | - | 453,296 | 453,296 |
| Qatari Riyal | - | 909,763 | 909,763 |
| Romanian New Leu | - | 54,728 | 54,728 |
| Saudi Arabian Riyal | - | 3,694,277 | 3,694,277 |
| Singapore Dollar | - | 11,286,820 | 11,286,820 |
| South African Rand | - | 2,812,574 | 2,812,574 |
| South Korean Won | - | 31,220,583 | 31,220,583 |
| Swedish Krona | - | 25,461,257 | 25,461,257 |
| Swiss Franc | - | 72,384,414 | 72,384,414 |
| Taiwan dollar | - | 24,687,240 | 24,687,240 |
| Thai Baht | - | 4,046,483 | 4,046,483 |
| Turkish Lira | - | 988,677 | 988,677 |
| UAE dirham | - | 2,068,375 | 2,068,375 |
| | <u>(\$ 35,837)</u> | <u>\$ 1,013,007,467</u> | <u>\$ 1,012,971,631</u> |

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2022 and 2021

Fiscal Year 2021

| Currency | Debt | Equity | Total |
|------------------------|----------------------|-------------------------|------------------------|
| Australian Dollar | \$ 188,854 | \$ 60,194,805 | \$ 60,383,658 |
| Brazilian Real | 4,820,736 | 10,717,499 | 15,538,235 |
| British Pound Sterling | 5,390,058 | 125,092,702 | 130,482,760 |
| Canadian Dollar | - | 68,669,589 | 68,669,589 |
| Chilean Peso | 9,561,953 | 748,717 | 10,310,670 |
| Chinese Renminbi | 119,276 | 48,624,408 | 48,743,684 |
| Columbian Peso | 4,134,899 | 215,731 | 4,350,630 |
| Czech Koruna | - | 917,430 | 917,430 |
| Danish Krone | - | 21,149,228 | 21,149,228 |
| Egyptian Pounds | - | 50,760 | 50,760 |
| European Euro | 8,179,499 | 250,094,039 | 258,273,539 |
| Greek drachma | - | 253,801 | 253,801 |
| Hong Kong Dollar | - | 56,800,234 | 56,800,234 |
| Hungarian Forint | 3,657,795 | 291,871 | 3,949,666 |
| Indian Rupee | - | 17,574,811 | 17,574,811 |
| Indonesian Rupiah | 228,612 | 9,822,037 | 10,050,649 |
| Israel Shekel | - | 5,581,718 | 5,581,718 |
| Japanese Yen | - | 200,952,889 | 200,952,889 |
| Kenyan Shilling | - | 1,495,925 | 1,495,925 |
| Malaysian Ringgit | 4,333,692 | 1,979,648 | 6,313,340 |
| Mexican Peso | 8,667,384 | 6,491,696 | 15,159,081 |
| New Zealand Dollar | - | 1,897,657 | 1,897,657 |
| Norwegian Krone | - | 8,868,757 | 8,868,757 |
| Peruvian Nuevo Sol | - | 88,830 | 88,830 |
| Philippines Peso | - | 989,824 | 989,824 |
| Polish Zloty | 9,701,109 | 1,463,613 | 11,164,723 |
| Qatari Riyal | - | 342,631 | 342,631 |
| Russian Rubles | 4,234,296 | 1,167,484 | 5,401,780 |
| Saudi Arabian Riyal | - | 3,350,173 | 3,350,173 |
| Singapore Dollar | - | 10,698,626 | 10,698,626 |
| South African Rand | 417,466 | 7,320,146 | 7,737,612 |
| South Korean Won | - | 24,089,725 | 24,089,725 |
| Swedish Krona | - | 37,842,413 | 37,842,413 |
| Swiss Franc | - | 68,261,271 | 68,261,271 |
| Taiwan dollar | - | 34,081,502 | 34,081,502 |
| Thai Baht | 974,087 | 3,459,153 | 4,433,240 |
| Turkish Lira | - | 571,052 | 571,052 |
| UAE dirham | - | 482,222 | 482,222 |
| | <u>\$ 64,609,718</u> | <u>\$ 1,092,694,613</u> | <u>\$1,157,304,332</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, 2022 and 2021, 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 loss of \$372,583 for fiscal year 2022 and a loss of \$714,178 fiscal year 2021. At June 30, 2022 and 2021, the Board’s investment portfolio included the currency forwards balances shown below.

| Currency | Cost | Purchases | Sales | Fair Value | |
|-----------------------------------------|-----------|-----------|-----------|---------------|----------------|
| | | | | June 30, 2022 | June 30, 2021 |
| European Euro | (736,700) | - | (729,224) | (\$729,224) | (\$16,150,523) |
| Great Britain pound sterling | (241,709) | - | (242,949) | (242,949) | (24,149,735) |
| United States Dollar | 978,409 | 978,409 | - | 978,409 | 40,639,096 |
| Total forwards subject to currency risk | | | | \$ 6,236 | \$ 338,839 |

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 select OECD government debt securities; and domestic and international equities from major indices as defined specifically in the non-cash collateral guidelines within the Securities Lending Authorization Agreement. U.S. securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest. In all cases the borrower provides more collateral than the value of securities lent. Therefore, there is no credit risk related to security lending transactions.

Non-U.S. securities are loaned versus collateral valued at 105% of the 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 126 days as of June 30, 2022, and 148 days as of June 30, 2021.

Cash open collateral is invested in a short-term investment pool, the NDLAN Custom fund, which had an interest sensitivity of 40 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, 2022 and 2021.

Fiscal Year 2022

| Security Type | Underlying Securities on Loan for Cash | Cash Collateral | Underlying Securities on Loan for Non- Cash Collateral | Non-Cash Collateral |
|----------------------------------------------------------------|----------------------------------------------|-----------------------|-----------------------------------------------------------------|------------------------------|
| US Agencies | \$ 7,026,054 | \$ 7,173,546 | \$ - | \$ - |
| US Corporate Fixed | 68,596,775 | 70,395,196 | 4,099,561 | 4,211,377 |
| US Equities | 63,021,111 | 65,330,051 | 5,699,182 | 5,850,441 |
| US Government Fixed | 198,378,184 | 201,855,774 | 19,025,443 | 19,528,362 |
| | <u>\$ 337,022,124</u> | <u>\$ 344,754,567</u> | <u>\$ 28,824,186</u> | <u>\$ 29,590,180</u> |
| Market Value of Securities on Loan against Cash Collateral | | | | \$ 337,022,124 |
| Market Value of Securities on Loan against Non-Cash Collateral | | | | <u>28,824,186</u> |
| Total Market Value of Securities on Loan | | | | <u><u>\$ 365,846,310</u></u> |

Fiscal Year 2021

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

| | |
|----------------------------------------------------------------|------------------------------|
| Market Value of Securities on Loan against Cash Collateral | \$ 274,302,738 |
| Market Value of Securities on Loan against Non-Cash Collateral | <u>22,554,944</u> |
| Total Market Value of Securities on Loan | <u><u>\$ 296,857,682</u></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 three bond funds which have daily liquidity; and 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 five private debts limited partnership fund that has a 5-year lock up period after the expiration of the commitment period; and one private equity investment. . 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.

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2022.

| | Fair Value at 6/30/22 | 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 | \$ 11,164,678 | \$ - | \$ 11,164,678 | \$ - |
| Total Short-Term Securities | <u>11,164,678</u> | <u>-</u> | <u>11,164,678</u> | <u>-</u> |
| Equity Investments | | | | |
| Common Stock | 242,459,057 | 242,453,251 | 831 | 4,976 |
| Equity Funds/ETFs | 1,785,495 | 1,127,947 | 654,766 | 2,782 |
| Convertible Equity | 5,055,111 | 280,744 | 4,743,789 | 30,578 |
| Preferred Stock | 89,547 | 89,547 | - | - |
| Total Equity Investments | <u>249,389,210</u> | <u>243,951,489</u> | <u>5,399,386</u> | <u>38,336</u> |
| Fixed Income Investments | | | | |
| Asset Backed Securities | 107,390,840 | - | 107,390,840 | - |
| Bond Funds/ETFs | 118,386,036 | 12,322 | 118,373,714 | - |
| Collateralized Mortgage | 10,690,297 | - | 10,690,297 | - |
| Commercial Mortgage Backed | 15,138,949 | - | 15,138,949 | - |
| Corporate Bonds | 379,942,046 | - | 379,942,046 | - |
| Government Agencies | 23,922,872 | - | 23,922,872 | - |
| Government Bonds | 341,381,205 | - | 341,381,205 | - |
| Government Mortgage Backed | 116,669,541 | - | 116,669,541 | - |
| Collateralized Debt | 9,741,847 | - | 9,741,847 | - |
| Bank Loans | 10,949,277 | - | 10,949,277 | - |
| Total Fixed Income Investments | <u>1,134,212,910</u> | <u>12,322</u> | <u>1,134,200,588</u> | <u>-</u> |
| Other Investment Assets | | | | |
| Commodity ETF | 342 | 342 | - | - |
| Currency | 5,596,837 | 5,596,837 | - | - |
| FX Contracts | 7,476 | 7,476 | - | - |
| Global Tactical Asset Allocation MF | 652,140,124 | - | 652,140,124 | - |
| Master Limited Partnership | 2,551,387 | 2,551,386 | - | 1 |
| REITs | 12,222,937 | 12,222,937 | - | - |
| Rights/Warrants | 811 | 811 | - | - |
| Miscellaneous | 623,553 | 623,552 | 1 | - |
| Total Other Investment Assets | <u>673,143,466</u> | <u>21,003,341</u> | <u>652,140,125</u> | <u>1</u> |
| Total Investments at Fair Value | <u>\$2,067,910,265</u> | <u>\$264,967,152</u> | <u>\$1,802,904,776</u> | <u>\$ 38,337</u> |

ND Department of Trust Lands
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| | | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-----------------------------------------|------------------------|-------------------------|-------------------------|-----------------------------|
| Investments measured at NAV: | | | | |
| Commingled Funds – Equities | \$1,864,517,941 | \$ - | Daily, Monthly | < 5 days |
| Commingled Funds Fixed Income | 18,899,494 | - | Daily | < 5 days |
| Real Estate Funds | 1,095,180,503 | 30,000,000 | Quarterly | 90 days |
| Hedge Fund | 61,859,799 | 240,000,000 | NA | NA |
| Private Credit | 804,564,287 | 219,900,000 | NA | NA |
| Private Equity | 49,815,251 | 233,500,000 | NA | NA |
| Private Infrastructure | 177,724,572 | 105,000,000 | NA | NA |
| Total Investments measured at NAV | <u>\$4,072,561,847</u> | <u>\$ 828,400,000</u> | | |
| Investments at other than fair Value | | | | |
| Cash and adjustments to Cash | <u>\$ 82,522,142</u> | | | |
| Total Investment at other than FV | <u>\$ 82,522,142</u> | | | |
| Value Indeterminable/Worthless/Delisted | 7,835 | | | |
| Total Investments | <u>\$6,223,002,090</u> | | | |

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

| | Fair Value at 6/30/21 | Fair Value Measures Using | | |
|--------------------------------|--------------------------|-----------------------------------------------|---------------------------------------------------|-----------------------------------------------|
| | | Quoted Prices in Active Markets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
| Investments, at fair value | | | | |
| Short Term Securities | | | | |
| Short Term Bills and Notes | \$ 245,348,866 | \$ 15,649,167 | \$ 229,699,699 | \$ - |
| Total Short-Term Securities | <u>245,348,866</u> | <u>15,649,167</u> | <u>229,699,699</u> | <u>-</u> |
| Equity Investments | | | | |
| Common Stock | 257,223,092 | 257,222,095 | 553 | 444 |
| Equity Funds/ETFs | 250,594,974 | 2,074,571 | 248,502,403 | - |
| Convertible Equity | 637,145 | 637,145 | - | - |
| Preferred Stock | 46,414 | 46,414 | - | - |
| Total Equity Investments | <u>508,501,625</u> | <u>259,980,225</u> | <u>248,520,956</u> | <u>444</u> |
| Fixed Income Investments | | | | |
| Asset Backed Securities | 108,442,777 | - | 107,344,863 | 1,097,914 |
| Bond Funds/ETFs | 122,739,437 | 93,999 | 122,645,438 | - |
| Collateralized Mortgage | 94,611,600 | - | 92,259,594 | 2,352,006 |
| Commercial Mortgage Backed | 31,000,437 | - | 27,293,501 | 3,706,936 |
| Corporate Bonds | 612,037,468 | - | 612,034,468 | - |
| Government Agencies | 69,976,302 | - | 69,976,302 | - |
| Government Bonds | 365,142,562 | - | 365,142,562 | - |
| Government Mortgage Backed | 169,684,457 | - | 169,684,457 | - |
| Collateralized Debt | 49,266,058 | - | 48,080,158 | 1,185,900 |
| Bank Loans | 5,592,530 | - | 5,592,530 | - |
| Total Fixed Income Investments | <u>1,628,490,628</u> | <u>93,999</u> | <u>1,620,053,873</u> | <u>8,342,756</u> |

ND Department of Trust Lands
Notes to Financial Statements
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| | | | | |
|-----------------------------------------|------------------------|-------------------------|-------------------------|-----------------------------|
| Other Investment Assets | | | | |
| Commodity ETF | 435 | 435 | - | - |
| Currency | 1,191,532 | 1,191,532 | - | - |
| FX Contracts | 306,531 | 306,531 | - | - |
| Global Tactical Asset Allocation MF | 878,935,754 | - | 878,935,754 | - |
| Master Limited Partnership | 1,085,673 | 1,085,672 | - | 1 |
| REITs | 12,543,304 | 12,543,304 | - | - |
| Rights/Warrants | 236 | 236 | - | - |
| Miscellaneous | 175 | - | - | 175 |
| Total Other Investment Assets | <u>894,063,640</u> | <u>15,127,710</u> | <u>878,935,754</u> | <u>176</u> |
| Total Investments at Fair Value | <u>\$3,276,404,759</u> | <u>\$290,851,101</u> | <u>\$2,977,210,282</u> | <u>\$ 8,343,376</u> |
| | | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Investments measured at NAV: | | | | |
| Commingled Funds – Equities | \$1,778,806,900 | \$ - | Daily, Monthly | < 5 days |
| Commingled Funds Fixed Income | 136,806,566 | - | Daily | < 5 days |
| Real Estate Funds | 781,207,960 | - | Quarterly | 90 days |
| Private Debt Fund | 283,256,214 | 296,000,000 | NA | NA |
| Private Equity | 11,229,716 | 249,000,000 | NA | NA |
| Total Investments measured at NAV | <u>\$2,991,307,356</u> | <u>\$ 545,000,000</u> | | |
| Investments at other than fair Value | | | | |
| Cash and adjustments to Cash | <u>\$ 1,656,019</u> | | | |
| Total Investment at other than FV | <u>\$ 1,656,019</u> | | | |
| Value Indeterminable/Worthless/Delisted | 7,761 | | | |
| Total Investments | <u>\$6,269,375,895</u> | | | |

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, 2022, and 2021 the Board held \$872,775 and \$693,041, respectively in unclaimed mutual funds.

The Common Schools Trust Fund owns the building occupied by the Department. For the period ending June 30, 2022 and 2021, the book value of the building was \$250,550 and \$438,988, respectively. The book value of the building is included in the investments line of the balance sheet.

NOTE 8 – INVESTMENT EXPENSES

| | 2022 | 2021 |
|---------------------------------|---------------------|---------------------|
| Investment managers' fees: | | |
| Large cap equity | \$66,916 | \$67,603 |
| Mid cap equity | 32,913 | 31,171 |
| Small cap equity | 1,379,986 | 964,582 |
| International equity | 1,003,086 | 1,302,910 |
| Emerging markets equity | 983,830 | 1,785,458 |
| Core fixed income | 1,219,409 | 1,132,812 |
| Non-core fixed income | 10,707,888 | 8,973,275 |
| Loan pools | 23,878 | 30,791 |
| Real Estate | 23,825,413 | - |
| Core real estate | - | 3,604,149 |
| Non-core real estate | - | 7,786,380 |
| Inflation protected | - | 560,811 |
| Global tactical | 7,356,296 | 7,119,337 |
| Private equity | 2,091,887 | 54,803 |
| Private infrastructure | 531,241 | - |
| Credit opportunities | (1,067,452) | 2,646,227 |
| Transition account | 319,015 | 143,895 |
| Total investment managers' fees | <u>48,474,306</u> | <u>36,204,204</u> |
| Custody fees | 124,583 | 101,235 |
| Investment consultant fees: | | |
| General consultant fees | 167,167 | 162,233 |
| Specialty consultant fees | 33,545 | 31,606 |
| Miscellaneous expenses | 576,554 | 397,444 |
| Total investment expenses | <u>\$49,376,155</u> | <u>\$36,896,722</u> |

Reconciliation of investment expenses to financial statements

| | 2022 | 2021 |
|----------------------------------------------------------------|---------------------|---------------------|
| Investment expenses as reflected in the financial statements | \$ 9,872,733 | \$ 9,389,494 |
| Plus, investment management fees included in investment income | | |
| Large cap equity | 3,677 | 5,817 |
| Small cap equity | - | (217) |
| International equity | 6,623 | 7,839 |
| Emerging markets equity | 981,390 | 1,785,458 |
| Core fixed income | 315,357 | 304,964 |
| Non-core fixed income | 10,146,565 | 7,793,859 |
| Loan pools | 23,878 | 30,791 |
| Real Estate | 19,112,958 | - |
| Core real estate | - | (2,059) |
| Non-core real estate | - | 7,786,380 |
| Global tactical | 7,356,296 | 7,119,337 |
| Private equity | 2,091,887 | 25,182 |
| Private Infrastructure | 531,241 | - |
| Credit opportunities | (1,067,452) | 2,646,227 |
| Specialty consultant fees | 1,002 | 3,653 |
| Investment expenses per schedule | <u>\$49,376,155</u> | <u>\$36,896,722</u> |
| | 2022 | 2021 |
| BND loan pool management expenses: | | |
| Expenses as reflected in the financial statements | \$23,878 | \$29,594 |
| Plus expenses as reflected in interest income | - | 1,197 |
| Total loan pool expenses | <u>\$23,878</u> | <u>\$30,791</u> |

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, 2022, the non-current and current portions of the loans were \$4,093,258 and \$508,916 respectively. As of June 30, 2021, the non-current and current portions of the loans were \$4,403,841 and \$540,537, respectively.

As of June 30, 2022, and 2021, the pool had a net position of \$7,041,113 and \$6,731,563, respectively. For the same period, the pool earned net income of \$309,548 and \$363,794, respectively.

NOTE 10 - COAL WARRANTS

The Board is authorized to make loans to coal development impacted counties, cities, and school districts from the Coal Development Trust fund, 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, 2022, the non-current and current portions of the loans were \$8,204,710 and \$802,690, respectively. The same amounts as of June 30, 2021, were \$8,998,483 and \$782,634, respectively.

NOTE 11 - 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.

The BND processes and services all regular school construction loans. The 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, 2021, there are two (2) gross production tax backed school construction loans processed with Coal Development Trust funding.

As of June 30, 2022, the non-current and current portions of loans from the Coal Development Trust Fund were \$24,733,824 and \$2,456,525, respectively. The same amounts as of June 30, 2021, were \$27,332,836 and \$2,532,092, respectively.

NOTE 12 – FUEL PRODUCTION FACILITY LOAN GUARANTEE PROGRAM

The Guarantee Loan Program is administered by the BND and governed by N.D.C.C. Chapter 6-09.7. Under this program, the BND shall establish and maintain a guarantee reserve fund in a special account at the BND not to exceed \$80 million of the Strategic Investment and Improvements fund to maintain one hundred percent of the guarantee reserve fund balance. Moneys in the guarantee reserve fund are available to reimburse lenders for guaranteed loans in default. The amount of the reserves for all guaranteed loans must be determined by a formula that will assure, as determined by the BND, an adequate amount of reserve. For the period ending, June 30, 2022 and 2021, the balance in the reserve fund at the BND is \$36,773,276 and \$29,686,234, respectfully.

NOTE 13 - OFFICE LEASE COMMITMENT

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

For the period ending June 30, 2022 and 2021, rent of \$71,982 and \$70,702, respectively, was paid by the non-Common Schools Trusts funds.

NOTE 14 - CAPITAL ASSETS

| Governmental Activities: | Balance 7/1/21 | Additions | Retirements | Balance 6/30/22 |
|--------------------------------|----------------|------------|-------------|-----------------|
| Land | \$7,738,774 | \$ 2,521 | \$4,805 | \$7,736,490 |
| Equipment | 1,736,297 | 1,622,986 | | 3,359,283 |
| Less accumulated depreciation: | | | | |
| Equipment | (644,891) | (689,089) | | (1,333,980) |
| Net capital assets | \$8,830,180 | \$ 936,418 | \$4,805 | \$9,761,793 |

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

ND Department of Trust Lands

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Under the provisions of the Enabling Act, land was granted to the State for the support of the common schools and other institutions. Under Constitutional authority, no grant land may be sold for less than ten dollars an acre which is the value per acre used for statement of net position purposes. During fiscal year 2022, 252.08 acres were acquired, and 480.46 acres were sold. In fiscal year 2021, no acres were acquired, and 113.68 acres were sold.

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

A total of \$689,089 and \$363,697 in equipment depreciation for fiscal years ending June 30, 2022 and 2021, respectfully, was charged to the education program.

NOTE 15 - DUE FROM (TO) OTHERS

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

The following is detail of amounts due from and to other state agencies as of June 30, 2022 and 2021. The *due from other state agencies* represents revenues earned during the year ended June 30, that were not received as of June 30, 2022 and 2021. The *due to other state agencies* represents services rendered to the Department during the year ended June 30, that were not paid as of June 30, 2022 and 2021.

| Fund | 2022 | | 2021 | |
|-----------------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | Due from other state agencies | Due to other state agencies | Due from other state agencies | Due to other state agencies |
| General fund: | | | | |
| Attorney General | \$ - | \$ - | \$ - | \$ 9,084 |
| Dept. of Transportation | - | - | - | 3,082 |
| Information Technology Department | - | - | - | 27,802 |
| Central Services | - | - | - | - |
| Office of Management and Budget | - | - | - | 271 |
| | - | - | - | 40,239 |
| Common School Trust fund: | | | | |
| State Treasurer | 28,985,484 | - | 15,467,238 | - |
| Attorney General Office | - | 9,068 | - | - |
| Department of Transportation | - | 4,910 | - | - |
| Information Technology Department | - | 10,813 | - | 791 |
| Office of Management and Budget | - | 455 | 64,370,000 | 267 |
| Bank of North Dakota | - | 10,758 | - | 12,005 |
| | 28,985,484 | 36,004 | 79,837,238 | 13,063 |

ND Department of Trust Lands

Notes to Financial Statements

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Perpetual funds:

| | | | | |
|-----------------------------------|---|--------------|---|--------------|
| Attorney General Office | - | 727 | - | - |
| Department of Transportation | - | 394 | - | - |
| Information Technology Department | - | 797 | - | - |
| Office of Management and Budget | - | 25 | - | - |
| Bank of North Dakota | - | 921 | - | 1,026 |
| | - | <u>2,864</u> | - | <u>1,026</u> |

Strategic Investment & Improvements fund:

| | | | | |
|-------------------------------------|--------------------|---------------|-------------------|------------------|
| State Treasurer | 216,942,827 | - | 59,967,868 | - |
| Department of Environmental Quality | - | - | 126,023 | - |
| Department of Commerce | - | - | 119,262 | - |
| Department of Corrections | - | - | 123,426 | - |
| Information Technology Department | - | 6,802 | 743,163 | 1,705 |
| Attorney General | - | 10,934 | - | 190,852 |
| Office of Management & Budget | - | 205 | - | - |
| Department of Transportation | - | 3,212 | - | - |
| Industrial Commission | - | - | - | 817,634 |
| OMB – Facility Management | - | - | - | 500,000 |
| | <u>216,942,827</u> | <u>21,154</u> | <u>61,079,742</u> | <u>1,510,191</u> |

Coal Development Trust fund:

| | | | | |
|-----------------------|----------------|----------------|----------------|----------------|
| State Treasurer | 238,396 | - | 214,559 | - |
| Lignite Research Fund | - | 166,877 | - | - |
| State General Fund | - | - | - | 150,191 |
| | <u>238,396</u> | <u>166,877</u> | <u>214,559</u> | <u>150,191</u> |

Capitol Building Trust fund:

| | | | | |
|-----------------------------------|---|------------|---|---|
| Attorney General | - | 126 | - | - |
| Department of Transportation | - | 68 | - | - |
| Information Technology Department | - | 138 | - | - |
| Office of Management & Budget | - | 4 | - | - |
| | - | <u>336</u> | - | - |

Oil and Gas Impact fund

| | | | | |
|-----------------------------------|---|------------|---|------------|
| Information Technology Department | - | 140 | - | 607 |
| Office of Management and Budget | - | - | - | 3 |
| | - | <u>140</u> | - | <u>610</u> |

Total Due From/Due To

| | | | | |
|--|-----------------------|-------------------|-----------------------|---------------------|
| | <u>\$ 246,166,707</u> | <u>\$ 227,375</u> | <u>\$ 141,131,539</u> | <u>\$ 1,715,320</u> |
|--|-----------------------|-------------------|-----------------------|---------------------|

NOTE 16 – PERPETUAL FUND DISTRIBUTION POLICY

According to Section 2 of Article IX of the North Dakota State Constitution, biennial distributions from the perpetual trust funds must be ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. The average value of trust assets is determined by using the 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 17 – TRANSFERS FROM (TO) OTHER AGENCIES

The following detail represents amounts transferred to beneficiaries and other state agencies as of June 30, 2022 and 2021.

ND Department of Trust Lands

Notes to Financial Statements

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| Fund | 2022 | | 2021 | |
|------------------------------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | Transfers from other agencies | Transfers to other agencies | Transfers from other agencies | Transfers to other agencies |
| Perpetual Funds: | | | | |
| Ellendale | - | \$ 997,500 | - | \$ 847,000 |
| Industrial School | - | 1,114,000 | - | 932,000 |
| Mayville State University | - | 371,000 | - | 334,000 |
| ND State University | - | 3,310,000 | - | 2,958,000 |
| School of Mines | - | 987,000 | - | 873,000 |
| School of Science | - | 828,000 | - | 747,000 |
| School of the Blind | - | 545,000 | - | 440,000 |
| School of the Deaf | - | 1,007,000 | - | 949,000 |
| State Hospital | - | 694,000 | - | 664,000 |
| University of ND | - | 1,555,000 | - | 1,379,000 |
| Valley City State University | - | 589,000 | - | 517,000 |
| Veterans Home | - | 255,000 | - | 245,000 |
| | - | 12,252,500 | - | 10,885,000 |
| Commons School Trust Fund | | | | |
| Department of Public Instruction | - | 210,510,000 | - | 183,378,000 |
| State General Fund | - | - | 64,370,000 | - |
| | - | 210,510,000 | 64,370,000 | 183,378,000 |
| Strategic Investment and Improvements : | | | | |
| General Fund of North Dakota | 14,463 | 205,000,000 | - | 382,200,000 |
| Attorney General | - | 3,000,000 | - | 422,685 |
| Department of Agriculture | - | 5,000,000 | - | 92,071 |
| Insurance Commissioner | - | 200,000 | - | - |
| Office of Adjutant General | - | 1,000,000 | - | - |
| Dakota College of Bottineau | - | - | - | 2,500,000 |
| Innovation Loan Fund (BND) | - | 15,000,000 | - | - |
| Department of Commerce | - | 15,000,000 | 119,262 | - |
| Department of Corrections | - | - | 123,426 | - |
| ND University System | - | 19,000,000 | - | - |
| Department of Human Services | - | - | - | 1,296,969 |
| Upper Great Plains Transportation | - | 2,073,000 | - | - |
| Environmental Quality | - | - | 126,023 | 1,057,658 |
| Industrial Commission | - | - | - | 1,219,082 |
| Information Technology | - | - | 743,163 | - |
| Lake Region State College | - | - | - | 363,000 |
| Tax Commissioner | - | - | - | 13,683 |
| Office of Management & Budget (OMB) | - | 10,487,626 | - | 872,680 |
| OMB – Facility Management | - | - | - | 500,000 |
| | 14,463 | 275,760,626 | 1,111,874 | 390,537,828 |

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2022 and 2021

Coal Development Trust:

| | | | | |
|------------------------------|---|-----------|---|-----------|
| General Fund of North Dakota | - | 607,514 | - | 800,000 |
| Lignite Research Fund | - | 1,045,795 | - | 1,027,616 |
| | - | 1,653,309 | - | 1,827,616 |

Capitol Building Trust:

| | | | | |
|-----------------------|---|---------|---|-----------|
| Facilities Management | - | 500,000 | - | 2,200,000 |
| ND Supreme Court | - | - | - | 970,000 |
| Legislative Council | - | - | - | 74,918 |
| | - | 500,000 | - | 3,244,918 |

| | | | | |
|-----------------|----|------------|----|-------------|
| Total Transfers | \$ | 14,463 | \$ | 500,676,435 |
| | \$ | 65,481,874 | \$ | 589,873,362 |

NOTE 18 – ASSIGNED FUND BALANCE

On August 25, 2022, the Board of University and School Lands classified \$68,349,040 of the Strategic Investment and Improvements fund as an assigned fund balance for fiscal year 2023 financial statement purposes. This commitment was made by the Board to indicate that these funds should not be transferred out of this fund until potential title disputes related to certain riverbed leases have been resolved.

NOTE 19 – LITIGATION

The 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. The Board, 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. Trial was held in July 2021 on the issue of damages and attorneys' fees. Post-trial briefing is ongoing. The matter was resolved in favor of the State and Wilkinson's appealed. The case was heard before the North Dakota Supreme Court on May 18, 2022. No decision has been issued by the Court.

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

This case is also challenging the State's determination of the ordinary high watermark, but the tract is located on the east side of the Highway 85 Bridge where the Department has currently leased only the historic channel of the Missouri River. Plaintiffs are requesting that title to the minerals be quieted and have alleged claims of unconstitutional takings, trespass, slander of title and constructive trust/unjust enrichment against the State. The Complaint also makes several claims against XTO individually. The district court issued an order dated August 21, 2017, staying these proceedings until such time as final review findings under N.D.C.C. § 61-33.1-03 are adopted by the North Dakota Industrial Commission. A continued stay was affirmed on November 27, 2018. Stay has been lifted and summary judgment motions are due in October 2021 with a trial being scheduled in December 2021. The matter was resolved in favor of the State and Whitetail Wave appealed. The case was heard before the North Dakota Supreme Court on September 7, 2022. Supreme Court issued decision on September 29, 2022, dismissing the appeal as unripe because not all issues were resolved by the District Court. Status conference with District Court scheduled for October 7, 2022.

Whiting Oil and Gas Corporation v. Arlen A. Dean, et. al., consolidated with State of North Dakota ex rel North Dakota State Engineer v. Leland

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

State Engineer's Partial Motion to Dismiss. Also, on April 8, 2020, Whiting filed a Suggestion of Bankruptcy for Whiting Petroleum Corporation and Certain of its Affiliates and Notice of Automatic Stay of Proceedings. Stay was lifted and is scheduled for trial in September 2022. The State filed a Motion for Partial Summary Judgment on May 15, 2022. The Motion for Partial Summary Judgment was denied. Trial was held September 12-16, 2022. Awaiting transcript to begin post-trial briefing.

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 stay lifted - 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. However, this 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. Court issued mandate against State in August 2021. In February 2022, the parties filing a Joint Status Report setting briefing dates. The State filed a Motion for Partial Summary Judgment. The Motion was denied, and the State appealed the issue. Briefing is complete, awaiting court decision.

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 and State Engineer challenged the BLM's resurvey, but the BLM's Montana Office rejected the challenged. 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. Case is stayed pending further order of the Court. Parties will file a joint status report proposing further proceedings in this case within 30 days of an order addressing the parties' pending motions in Continental Resources, Inc.

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

16, 2021, on the motions for summary judgment and an order was issued in Newfield's favor on that date. The Trial was held October 4-6, 2021. The Court issued its Memorandum Opinion, Findings of Fact, Conclusions of Law and Order for Judgment on October 13, 2021. The Board appealed in January of 2022. Briefs were filed and the matter was heard by the North Dakota Supreme Court on June 30, 2022. The Supreme Court issued an opinion on September 1, 2022, reversing the District Court's opinion.

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

In April 2019, XTO Energy, Inc. and XTO Holdings, LLC (XTO), brought an interpleader action against the Board and the United States regarding certain lands underlying XTO operated wells located in McKenzie and Williams Counties. This case addresses overlapping ownership claims by the State and the United States of minerals underlying the Missouri River. XTO is requesting the Court determine the property interests for the disputed lands so that XTO can correctly distribute the proceeds from the affected wells. The Board and the United States filed Answers on August 1, 2019. On April 7, 2020, the Court

issued an Order Staying Proceedings pending resolution of the Continental Interpleader litigation, *Continental Resources, Inc., v. North Dakota Board of University and School Lands*, docket number #1:17-cv-14. In July 2020, the parties filed a stipulation regarding deposit of royalty payments and transfer the royalty payments from BND to the Court's registry. The Court accepted that Stipulation in November 2020. This case continues to be stayed pending the outcome of *Continental Resources, Inc. v. North Dakota Board of University and School Lands*.

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

On July 16, 2020, the Mandan, Hidatsa, and Arikara Nation (Tribe) filed a Complaint against the United States Department of the Interior (DOI); David Bernhardt, Secretary of DOI; and Daniel Jorjani, DOI Solicitor. Along with its Complaint, the Tribe filed a motion for preliminary injunction asking that the Court to immediately order DOI to refrain from doing anything to implement the Jorjani Opinion until the Court has decided the merits of the Tribe's claims regarding that Opinion. A scheduling conference was held by telephone on July 23, 2020, with a follow up on July 29. The parties agreed the pending motion for preliminary injunction can be considered Plaintiff's motion for partial summary judgment on count one and resolved with defendant's cross motion for partial summary judgment as to that count. The merits of count one will be consolidated with any hearing on the motion for preliminary injunction. The Court set certain filing deadlines. The State of North Dakota filed an Expedited Motion to Intervene, and that request was granted. The United States filed its opposition to Plaintiff's Motion for Preliminary Injunction and Cross-Motion for Partial Summary Judgment on September 1, 2020. The State of North Dakota filed its Intervenor-Defendant's Cross-Motion for Partial Summary Judgment and Opposition to Plaintiff's Motion for Preliminary Injunction on September 8, 2020. The Tribe filed a Motion to Complete Administrative Record on September 8, 2020. On August 16, 2021, a Minute Order was entered continuing the stay and that the parties shall file a joint status report within 14 days of the issuance of a new M-Opinion or the conclusion of the Solicitor's Office review without a new M-

Opinion, or on November 16, 2021, if nothing has been filed by that date. The case remained on stay until February 4, 2022, when the Opinion Regarding the Status of Mineral Ownership Underlying the Missouri River Within the Boundaries of the Fort Berthold Reservation (North Dakota), M-37073, was issued by the Solicitor, Robert T. Anderson. The parties agreed to various joint status report filings and on April 4, 2022, DOI filed a Notice of Recordation of Trust Title. The State filed a Supplemental Motion to Intervene which was denied. Briefing is ongoing.

Northern Oil and Gas, Inc. v. Continental Resources, Inc.; Board of University and School Lands of the State of North Dakota; and North Dakota Industrial Commission

On September 25, 2020, Northern Oil and Gas, Inc. filed a Complaint against Continental Resources, Inc. (Continental), Board of University and School Lands of the State of North Dakota (Board), and North Dakota Industrial Commission (NDIC) seeking review of the findings of the NDIC relating to the location of the historical riverbed channel of the Missouri River with respect to the N/2 of Section 27, Township 153 North, Range 93 West, 5th P.M. Northern requests an order determining that the high water mark of the northern edge of the riverbed extends further to the north and northwest versus what is depicted in the Wenck Survey. Various motions have been entered and various discovery has been conducted. Trial is set for May 16-18, 2023, with a status conference set for January 30, 2023.

EEE Minerals, LLC, and Suzanne Vohs as Trustee for The Vohs Family Revocable Living Trust v. State of North Dakota, the Board of University and School Lands of the State of North Dakota; and Jodi Smith as Commissioner for the Board of University and School Lands of the State of North Dakota

On December 1, 2020, EEE Minerals, LLC, and Suzanne Vohs as Trustee for The Vohs Family Revocable Living Trust (Plaintiffs) filed a Complaint against State of North Dakota, the Board of University and School Lands of the State of North Dakota; and Jodi Smith as Commissioner for the Board of University and School Lands of the State of North Dakota (Defendants). The Complaint seeks a declaratory judgment that the N.D.C.C. § § 61-33.1-01 to 61-33.1-05 is preempted by federal law and violates the Constitution and the laws of the United States; an order enjoining Defendants from claiming ownership of the property by virtue of North Dakota law in violation of the Vohs Trust and EEE Mineral's rights secured by the laws of the United States and the United States Constitution; damages to the Vohs Trust and EEE Minerals in the amount equal to damages proven at trial; reasonable attorneys' fees and costs pursuant to 42 USC § 1988; and other relief the Court deems just and equitable. In January of 2021, State Defendants filed a Motion to Dismiss. The matter was dismissed by the Court on May 31, 2022. On June 1, 2022, Plaintiffs file a notice of appeal to the United States District Court of Appeals for the Eighth Circuit. Briefing is ongoing.

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

NOTE 20 – CONTINUING APPROPRIATIONS

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

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

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

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

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

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

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

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

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

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

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

NOTE 21 – CLAIMANT LIABILITY

Claimant liability represents the value of property escheated to the Department and expected to be reclaimed by the rightful owner or their heirs. The claimant liability increases with collections of escheated property and decreases when property is reclaimed and paid to the rightful owner or their heirs. Unclaimed property is accreted into net position of the Common School Trust fund based on 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, 2022 and 2021.

| | |
|-------------------------------------|-----------------------------|
| Claimant Liability – June 30, 2020 | \$ 16,645,538 |
| June 30, 2021 | |
| Collections subject to liability | 17,913,264 |
| Less claims paid | 6,794,785 |
| Decrease accreted into net position | 11,302,583 |
| Claimant Liability – June 30, 2021 | <u>\$ 16,461,434</u> |
| June 30, 2022 | |
| Collections subject to liability | 17,506,083 |
| Less claims paid | 6,053,669 |
| Decrease accreted into net position | 5,556,615 |
| Claimant Liability – June 30, 2022 | <u><u>\$ 22,357,233</u></u> |

NOTE 22 – 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>7/1/21</u> | <u>Additions</u> | <u>Reductions</u> | Amounts Due Within One <u>Year</u> | Amounts Due <u>Thereafter</u> | Balance <u>6/30/22</u> |
|----------------------------------------------------------|--------------------------|------------------|-------------------|------------------------------------------|----------------------------------|---------------------------|
| Governmental Activities- Other long-term liabilities: | | | | | | |
| Compensated absences | \$216,422 | \$139,279 | \$175,695 | \$9,615 | \$170,390 | \$180,006 |

| | Balance <u>7/1/20</u> | <u>Additions</u> | <u>Reductions</u> | Amounts Due Within One <u>Year</u> | Amounts Due <u>Thereafter</u> | Balance <u>6/30/21</u> |
|----------------------------------------------------------|--------------------------|------------------|-------------------|------------------------------------------|----------------------------------|---------------------------|
| Governmental Activities- Other long-term liabilities: | | | | | | |
| Compensated absences | \$199,443 | \$142,042 | \$125,062 | \$11,559 | \$204,863 | \$216,422 |

The reported liabilities for compensated absences were \$180,006 and \$216,422 at June 30, 2022 and 2021, respectively. This balance includes the employer’s share of FICA taxes.

Long-Term Debt

The following is a summary of the long-term debt from the Bank of North Dakota to the Theodore Roosevelt Presidential Library and Museum Endowment fund for the year ending June 30, 2022.

| | Balance 7/1/2021 | Additions | Reductions | Amounts Due Within One Year | Balance 6/30/2022 |
|------------------------|---------------------|-----------|---------------|-----------------------------------|----------------------|
| Fiduciary Activities - | | | | | |
| Liabilities | | | | | |
| Loan Payable | \$ 17,500,000 | \$ - | \$ 17,500,000 | \$ - | \$ - |

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

| | Balance 7/1/2020 | Additions | Reductions | Amounts Due Within One Year | Balance 6/30/2021 |
|------------------------|---------------------|---------------|---------------|-----------------------------------|----------------------|
| Fiduciary Activities - | | | | | |
| Liabilities | | | | | |
| Loan Payable | \$ - | \$ 35,000,000 | \$ 17,500,000 | \$ 17,500,000 | \$ 17,500,000 |

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

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

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

NOTE 23 – 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 chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

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

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

On June 30, 2022 and 2021, the Department reported a liability of \$1,917,531 and \$5,451,961, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and 2020, 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. On June 30, 2021 the Department's proportion was 0.183971 percent which was an increase of 0.010674 percent from its proportion measured as of June 30, 2020.

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2022 and 2021

For the year ended June 30, 2022, the Department recognized pension expense of \$341,848. On June 30, 2022, 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 | \$ 33,106 | \$ (195,710) |
| Changes in assumptions | 2,122,334 | (2,767,080) |
| Net difference between projected and actual earnings on pension plan investment | - | (711,182) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 368,648 | (194,334) |
| Employer contributions subsequent to the measurement date | 154,858 | - |
| TOTAL | <u>\$2,678,946</u> | <u>\$ (3,868,306)</u> |

The \$154,858 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, 2023.

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> |
|---------------------------|----------------------------------|
| 2023 | \$ (204,561) |
| 2024 | (299,253) |
| 2025 | (179,990) |
| 2026 | (660,414) |
| Thereafter | - |

For the year ended June 30, 2021, the Department recognized pension expense of \$965,928. At June 30, 2021, 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 | \$ 21,217 | \$ (276,256) |
| Changes in assumptions | 2,922,595 | (483,177) |
| Net difference between projected and actual earnings on pension plan investment | 175,962 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 308,857 | (299,287) |
| Employer contributions subsequent to the measurement date | 148,562 | - |
| TOTAL | \$ 3,577,193 | \$ (1,058,720) |

The \$148,562 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, 2022.

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> |
|---------------------------|----------------------------------|
| 2022 | \$ 695,155 |
| 2023 | 578,242 |
| 2024 | 490,547 |
| 2025 | 605,967 |
| Thereafter | - |

Actuarial assumptions.

The total pension liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

For active members, inactive members, and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2022

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------|--------------------------|---------------------------------------------------|
| Domestic Equity | 30% | 6.00% |
| International Equity | 21% | 6.70% |
| Private Equity | 7% | 9.50% |
| Domestic Fixed Income | 23% | 0.73% |
| Global Real Assets | 19% | 4.77% |

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

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

For active members, inactive members, and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2021

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------|--------------------------|---------------------------------------------------|
| Domestic Equity | 30% | 6.30% |
| International Equity | 21% | 6.85% |
| Private Equity | 7% | 9.75% |
| Domestic Fixed Income | 23% | 1.25% |
| Global Real Assets | 19% | 5.01% |

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 purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 1.92%; and the resulting Single Discount Rate is 7.00% for fiscal year ending June 30, 2022. For fiscal year ending June 30, 2021, the expected rate of return on pension plan investments was 7.00%; the municipal bond rate was 2.45%; and the resulting Single Discount Rate was 4.64%

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 4.64 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate for the year ending June 30, 2022:

| | 1% Decrease in Discount Rate <u>(6.00%)</u> | Current Discount Rate <u>(7.00%)</u> | 1% Increase in Discount Rate <u>(8.00%)</u> |
|-------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------|---------------------------------------------------|
| Employer's proportionate share of the net pension liability | \$3,049,518 | \$1,917,531 | \$ 974,973 |

For the fiscal year ending June 30, 2021, the following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 4.64 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 (3.64 percent) or 1-percentage-point higher (5.64 percent) than the current rate:

| | 1% Decrease in Discount Rate <u>(3.64%)</u> | Current Discount Rate <u>(4.64%)</u> | 1% Increase in Discount Rate <u>(5.64%)</u> |
|-------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------|---------------------------------------------------|
| Employer's proportionate share of the net pension liability | \$7,073,510 | \$5,451,961 | \$4,125,139 |

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 24 – DEFINED BENEFIT OPEB PLAN

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

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

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

OPEB Benefits

The employer contribution for the PERS, the HPRS, and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are

required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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

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.

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

On June 30, 2022 and 2021, the Department reported a liability of \$91,154 and \$126,085, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021 and 2020, 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, 2021, the Department's proportion was 0.163895 percent, which was an increase of 0.014007 percent from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Department recognized OPEB expense of \$10,635. At June 30, 2022, 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 | \$ 5,237 | \$ 2,499 |
| Changes in assumptions | 14,116 | - |
| Net difference between projected and actual earnings on OPEB plan investment | - | 31,232 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 14,062 | 18,296 |
| Employer contributions subsequent to the measurement date | 18,744 | - |
| TOTAL | \$ 52,159 | \$ 52,027 |

The \$18,744 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, 2023.

ND Department of Trust Lands

Notes to Financial Statements

June 30, 2022 and 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> |
|---------------------------|-------------------------------|
| 2023 | \$ (3,708) |
| 2024 | (3,933) |
| 2025 | (5,307) |
| 2026 | (6,215) |
| 2027 | 551 |
| Thereafter | - |

For the year ended June 30, 2021, the Department recognized OPEB expense of \$14,894. At June 30, 2021, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Resources</u> | |
|---------------------------------------------------------------------------------------------------------------|---------------------------|----------------|
| | <u>Outflows</u> | <u>Inflows</u> |
| Differences between expected and actual experience | \$ 2,800 | \$ (3,023) |
| Changes in assumptions | 16,906 | - |
| Net difference between projected and actual earnings on OPEB plan investment | 4,336 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 6,691 | (23,285) |
| Employer contributions subsequent to the measurement date | 20,633 | - |
| TOTAL | \$ 51,366 | \$ (26,308) |

The \$20,633 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, 2022.

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

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

Actuarial assumptions

The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------|-----------------------------------|
| Inflation | 2.25% |
| Salary increases | Not applicable |
| Investment rate of return | 6.50%, net of investment expenses |
| Cost-of-living adjustments | None |

For active members, inactive members, and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disable Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2021 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% | 5.85% |
| Small Cap Domestic Equities | 6% | 6.75% |
| Domestic Fixed Income | 40% | 0.50% |
| International Equities | 21% | 6.25% |

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

| | |
|----------------------------|-----------------------------------|
| Inflation | 2.25% |
| Salary increases | Not applicable |
| Investment rate of return | 6.50%, net of investment expenses |
| Cost-of-living adjustments | None |

For active members, inactive members, and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disable Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2020 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% | 6.10% |
| Small Cap Domestic Equities | 6% | 7.00% |
| Domestic Fixed Income | 40% | 1.15% |
| International Equities | 21% | 6.45% |

Discount rate.

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory rates described in this report. 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, 2022, calculated using the discount rate of 6.50 percent, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

| | 1% Decrease <u>(5.50%)</u> | Current Discount Rate <u>(6.50%)</u> | 1% Increase <u>(7.50%)</u> |
|----------------------------------------------------------|-------------------------------|--------------------------------------------|-------------------------------|
| Employer's proportionate share of the net OPEB liability | \$ 135,193 | \$ 91,154 | \$ 53,890 |

The following presents the net OPEB liability of the Plans as of June 30, 2021, calculated using the discount rate of 6.50 percent, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

| | 1% Decrease <u>(5.50%)</u> | Current Discount Rate <u>(6.50%)</u> | 1% Increase <u>(7.50%)</u> |
|----------------------------------------------------------|-------------------------------|--------------------------------------------|-------------------------------|
| Employer's proportionate share of the net OPEB liability | \$ 165,364 | \$ 126,085 | \$ 92,870 |

NOTE 25 - 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) provides liability coverage for the State of North Dakota, its agencies, and employees. The State Tort Claims Act, N.D.C.C. Chapter 32-12.2, governs the administration of the RMF and claims against the state and state employees for personal injury, death, or property damage caused by the state or a state employee acting within the scope of the employee's employment. All state agencies participate in the RMF and their fund contribution is 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 26 - MINERAL BONUS REFUNDS

The Department has been completing the necessary acreage adjustments pursuant to N.D.C.C. ch. 61-33.1. Based upon review of the current adjustments, the Department has determined that \$14,319,914 was to be recorded as a liability in the Strategic Investments and Improvements Fund as of June 30, 2022, based upon the lease corrections and royalty adjustments that have been executed. Subsequent to year-end, \$10,325,141 of this liability has been paid.

ND Department of Trust Lands
 Combined Balance Sheet – Nonmajor Government Funds
 June 30, 2022

| Assets: | Special Revenue Funds | | | | | | | | | | | | Special Revenue Funds | Total Non-Major | |
|--------------------------------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|---------------------|-----------------------|
| | 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 | Governmental Funds |
| Cash | \$ 4,613,507 | \$ 527,520 | \$ 287,242 | \$ 200,617 | \$ 1,336,169 | \$ 760,698 | \$ 638,991 | \$ 1,552,199 | \$ 573,748 | \$ 1,296,104 | \$ 93,326 | \$ 2,256,620 | \$ 14,136,741 | \$ 2,629,287 | \$ 16,766,028 |
| Investments | 79,587,674 | 14,143,862 | 22,436,489 | 14,904,519 | 25,692,852 | 13,954,337 | 9,916,630 | 28,326,395 | 20,282,280 | 24,530,611 | 5,465,024 | 38,230,416 | 297,471,089 | 3,665,365 | 301,136,454 |
| Interest receivable | 373,733 | 65,473 | 107,050 | 92,518 | 99,497 | 69,377 | 49,273 | 136,782 | 103,017 | 117,282 | 40,440 | 176,533 | 1,430,975 | 22,583 | 1,453,558 |
| Accounts receivable | 916,138 | 95,270 | 65,330 | 51,879 | 420,334 | 152,312 | 206,516 | 591,763 | 105,116 | 220,143 | 9,961 | 437,148 | 3,271,910 | 458,465 | 3,730,375 |
| Invested securities lending collateral | 3,226,754 | 573,401 | 909,721 | 605,179 | 1,040,837 | 565,908 | 402,159 | 1,148,596 | 822,622 | 994,641 | 222,152 | 1,549,875 | 12,061,845 | 961,112 | 13,022,957 |
| Loans | | | | | | | | | | | | | | | |
| Farm loans | 91,566 | 17,675 | 25,097 | 25,715 | 16,481 | 20,861 | 15,015 | 35,534 | 26,167 | 26,407 | 20,709 | 42,016 | 363,243 | - | 363,243 |
| Due from other funds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Assets | \$ 88,809,372 | \$ 15,423,201 | \$ 23,830,929 | \$ 15,880,427 | \$ 28,606,170 | \$ 15,523,493 | \$ 11,228,584 | \$ 31,791,269 | \$ 21,912,950 | \$ 27,185,188 | \$ 5,851,612 | \$ 42,692,608 | \$ 328,735,803 | \$ 7,736,812 | \$ 336,472,615 |
| Liabilities: | | | | | | | | | | | | | | | |
| Accrued payroll | \$ 3,475 | \$ 518 | \$ 606 | \$ 291 | \$ 970 | \$ 787 | \$ 700 | \$ 1,208 | \$ 653 | \$ 907 | \$ 252 | \$ 1,736 | \$ 12,102 | \$ 2,236 | \$ 14,338 |
| Accounts payable | 11,631 | 2,053 | 3,231 | 2,144 | 3,737 | 2,046 | 1,468 | 4,136 | 2,934 | 3,572 | 791 | 5,607 | 43,348 | 631 | 43,979 |
| Securities lending collateral | 3,226,754 | 573,401 | 909,721 | 605,179 | 1,040,837 | 565,908 | 402,159 | 1,148,596 | 822,622 | 994,641 | 222,152 | 1,549,875 | 12,061,845 | 961,112 | 13,022,957 |
| Due to other state agencies | 838 | 111 | 108 | 89 | 208 | 166 | 157 | 311 | 141 | 235 | 61 | 443 | 2,865 | 336 | 3,201 |
| Total Liabilities | 3,242,698 | 576,082 | 913,666 | 607,703 | 1,045,752 | 568,907 | 404,483 | 1,154,251 | 826,349 | 999,354 | 223,255 | 1,557,661 | 12,120,161 | 964,314 | 13,084,475 |
| Equity: | | | | | | | | | | | | | | | |
| Fund Balance: | | | | | | | | | | | | | | | |
| Special revenue funds | | | | | | | | | | | | | | | |
| Restricted | 85,566,674 | 14,847,119 | 22,917,263 | 15,272,724 | 27,560,418 | 14,954,586 | 10,824,101 | 30,637,018 | 21,086,601 | 26,185,834 | 5,628,357 | 41,134,947 | 316,615,642 | 6,772,498 | 323,388,140 |
| Total Fund Balance | 85,566,674 | 14,847,119 | 22,917,263 | 15,272,724 | 27,560,418 | 14,954,586 | 10,824,101 | 30,637,018 | 21,086,601 | 26,185,834 | 5,628,357 | 41,134,947 | 316,615,642 | 6,772,498 | 323,388,140 |
| Total Liabilities and Fund Balances | \$ 88,809,372 | \$ 15,423,201 | \$ 23,830,929 | \$ 15,880,427 | \$ 28,606,170 | \$ 15,523,493 | \$ 11,228,584 | \$ 31,791,269 | \$ 21,912,950 | \$ 27,185,188 | \$ 5,851,612 | \$ 42,692,608 | \$ 328,735,803 | \$ 7,736,812 | \$ 336,472,615 |

ND Department of Trust Lands
 Combined Balance Sheet – Nonmajor Government Funds
 June 30, 2021

| Assets: | Special Revenue Funds | | | | | | | | | | | | | Special Revenue | Total Non-Major |
|--------------------------------------------|-----------------------|-------------------------|------------------------|----------------------|----------------------|-------------------------|----------------------|----------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|---------------------|-----------------------|
| | 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 | Governmental Funds |
| | | | | | | | | | | | | | | | |
| Cash | \$ 1,863,353 | \$ 312,181 | \$ 253,865 | \$ 136,671 | \$ 732,839 | \$ 209,027 | \$ 397,481 | \$ 1,063,886 | \$ 450,131 | \$ 627,841 | \$ 55,922 | \$ 674,030 | \$ 6,777,227 | \$ 353,889 | \$ 7,131,116 |
| Investments | 83,051,382 | 14,894,428 | 24,043,313 | 16,112,705 | 26,751,269 | 14,695,094 | 9,632,351 | 28,613,833 | 21,359,070 | 25,680,563 | 5,932,013 | 40,259,160 | 311,025,181 | 2,983,808 | 314,008,989 |
| Interest receivable | 206,777 | 35,983 | 60,012 | 61,163 | 45,538 | 40,280 | 27,541 | 76,131 | 60,712 | 65,921 | 28,940 | 96,811 | 805,809 | 21,569 | 827,378 |
| Accounts receivable | 523,201 | 72,396 | 62,657 | 23,654 | 183,731 | 24,248 | 134,733 | 629,206 | 91,375 | 133,757 | 6,015 | 174,788 | 2,059,761 | 108,886 | 2,168,647 |
| Invested securities lending collateral | 2,822,701 | 506,185 | 817,177 | 548,334 | 908,505 | 499,570 | 327,495 | 972,671 | 726,192 | 872,885 | 202,081 | 1,368,193 | 10,571,989 | 6,173,003 | 16,744,992 |
| Loans | | | | | | | | | | | | | | | |
| Loans - Farm | 99,239 | 19,156 | 27,201 | 27,870 | 17,862 | 22,609 | 16,273 | 38,512 | 28,360 | 28,620 | 22,444 | 45,538 | 393,684 | - | 393,684 |
| Due from other funds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Assets | \$ 88,566,653 | \$ 15,840,329 | \$ 25,264,225 | \$ 16,910,397 | \$ 28,639,744 | \$ 15,490,828 | \$ 10,535,874 | \$ 31,394,239 | \$ 22,715,840 | \$ 27,409,587 | \$ 6,247,415 | \$ 42,618,520 | \$ 331,633,651 | \$ 9,641,155 | \$ 341,274,806 |
| Liabilities: | | | | | | | | | | | | | | | |
| Accrued payroll | \$ 3,211 | \$ 619 | \$ 798 | \$ 381 | \$ 1,158 | \$ 628 | \$ 604 | \$ 1,404 | \$ 878 | \$ 998 | \$ 263 | \$ 1,610 | \$ 12,552 | \$ 1,512 | \$ 14,064 |
| Accounts payable | \$ 16,189 | \$ 2,903 | \$ 4,688 | \$ 3,145 | \$ 5,211 | \$ 2,865 | \$ 1,879 | \$ 5,578 | \$ 4,166 | \$ 5,007 | \$ 1,159 | \$ 7,847 | 60,637 | 4,154 | 64,791 |
| Securities lending collateral | 2,822,701 | 506,185 | 817,177 | 548,334 | 908,505 | 499,570 | 327,495 | 972,671 | 726,192 | 872,885 | 202,081 | 1,368,193 | 10,571,989 | 6,173,003 | 16,744,992 |
| Due to other state agencies | 258 | 50 | 71 | 72 | 46 | 59 | 42 | 100 | 74 | 75 | 59 | 120 | 1,026 | - | 1,026 |
| Total Liabilities | 2,842,359 | 509,757 | 822,734 | 551,932 | 914,920 | 503,122 | 330,020 | 979,753 | 731,310 | 878,965 | 203,562 | 1,377,770 | 10,646,204 | 6,178,669 | 16,824,873 |
| Equity: | | | | | | | | | | | | | | | |
| Fund Balance: | | | | | | | | | | | | | | | |
| Special revenue funds | | | | | | | | | | | | | | | |
| Restricted | 85,724,294 | 15,330,572 | 24,441,491 | 16,358,465 | 27,724,824 | 14,987,706 | 10,205,854 | 30,414,486 | 21,984,530 | 26,530,622 | 6,043,853 | 41,240,750 | 320,987,447 | 3,462,486 | 324,449,933 |
| Total Fund Balance | 85,724,294 | 15,330,572 | 24,441,491 | 16,358,465 | 27,724,824 | 14,987,706 | 10,205,854 | 30,414,486 | 21,984,530 | 26,530,622 | 6,043,853 | 41,240,750 | 320,987,447 | 3,462,486 | 324,449,933 |
| Total Liabilities and Fund Balances | \$ 88,566,653 | \$ 15,840,329 | \$ 25,264,225 | \$ 16,910,397 | \$ 28,639,744 | \$ 15,490,828 | \$ 10,535,874 | \$ 31,394,239 | \$ 22,715,840 | \$ 27,409,587 | \$ 6,247,415 | \$ 42,618,520 | \$ 331,633,651 | \$ 9,641,155 | \$ 341,274,806 |

ND Department of Trust Lands
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balance – Nonmajor Government Funds
 For the Year Ended June 30, 2022

| Revenues: | Special Revenue Funds | | | | | | | | | | | | | Special Revenue Funds | Total Non-major |
|--------------------------------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | 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 | Funds |
| Investment income | \$ 2,701,049 | \$ 477,241 | \$ 757,035 | \$ 507,348 | \$ 859,463 | \$ 469,902 | \$ 324,534 | \$ 922,607 | \$ 690,734 | \$ 825,834 | \$ 185,809 | \$ 1,303,401 | \$ 10,024,957 | \$ 89,241 | \$ 10,114,198 |
| Loan income | | | | | | | | | | | | | | | |
| Farm loans | 6,623 | 1,278 | 1,815 | 1,860 | 1,192 | 1,509 | 1,086 | 2,570 | 1,893 | 1,910 | 1,498 | 3,039 | 26,273 | - | 26,273 |
| Change in fair value of investments | (6,553,194) | (1,169,836) | (1,852,681) | (1,231,362) | (2,111,510) | (1,154,548) | (788,541) | (2,295,432) | (1,678,290) | (2,023,250) | (451,828) | (3,162,010) | (24,472,482) | (124,481) | (24,596,963) |
| Securities lending income | 12,719 | 2,260 | 3,586 | 2,385 | 4,103 | 2,231 | 1,585 | 4,527 | 3,242 | 3,920 | 876 | 6,109 | 47,543 | 2,439 | 49,982 |
| Royalties | 6,623,922 | 739,712 | 542,013 | 289,824 | 2,079,970 | 1,202,555 | 1,435,122 | 2,720,790 | 867,939 | 1,840,729 | 82,220 | 3,242,489 | 21,667,285 | 3,683,206 | 25,350,491 |
| Bonuses | 331,549 | 10 | 176 | 30,927 | 92 | 14 | 8 | 254 | 40,251 | 14 | 12 | 191 | 403,498 | - | 403,498 |
| Rental income | 283,124 | 57,074 | 88,580 | 41,786 | 74,973 | 86,472 | 57,203 | 75,403 | 78,197 | 62,370 | 46,328 | 179,547 | 1,131,057 | 213,587 | 1,344,644 |
| Total Revenues | 3,405,792 | 107,739 | (459,476) | (357,232) | 908,283 | 608,135 | 1,030,997 | 1,430,719 | 3,966 | 711,527 | (135,085) | 1,572,766 | 8,828,131 | 3,863,992 | 12,692,123 |
| Expenditures: | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | |
| General government | - | - | - | - | - | - | - | - | - | - | - | - | - | 53,979 | 53,979 |
| Intergovernmental | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Education | 253,412 | 46,192 | 57,752 | 34,509 | 75,189 | 52,255 | 41,750 | 94,187 | 73,895 | 69,315 | 25,411 | 123,569 | 947,436 | - | 947,436 |
| Total Expenditures | 253,412 | 46,192 | 57,752 | 34,509 | 75,189 | 52,255 | 41,750 | 94,187 | 73,895 | 69,315 | 25,411 | 123,569 | 947,436 | 53,979 | 1,001,415 |
| Excess of revenue over expenditures | 3,152,380 | 61,547 | (517,228) | (391,741) | 833,094 | 555,880 | 989,247 | 1,336,532 | (69,929) | 642,212 | (160,496) | 1,449,197 | 7,880,695 | 3,810,013 | 11,690,708 |
| Other Financing Uses: | | | | | | | | | | | | | | | |
| Transfer to Educational Institutions | (3,310,000) | (545,000) | (1,007,000) | (694,000) | (997,500) | (589,000) | (371,000) | (1,114,000) | (828,000) | (987,000) | (255,000) | (1,555,000) | (12,252,500) | - | (12,252,500) |
| Transfer to Facilities Management | - | - | - | - | - | - | - | - | - | - | - | - | - | (500,000) | (500,000) |
| Proceeds from sale of capital asset (land) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Other Financing Uses | (3,310,000) | (545,000) | (1,007,000) | (694,000) | (997,500) | (589,000) | (371,000) | (1,114,000) | (828,000) | (987,000) | (255,000) | (1,555,000) | (12,252,500) | (500,000) | (12,752,500) |
| Increase (decrease) in net position | (157,620) | (483,453) | (1,524,228) | (1,085,741) | (164,406) | (33,120) | 618,247 | 222,532 | (897,929) | (344,788) | (415,496) | (105,803) | (4,371,805) | 3,310,013 | (1,061,792) |
| Net position - beginning | 85,724,294 | 15,330,572 | 24,441,491 | 16,358,465 | 27,724,824 | 14,987,706 | 10,205,854 | 30,414,486 | 21,984,530 | 26,530,622 | 6,043,853 | 41,240,750 | 320,987,447 | 3,462,485 | 324,449,932 |
| Net position - ending | \$ 85,566,674 | \$ 14,847,119 | \$ 22,917,263 | \$ 15,272,724 | \$ 27,560,418 | \$ 14,954,586 | \$ 10,824,101 | \$ 30,637,018 | \$ 21,086,601 | \$ 26,185,834 | \$ 5,628,357 | \$ 41,134,947 | \$ 316,615,642 | \$ 6,772,498 | \$ 323,388,140 |

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

| Revenues: | Special Revenue Funds | | | | | | | | | | | | | Special Revenue Funds | Total Non-major |
|--------------------------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | 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 | Governmental Funds |
| Investment income | \$ 1,991,774 | \$ 353,825 | \$ 579,582 | \$ 391,069 | \$ 627,101 | \$ 352,830 | \$ 228,248 | \$ 672,914 | \$ 502,826 | \$ 617,348 | \$ 143,449 | \$ 962,014 | \$ 7,422,980 | \$ 54,127 | \$ 7,477,107 |
| Loan income | | | | | | | | | | | | | | | |
| Farm | 7,814 | 1,508 | 2,142 | 2,194 | 1,406 | 1,780 | 1,281 | 3,032 | 2,233 | 2,253 | 1,767 | 3,585 | 30,995 | - | 30,995 |
| Change in fair value of investments | 13,018,118 | 2,314,358 | 3,801,094 | 2,564,710 | 4,063,148 | 2,313,690 | 1,477,686 | 4,371,609 | 3,275,212 | 3,997,496 | 935,564 | 6,288,258 | 48,420,943 | (31,802) | 48,389,141 |
| Securities lending income | 7,245 | 1,299 | 2,098 | 1,407 | 2,332 | 1,282 | 841 | 2,497 | 1,864 | 2,241 | 519 | 3,512 | 27,137 | 11,086 | 38,223 |
| Royalties | 3,123,342 | 488,245 | 382,177 | 151,320 | 1,323,516 | 259,165 | 703,916 | 2,079,732 | 754,097 | 1,124,074 | 48,798 | 1,179,787 | 11,618,169 | 991,389 | 12,609,558 |
| Bonuses | 5,600 | 4,280 | 16,840 | 560 | 1,360 | 560 | 6,560 | 14,455 | - | 2,320 | - | 560 | 53,095 | 2,160 | 55,255 |
| Rental income | 266,531 | 56,183 | 83,203 | 40,502 | 76,368 | 75,340 | 53,097 | 71,605 | 74,732 | 58,672 | 41,779 | 171,004 | 1,069,016 | 187,671 | 1,256,687 |
| Total Revenues | 18,420,424 | 3,219,698 | 4,867,136 | 3,151,762 | 6,095,231 | 3,004,647 | 2,471,629 | 7,215,844 | 4,610,964 | 5,804,404 | 1,171,876 | 8,608,720 | 68,642,335 | 1,214,631 | 69,856,966 |
| Expenditures: | | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | | |
| General government | - | - | - | - | - | - | - | - | - | - | - | - | - | 43,014 | 43,014 |
| Education | 219,208 | 40,397 | 57,212 | 34,797 | 69,681 | 40,902 | 30,594 | 81,517 | 55,421 | 64,389 | 17,715 | 111,627 | 823,460 | - | 823,460 |
| Total Expenditures | 219,208 | 40,397 | 57,212 | 34,797 | 69,681 | 40,902 | 30,594 | 81,517 | 55,421 | 64,389 | 17,715 | 111,627 | 823,460 | 43,014 | 866,474 |
| Excess of revenue over expenditures | 18,201,216 | 3,179,301 | 4,809,924 | 3,116,965 | 6,025,550 | 2,963,745 | 2,441,035 | 7,134,327 | 4,555,543 | 5,740,015 | 1,154,161 | 8,497,093 | 67,818,875 | 1,171,617 | 68,990,492 |
| 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 | - | - | - | - | - | - | - | - | - | - | - | - | - | (2,200,000) | (2,200,000) |
| Transfer to Supreme Court | - | - | - | - | - | - | - | - | - | - | - | - | - | (970,000) | (970,000) |
| Transfer to Legislative Council | - | - | - | - | - | - | - | - | - | - | - | - | - | (74,918) | (74,918) |
| 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) | (3,244,918) | (14,129,918) |
| Increase (decrease) in net position | 15,243,216 | 2,739,301 | 3,860,924 | 2,452,965 | 5,178,550 | 2,446,745 | 2,107,035 | 6,202,327 | 3,808,543 | 4,867,015 | 909,161 | 7,118,093 | 56,933,875 | (2,073,301) | 54,860,575 |
| Net position - beginning as restated | 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 |
| Net position - ending | \$ 85,724,294 | \$ 15,330,572 | \$ 24,441,491 | \$ 16,358,465 | \$ 27,724,824 | \$ 14,987,706 | \$ 10,205,854 | \$ 30,414,486 | \$ 21,984,530 | \$ 26,530,622 | \$ 6,043,853 | \$ 41,240,750 | \$ 320,987,447 | \$ 3,462,485 | \$ 324,449,933 |

ND Department of Trust Lands
Schedule of Employer's Net Pension Contributions
Last Ten Fiscal Years*
June 30, 2022

| 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% |
| 2021 | PERS | \$ 135,363 | \$ 112,173 | \$ 23,190 | \$1,911,670 | 5.87% |
| 2022 | PERS | \$ 153,632 | \$ 162,149 | \$ (8,517) | \$2,083,266 | 7.78% |

*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, 2022

| 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% |
| 2021 PERS | 0.173297% | \$ 5,451,961 | \$ 1,911,670 | 285.19% | 48.91% |
| 2022 PERS | 0.183971% | \$ 1,917,531 | \$ 2,083,266 | 92.04% | 78.26% |

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

Notes to Required Supplemental Information:

Changes to benefit terms

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (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, 2020.

Changes to assumptions

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation of July 1, 2020.

ND Department of Trust Lands
 Schedule of Net OPEB Contributions
 Last Ten Fiscal Years*
 June 30, 2022

| 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% |
| 2021 | \$ 20,073 | \$ 17,433 | \$ 2,640 | \$ 1,708,677 | 1.02% |
| 2022 | \$ 21,488 | \$ 22,529 | \$ (1,041) | \$ 1,786,875 | 1.26% |

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

ND Department of Trust Lands
 Schedule of Employer's Net OPEB Liability
 Last Ten Fiscal Years*
 June 30, 2022

| For the Fiscal Year Ended June 30 | 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 |
|-----------------------------------------|----------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| 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% | 63.30% |
| 2021 | 0.149889% | \$ 126,085 | \$ 1,708,677 | 7.38% | 63.38% |
| 2022 | 0.163895% | \$ 91,154 | \$ 1,786,875 | 5.10% | 76.63% |

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

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, 2020.

Changes to assumptions

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.



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), an agency of the State of North Dakota, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 21, 2022.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses as item 2022-001, we identified a certain deficiency in internal control that we consider to be a material weakness.

Report on Compliance and Other Matters

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

North Dakota Department of Trust Lands' Response to Findings

The Department's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

Bismarck, North Dakota
October 21, 2022

2022-001 Material Reconciliation Audit Adjustments to the Strategic Investments and Improvements Fund
Material Weakness

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

Condition: During the course of our engagement, we proposed a material audit adjustment to the Department's recorded account balances in the areas of accrued liabilities and bonus refunds in the Strategic Investments and Improvements Fund.

Cause: Management's reconciliation controls failed to ensure that accrued liabilities and bonus refunds were appropriately reconciled on June 30, 2022.

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

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

Views of Responsible Officials: Management agrees with the finding. Management will review its internal processes to ensure transactions are properly accounted for and reflected on its balance sheet.



**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, 2022**

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

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

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

Unmodified

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

Yes

3. Was internal control adequate and functioning effectively?

As discussed in the Schedule of Findings and Responses, there was one internal control deficiency identified as a result of the financial statement audit.

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

No

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

There were two internal control deficiencies identified as a result of the financial statement audit in the prior year. The internal control deficiency related to the material audit adjustment to the Theodore Roosevelt Presidential Library and Museum Endowment Fund was corrected. The control deficiency related to reconciliation adjustments to governmental funds was not completely addressed in the current year.

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

No

Audit Committee Communications:

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

None

- 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.

- Identify any significant audit adjustments.

| <u>Strategic Investments and Improvements Fund</u> | <u>Debit</u> | <u>Credit</u> |
|--------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| Rental Income - Mineral | \$ 16,949 | |
| Bonuses - Mineral | 14,302,965 | |
| Accrued Liabilities | | \$ 14,319,914 |
| To properly accrue a liability in the Strategic Investments refunds and Improvements Fund for calculated bonus. | | |

- 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

- Identify any significant difficulties encountered in performing the audit.

None

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

None

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

None

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

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

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



Bismarck, North Dakota
October 21, 2022