



Financial Statements
June 30, 2011 and 2010

Board of University and School Lands

**BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota**

June 30, 2011 and 2010

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Independent Auditor's Report

Governor of North Dakota
Legislative Audit and Fiscal Review Committee

Board of University and School Lands
Bismarck, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of University and School Lands, a department of the State of North Dakota, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Board of University and School Lands' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of University and School Lands' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Board of University and School Lands, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the Board of University and School Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2011 and 2010, and the changes in its financial position, where applicable, and the appropriations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of University and School Lands as of June 30, 2011 and 2010, and the respective changes in financial position and the respective statement of appropriations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the Board of University and School Lands has adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions as of July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2011, on our consideration of the Board of University and School Lands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America required that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of University and School Lands' financial statements as a whole. The combining fund statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Sallee LLP

Bismarck, North Dakota
November 21, 2011

Management's Discussion and Analysis

As management of the Board of University and School Lands (Board), we offer readers of the Board's financial statements a narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2011, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the Board exceeded its liabilities as of June 30, 2011, 2010 and 2009 by \$2,057,670,194, \$1,529,337,219, and \$1,008,605,519 (*net assets*) respectively.
- The Board's net assets increased for the year ending June 30, 2011 by \$528,332,975, by \$520,731,700 for fiscal year 2010; and decreased by \$66,271,857 for fiscal year 2009.
- Royalty revenues increased by \$27,045,317, from \$60,356,741 in fiscal year 2009 to \$87,402,058 in fiscal year 2010. Royalty revenues increased by \$38,530,159 from fiscal 2010 to \$125,932,217 in fiscal year 2011. This increase was due to the number of oil and gas wells placed into production as a result of the mineral lease auctions in previous years.
- Bonus revenues increased by \$268,342,525 from \$25,704,010 in fiscal year 2009 to \$294,046,535 in fiscal year 2010. Bonus revenues decreased by \$120,462,103 from fiscal year 2010 to \$173,584,432 in fiscal year 2011. This decrease was due to fewer mineral lease auction nominations resulting in smaller mineral lease bonus receipts.
- Investment earnings increased by \$270,946,571 from a loss of \$128,018,308 in fiscal year 2009 to a gain of \$142,928,263 in fiscal year 2010. Investment earnings increased by \$102,440,923, from fiscal year 2010 to a gain of \$245,369,186 in fiscal year 2011. This continued increase was due positive investment returns.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's financial condition.

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

The *statement of activities* presents information showing how the net assets managed by the Board changed during the most recent fiscal year. All changes in net assets 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 Board uses fund accounting to provide a relevant financial statement format for users and to demonstrate compliance with constitutional and legislative requirements. All of the funds of the Board are governmental funds.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Common Schools, Coal Development fund, State Lands Maintenance fund, Energy Infrastructure and Impact fund and the Lands and Minerals fund. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these is provided in the *combining statements* immediately following the notes to the financial statements.

The Board is appropriated a biennial budget from the North Dakota Legislature for its State Lands Department 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 assets may at times, serve as a useful indicator of the Board's financial position. As of June 30, 2011, the Board's total net assets were \$2,057,670,194. As of June 30, 2010 and 2009, the Board's total net assets were \$1,529,337,219 and \$1,008,605,519, respectively. The largest portion of the Board's net assets is represented by investments in financial securities. The Board uses these net assets to provide distributions to educational entities and general government.

The following is a comparative statement of net assets:

	Statement of Net Assets		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$2,226,878,272	\$1,645,740,527	\$1,078,387,454
Capital assets	<u>7,787,398</u>	<u>7,788,983</u>	<u>7,840,890</u>
Total assets	<u>2,234,665,670</u>	<u>1,653,529,510</u>	<u>1,086,228,344</u>
Long-term liabilities	144,585	120,369	126,443
Other liabilities	<u>176,850,891</u>	<u>124,071,922</u>	<u>77,496,382</u>
Total liabilities	<u>176,995,476</u>	<u>124,192,291</u>	<u>77,622,825</u>
Net Assets:			
Net assets invested in capital assets	7,787,398	7,788,983	7,840,890
Restricted Net Assets:			
Nonexpendable	63,224,478	62,225,366	60,897,973
Expendable	-	-	20,887,944
Unrestricted net assets	<u>1,986,658,318</u>	<u>1,459,322,870</u>	<u>918,978,712</u>
Total net assets	<u>2,057,670,194</u>	<u>1,529,337,219</u>	<u>1,008,605,519</u>
Total liabilities and net assets	<u>\$2,234,665,670</u>	<u>\$1,653,529,510</u>	<u>\$1,086,228,344</u>

During fiscal year ending June 30, 2011, the Board's net assets increased by \$528,332,975. This increase was mainly due to a \$581,137,745 increase in current and other assets and a \$52,803,185 increase in liabilities. The majority of the increases were due to investment changes of \$588,438,138 and a change in security lending collateral of \$50,788,346.

During fiscal year ending June 30, 2010, the Board's net assets increased by \$520,731,700. This increase was mainly due to a \$567,353,073 increase in current and other assets and a \$46,569,466 increase in liabilities. The majority of the increases were due to investment changes of \$432,778,160 and a change in security lending collateral of \$45,088,392.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Changes in Net Assets			
Revenues			
General Revenues:			
Interest on investments	\$1,903,697	\$1,410,598	\$1,552,730
Change in fair value of investments	136,620	575,953	(378,683)
Royalties	33,094,055	20,587,493	12,773,038
Bonuses	101,726,307	97,144,465	7,141,417
Rents	482,565	425,207	273,540
Loan income	575,622	8,788,647	715,919
Contributions to perpetual funds	12,622,771	11,203,425	11,573,540
Taxes	52,550,227	31,667,531	21,113,546
Gain on Sale of Capital Asset - Land	26,427	353,855	9,568
Total General Revenue	<u>203,118,291</u>	<u>172,157,174</u>	<u>54,774,615</u>
Program Revenues:			
Interest on loans	3,128,440	3,194,685	2,873,529
Interest on investments	45,828,797	36,106,496	34,191,409
Change in fair value of investments	193,796,010	92,851,884	(166,973,212)
Royalties	92,838,162	66,814,565	47,583,703
Bonuses	71,858,125	196,902,070	18,562,593
Rents	7,945,334	7,358,652	6,428,357
Fees to Maintenance fund	4,089,594	2,464,314	1,431,711
Total Program Revenue	<u>419,484,462</u>	<u>405,692,666</u>	<u>(55,901,910)</u>
Total Revenues	<u>622,602,753</u>	<u>577,849,840</u>	<u>(1,127,295)</u>

Expenses

Governmental Activities:

General government	702,196	674,958	405,014
Intergovernmental	3,881,148	3,047,119	2,748,460
Education	9,926,667	7,938,676	6,198,690
Total Expenses	<u>14,510,010</u>	<u>11,660,753</u>	<u>9,352,164</u>
Excess before transfer	608,092,743	566,189,087	(10,479,459)
Transfers	<u>(79,759,768)</u>	<u>(45,457,387)</u>	<u>(55,792,398)</u>
Increase(decrease) in net assets	<u>528,332,975</u>	<u>520,731,700</u>	<u>(66,271,857)</u>
Net assets - beginning	<u>1,529,337,219</u>	<u>1,008,605,519</u>	<u>1,074,877,376</u>
Net assets - ending	<u>\$2,057,670,194</u>	<u>\$1,529,337,219</u>	<u>\$1,008,605,519</u>

During fiscal year ending June 30, 2011, the Board's revenues increased by \$44,752,913 due to additional royalty revenues of \$38,530,159 while bonus revenues decreased by \$120,462,103 due to a decline of available minerals for lease, tax revenues increased by \$20,882,696 due to additional extraction tax collections and investment earnings increased by \$102,440,923. Revenues increased by \$578,977,135 due to additional royalty revenues of \$27,045,317, bonus revenues of \$268,342,525, investments earnings of \$270,946,571 and production tax income of \$8,000,000 for the oil and gas impact grant fund (EIIO) from fiscal year ending June 30, 2009 to fiscal year ending June 30, 2010.

Financial Analysis of the Government's Funds

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

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

Capital Asset

The Board's capital assets for its governmental funds as of June 30, 2011, 2010 and 2009, are \$7,787,398, \$7,788,983, and \$7,840,890 (net of accumulated depreciation for equipment) respectively. These capital assets include land and equipment. For additional details reference Note 12 – Capital Assets.

Economic Factors

The historic trust growth that occurred during fiscal year 2011 was driven by both positive investment returns and record oil and gas royalty payments collected as a result of the current oil plays in North Dakota.

Requests for Information

This financial report is designed to provide a general overview of the Board'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 State Land Department, 1707 N 9th St., PO Box 5523, Bismarck, ND, 58506-5523.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Statement of Net Assets
For Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
	Governmental Activities	Governmental Activities
Assets:		
Cash	\$16,530,120	\$85,506,168
Investments	1,916,750,020	1,328,311,882
Interest receivable	12,514,132	10,326,018
Accounts receivable	29,136,302	19,400,727
Invested securities lending collateral	168,233,584	117,445,238
Loans		
Farm loans	39,939,180	43,837,503
Energy construction loans	973,464	-
School loans	26,420,910	29,104,534
Energy impact loans	4,401,855	4,752,388
Due from other state agencies	11,978,705	7,056,069
Capital asset – land	7,784,350	7,784,173
Equipment (net of accumulated depreciation)	3,048	4,810
Total Assets	2,234,665,670	1,653,529,510
Liabilities:		
Accrued payroll	145,194	109,036
Accounts payable	3,312,824	1,558,677
Securities lending collateral	168,233,584	117,445,238
Due to other state agencies	449,366	473,089
Claimant liability	4,701,766	4,479,091
Long-term liabilities:		
Compensated absences due within one year	8,157	6,791
Compensated absences due in more than one year	144,585	120,369
Total Liabilities	176,995,476	124,192,291
Net Assets:		
Net assets invested in capital assets	7,787,398	7,788,983
Restricted net assets		
Nonexpendable	63,224,478	62,225,366
Unrestricted net assets	1,986,658,318	1,459,322,870
Total Net Assets	\$2,057,670,194	\$1,529,337,219

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Statement of Activities
For Fiscal Years Ended June 30, 2011 And 2010

	2011			2010		
	Expenses	Charges for Services	Operating Grants and Contributions	Expenses	Charges for Services	Operating Grants and Contributions
Functions/Programs						
Governmental activities:						
General government	\$702,196			\$674,958		
Intergovernmental	3,881,147			3,047,119		
Education	9,926,667	\$4,089,594	\$415,394,868	7,938,676	\$2,464,314	\$403,228,352
Total	\$14,510,010			\$11,660,753		
			Net (Expense) Revenue			Net (Expense) Revenue
			\$404,974,453			(\$674,958)
						(3,047,119)
						397,753,990
						\$394,031,913
Net (expense) revenue			\$404,974,453			\$394,031,913
General revenues:						
Taxes:						
Coal severance taxes			3,158,324			3,306,257
Oil extraction taxes			49,391,903			28,361,274
Contributions to permanent fund			12,622,771			11,203,425
Unrestricted investment earnings			1,903,697			1,410,598
Change in fair value			136,820			575,953
Royalties			33,094,055			20,587,493
Bonuses			101,726,307			97,144,465
Rents			482,565			425,207
Loan income			575,622			8,788,647
Gain on sale of capital asset - land			26,427			353,855
Transfers:						
Transfers to/from other state agencies			(38,626,768)			(4,324,387)
Transfers to educational institutions			(41,133,000)			(41,133,000)
Total general revenues and transfers			123,358,523			126,699,787
Total change in net assets			528,332,975			520,731,700
Net assets - beginning			1,529,337,219			1,008,605,519
Net assets - ending			\$2,057,670,194			\$1,529,337,219

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Balance Sheet
Governmental Funds
For Fiscal Year Ended June 30, 2011

Assets:	General Fund	Common Schools	Coal Development Fund	Energy Infrastructure & Impact Grant Fund	Lands & Minerals Fund	Other Governmental Funds	Total
Cash	\$2,971,646	\$3,305,454	\$986	\$5,999,622	\$1,643,060	\$2,609,352	\$16,530,120
Investments		1,541,101,195	32,305,187		\$242,372,221	100,971,417	1,916,750,020
Interest receivable		11,275,009	193,483		265,707	779,933	12,514,132
Accounts receivable		21,307,608			6,399,842	1,428,852	29,136,302
Invested securities lending collateral		147,378,463	11,177,829			9,677,292	168,233,584
Loans							
Farm loans		36,791,628				3,147,552	39,939,180
Energy construction loans		973,464					973,464
School loans			26,420,910				26,420,910
Energy impact loans			4,401,855				4,401,855
Due from other state agencies		11,519,224	459,481				11,978,705
Due from other funds	70,243	1,895,833			672,411	152,202	2,790,689
Total Assets	\$3,041,889	\$1,775,547,878	\$74,959,731	\$5,999,622	\$251,353,241	\$118,766,600	\$2,229,668,961
Liabilities:							
Accrued payroll	\$145,194						\$145,194
Accounts payable	66,604	\$897,784	\$10,699		\$2,278,810	\$58,927	3,312,824
Securities lending collateral		147,378,463	11,177,829			9,677,292	168,233,584
Due to other state agencies	33,791	86,638	321,636			7,301	449,366
Due to other funds	2,720,446	70,243					2,790,689
Claimant liability		4,701,766					4,701,766
Total Liabilities	\$2,966,035	\$153,134,894	\$11,510,164	-	\$2,278,810	\$9,743,520	\$179,633,423
Equity:							
Fund Balance:							
Permanent funds							
Nonspendable			63,224,476				\$63,224,476
Committed			225,091				225,091
Special revenue funds							
Restricted		\$1,622,412,984				\$109,023,080	1,731,436,064
Committed				\$5,999,622	\$172,444,215		178,443,837
Assigned	\$75,854				76,630,216		76,706,070
Total Fund Balance	75,854	1,622,412,984	63,449,567	5,999,622	249,074,431	109,023,080	2,050,035,538
Total Liabilities and Fund Balances	\$3,041,889	\$1,775,547,878	\$74,959,731	\$5,999,622	\$251,353,241	\$118,766,600	\$2,229,668,961

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

Total fund balances - governmental funds	\$2,050,035,538
Capital Asset - Land	7,784,350
Net book value of office equipment	3,048
Liability for compensated absences	(152,742)
Net Assets of governmental activities	\$2,057,670,194

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Balance Sheet
Governmental Funds
For Fiscal Year Ended June 30, 2010

Assets:	General Fund	Common Schools	Coal Development Fund	Energy Infrastructure & Impact Grant Fund	Lands & Minerals	Other Governmental Funds	Total
Cash	\$3,980,328	\$4,208,185	\$191,414	\$9,877,910	\$66,736,921	\$511,410	\$85,506,168
Investments		1,150,828,423	28,021,654		\$76,700,000	72,761,805	1,328,311,882
Interest receivable		9,066,708	233,694		382,816	642,800	10,326,018
Accounts receivable		14,231,565			3,987,205	1,181,957	19,400,727
Invested securities lending collateral		99,826,555	11,441,463			6,177,220	117,445,238
Loans							
Farm loans		40,382,790				3,454,713	43,837,503
School loans			29,104,534				29,104,534
Energy impact loans			4,752,388				4,752,388
Due from other state agencies		6,515,675	516,008		24,386		7,056,069
Due from other funds		2,311,422			1,176,885	479,784	3,968,091
Total Assets	\$3,980,328	\$1,327,371,323	\$74,261,155	\$9,877,910	\$149,008,213	\$85,209,689	\$1,649,708,618
Liabilities:							
Accrued payroll	\$109,036						\$109,036
Accounts payable	31,882	\$1,473,928	\$9,293			\$43,574	1,558,677
Securities lending collateral		99,826,555	11,441,463			6,177,220	117,445,238
Due to other state agencies	14,242	89,948	361,206			7,693	473,089
Due to other funds	3,796,195				\$171,896		3,968,091
Claimant liability		4,479,091					4,479,091
Total Liabilities	\$3,951,355	\$105,869,522	\$11,811,962	-	\$171,896	\$6,228,487	\$128,033,222
Equity:							
Fund Balance:							
Permanent funds							
Nonspendable			\$62,225,366				\$62,225,366
Committed			223,827				223,827
Special revenue funds							
Restricted		\$1,221,501,801				\$78,981,202	1,300,483,003
Committed				\$9,877,910	\$127,810,225		137,688,135
Assigned	\$28,973				21,026,092		21,055,065
Total Fund Balance	28,973	1,221,501,801	62,449,193	9,877,910	148,836,317	78,981,202	1,521,675,396
Total Liabilities and Fund Balances	\$3,980,328	\$1,327,371,323	\$74,261,155	\$9,877,910	\$149,008,213	\$85,209,689	\$1,649,708,618

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

Total fund balances - governmental funds	\$1,521,675,396
Capital Asset - Land	7,784,173
Net book value of office equipment	4,810
Liability for compensated absences	(127,160)
Net Assets of governmental activities	<u>\$1,529,337,219</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For Fiscal Year Ended June 30, 2011

Revenues:	General Fund	Common Schools	Coal Development Fund	Energy Infrastructure & Impact Grant Fund	Lands & Minerals Fund	Other Governmental Funds	Total
Investment income		\$42,911,967	\$463,896		\$1,371,790	\$2,766,365	\$47,514,018
Loan income							
Farm loans		2,784,443				238,160	3,022,603
Energy construction loans		39,454					39,454
School loans			569,139				569,139
Energy impact loans			6,483				6,483
Developmentally disabled loan fund loans		66,383					66,383
Increase in fair value of investments		182,540,873	51,179			11,340,578	193,932,630
Securities lending income		192,146	13,712			12,618	218,476
Royalties		84,996,761			32,773,187	8,162,269	125,932,217
Bonuses		62,186,270			101,634,771	9,763,391	173,584,432
Rental income		7,193,247			374,837	859,815	8,427,899
Coal severance tax			3,158,324				3,158,324
Unclaimed property collections		3,800,940					3,800,940
Indirect recovery costs	4,089,594						4,089,594
Tobacco settlement		8,821,831					8,821,831
Oil extraction tax		49,391,903					49,391,903
Total Revenues	4,089,594	444,926,218	4,262,733	-	136,154,585	33,143,196	622,576,326
Expenditures:							
Current:							
General government			51,533		602,229	21,090	674,852
Intergovernmental				3,878,288		2,859	3,881,147
Education	4,042,713	5,452,285				431,669	9,926,667
Total Expenditures	4,042,713	5,452,285	51,533	3,878,288	602,229	455,618	14,482,666
Excess of revenue over expenditures	46,881	439,473,933	4,211,200	(3,878,288)	135,552,356	32,687,578	608,093,660
Other Financing Sources (Uses):							
Transfer to Public Instruction		(38,589,000)					(38,589,000)
Transfer to Educational Institutions						(2,544,000)	(2,544,000)
Transfer to Lignite Research Fund			(2,210,826)				(2,210,826)
Transfer to State General Fund			(1,000,000)		(35,314,242)		(36,314,242)
Transfer to Facilities Management						(101,700)	(101,700)
Proceeds from sale of capital asset (land)		26,250					26,250
Total Other Financing Sources (Uses)	-	(38,562,750)	(3,210,826)	-	(35,314,242)	(2,645,700)	(79,733,518)
Net Change in Fund Balance	46,881	400,911,183	1,000,374	(3,878,288)	100,238,114	30,041,878	528,360,142
Fund Balance - beginning	28,973	1,221,501,801	62,449,193	9,877,910	148,836,317	78,981,202	1,521,675,396
Fund Balance - ending	75,854	\$1,622,412,984	63,449,567	\$5,999,622	\$249,074,431	\$109,023,080	\$2,050,035,538

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

Net change in fund balance	\$528,360,142
Net value of capital asset - land transaction	(523)
Net value of capital asset - acquired land	700
Depreciation expense on equipment	(1,762)
Office equipment additions	-
Increase in compensated absences liability	(25,582)
Net Assets of governmental activities	<u>\$528,332,975</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For Fiscal Year Ended June 30, 2010

Revenues:	General Fund	Common Schools	Coal Development Fund	Energy Infrastructure & Impact Grant Fund	Lands & Minerals Fund	Other Governmental Funds	Total
Investment income		\$33,861,313	\$541,421		\$817,074	\$2,153,514	\$37,373,322
Loan income						244,654	3,105,005
Farm loans		2,860,351					788,647
School loans			788,647				8,000,000
Energy impact loans				\$8,000,000			89,680
Developmentally disabled loan fund loans		89,680					5,555,081
Increase in fair value of investments		87,352,342	520,414				143,772
Securities lending income		121,760	14,478			7,534	87,402,058
Royalties		60,661,214			20,420,942	6,319,902	294,046,535
Bonuses		187,128,938			95,800,380	11,117,217	7,783,859
Rental income		6,637,022			316,605	830,232	3,306,257
Coal severance tax			3,306,257				1,923,207
Unclaimed property collections		1,923,207					2,464,314
Indirect Recovery Costs	\$2,464,314						9,280,218
Tobacco settlement		9,280,218					28,361,274
Oil extraction tax		28,361,274					577,495,985
Total Revenues	2,464,314	418,277,319	5,171,217	8,000,000	117,355,001	26,228,134	
Expenditures:							
Current:							
General government			50,004		605,492	24,116	679,612
Intergovernmental				3,045,334		1,785	3,047,119
Education	2,663,547	4,904,604				370,525	7,938,676
Total Expenditures	2,663,547	4,904,604	50,004	3,045,334	605,492	396,426	11,665,407
Excess of revenue over expenditures	(199,233)	413,372,715	5,121,213	4,954,666	116,749,509	25,831,708	565,830,578
Other Financing Sources (Uses):							
Transfer to Public Instruction		(38,589,000)					(38,589,000)
Transfer to Educational Institutions						(2,544,000)	(2,544,000)
Transfer to Lignite Research Fund			(2,314,380)				(2,314,380)
Transfer to State General Fund			(1,505,172)		(499,835)		(2,005,007)
Transfer to Facilities Management						(5,000)	(5,000)
Proceeds from sale of capital asset (land)		404,000					404,000
Total Other Financing Sources (Uses)	-	(38,185,000)	(3,819,552)	-	(499,835)	(2,549,000)	(45,053,387)
Net Change in Fund Balance	(199,233)	375,187,715	1,301,661	4,954,666	116,249,674	23,282,708	520,777,191
Fund Balance - beginning	228,206	846,314,086	61,147,532	4,923,244	32,586,643	55,698,494	1,000,898,205
Fund Balance - ending	\$28,973	\$1,221,501,801	\$62,449,193	\$9,877,910	\$148,836,317	\$78,981,202	\$1,521,675,396

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

Net change in fund balance	\$520,777,191
Net value of capital asset - land transaction	(\$50,327)
Net value of capital asset - acquired land	182
Depreciation expense on equipment	(1,762)
Office equipment additions	-
Decrease in compensated absences liability	6,416
Net Assets of governmental activities	<u>\$520,731,700</u>

The accompanying notes are an integral part of these financial statements.

**BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Statement of Appropriations
June 30, 2011**

	Original Appropriation	Final Adjusted Appropriation	First Year 2010 Expenditures	Second Year 2011 Expenditures	Unexpended Appropriation on 06/30/11
General Fund:					
Salaries and Wages	\$3,214,850	\$3,164,850	\$1,395,163	\$1,563,492	\$206,195
Operating Expenses	739,952	839,952	374,140	416,497	49,315
Capital Assets	10,000	10,000	-	-	10,000
Contingencies	50,000	-	-	-	-
	<u>\$4,014,802</u>	<u>\$4,014,802</u>	<u>\$1,769,303</u>	<u>\$1,979,989</u>	<u>\$265,510</u>
Energy Infrastructure and Impact Office:					
Grants	\$9,777,759	\$9,777,759	\$15,068	\$2,708,355	\$7,054,336
Lands and Minerals Trust:					
North Dakota General Fund	\$35,000,000	\$35,000,000		\$35,000,000	
Heritage Center	499,836	499,836	\$499,836		
Oil & Gas Division	319,041	319,041		314,242	\$4,799
Geological Survey Division	196,166	196,166			196,166

Perpetual Education Trusts:

For the years ending on June 30, 2011 and June 30, 2010, the perpetual education trusts managed by the Board distributed \$41,133,000 and \$41,133,000, respectively in accordance with N.D.C.C. 15-03-05.2. During the same periods, the trusts paid administrative expenses of \$5,883,954 and \$5,275,129, respectively in accordance with N.D.C.C. 15-03-16.

Reconciliation of Administrative Expenses to Appropriated Expenditures

	Fiscal Year 2010	Fiscal Year 2011
Biennial Legislative Appropriation Expenditures	\$1,769,303	\$1,979,989
Continuing Appropriation Authority Expenditures	9,896,104	12,502,678
Total expenses as reflected on the financial statements	<u>\$11,665,407</u>	<u>\$14,482,667</u>

See Note 18 for information on the Board's continuing appropriation authority of funding.

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Notes to the Financial Statements
June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Reporting Entity

The Board of University and School Lands (Board) is an agency of the State of North Dakota. The Board was created under Article IX, Section 3 of the North Dakota State Constitution, and operates through the legislative authority of the North Dakota Century Code Chapters 15-01, 47-30.1, and 57-62. As a state agency, the Board is considered to be a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report.

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

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

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

Fund Accounting Structure

The Board 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 Board is bound to honor them: nonspendable, restricted, committed and assigned.

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

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

The State Land maintenance fund is used to pay operating expenses of the Land Department. The Land Departments 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. 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. 15.3-36 and 57-62, the Trust also makes loans to energy impacted entities and low interest loans to school districts for new construction. Interest earned on monies from the Trust is distributed to the State General Fund.

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

The 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. 15-01-02. The beneficiaries of the Common Schools Trust are publicly funded schools, grades K-12. Other beneficiaries of the Educational Trust funds are the North Dakota State University, School for the Blind, School for the Deaf, State Hospital, Valley City State University, Mayville State University, Youth Correctional Center, State School of Science, Veterans Home, and the University of North Dakota. Income from the assets held by the Ellendale Trust are allocated equally among Dickinson State University, Minot State University, Dakota College at Bottineau, School for the Blind, Veterans Home, State Hospital, and State College of Science. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota. The Trusts own assets in the form of rangeland, producing and non-producing mineral interests, investment securities and an office building. The Common Schools Trust fund is also used to account for unclaimed property collected under the authority of N.D.C.C 57-62-05.

The Lands and Minerals Trust fund accounts for producing and non-producing mineral interests formerly owned by the Bank of North Dakota (BND) and State Treasurer, and acres located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state. The Trust receives revenues from mineral bonuses and mineral royalties. The income is distributed biennially to the State General Fund.

The Energy Infrastructure and Impact Grants fund (formally the Energy Development Impact fund) provides grant assistance to counties, cities, school districts and other political subdivisions impacted by oil or gas development. The program is funded with a percentage of the oil and gas gross production tax as enacted by the legislative assembly.

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

The Indian Cultural Educational Trust "is established for the purpose of generating income to benefit Indian culture....". The Trust receives revenues from surface rental income.

The Board reports the Common Schools Trust fund, Coal Development Trust fund, State Lands General fund, Energy Infrastructure and Impact fund, and Lands and Minerals Trust fund as major governmental funds.

Basis for Accounting

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

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

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

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

Cash Deposits and Investments

Cash includes all funds deposited with the BND.

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, 2011 for funding of current operations. All receivables are considered collectible. A majority of the accrued royalty revenue is expected to be collected within the first 90 days following June 30, 2011. Interest is expected to be collected prior to June 30, 2012 when investments mature.

Claimant Liability

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

Capital Assets

Capital assets include land valued at historical cost or fair value; and equipment valued at historical cost or at estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date of donation.

All other capital assets with an original cost of \$5,000 or more per unit and an estimated useful life in excess of one year are capitalized and reported in the applicable government activities columns in the government-wide financial statements in accordance with N.D.C.C. 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.

Compensated Absences Payable

N.D.C.C. 54-06-14 allows employees to accrue annual leave at a variable 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.

NOTE 2 - ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Board 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 Bank of North Dakota. N.D.C.C. 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, N.D.C.C. 6-09-07 states, "[a]ll state funds ... must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provision.

The carrying amount of deposits with the BND and Northern Trust as of June 30, 2011 and 2010 were \$16,530,120 and \$85,506,168 respectively and the bank balances were \$7,418,074 and \$72,368,095. 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, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through N.D.C.C. Section 6-09-10. The Board does not have a formal policy regarding deposits.

NOTE 4 – FUND BALANCE CLASSIFICATION

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

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

The Coal Development Trust fund was established by Article X of the State Constitution. This fund is held in trust and administered by the Board for loans to coal impacted counties, cities and school districts and for loans to other school districts. The Coal Development 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 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 Trust fund was created under the State Constitution for the construction and maintenance of public buildings at the capital. The entire balance of the trust is subject to legislative appropriation each biennium.

The Indian Cultural Education fund was established for the purpose of generating income to benefit Indian culture. The Mandan, Hidatsa and Arikara Nation Cultural Education Foundation is responsible for disbursements of trust proceeds.

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 monies 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 Energy Infrastructure and Impact Grant fund allocates funds appropriated by the state legislatures to assist local political subdivisions in dealing with problems arising from oil and gas development. Any changes to the fund balance commitment would require an appropriation bill action of the legislative assembly.

The Lands and Minerals Trust fund was established by legislation and consists of mineral acres formerly owned by the Bank of North Dakota and State Treasurer, and minerals located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state. The balance of this trust is appropriated by legislatures with the exception of any balance the Board identified as committed. Any changes to the fund balance commitment would require bill action of the legislative assembly to change the North Dakota century code.

Assigned: amounts in the assigned fund balance classification are intended to be used by the State or the Land Department for specific purposes but do not meet the criteria to be classified as restricted or committed.

The Land Department General fund is created under N.D.C.C. 15-03-01.1 and is available for paying operating expenses as appropriated by the legislative assembly. Any changes to the assigned fund balance would require an appropriation bill action of the legislative assembly.

The Lands and Minerals assigned fund balance is created under N.D.C.C. 15-08.1-08 and allows the Board to assign a fund balance that should not be transferred out of the Lands and Minerals Trust fund until potential title disputes related to certain riverbed mineral leases have been resolved. Any changes to the assigned fund balance would require a vote of the Board or action of the legislative assembly.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Fund Balance Classifications

Specific purposes have been mandated on the committed fund balance and assigned fund balance amounts managed by the Board. These fund balances are established by the North Dakota State Constitution and legislative assembly through referendum and vote of the people, and/or formal legislative action. These constraints can only be removed or changed by the same action.

Fiscal Year Ended June 30, 2011

<u>Fund Balances</u>	<u>General Fund</u>	<u>Common Schools</u>	<u>Coal Development Fund</u>	<u>Energy Infrastructure & Impact Grant Fund</u>	<u>Lands & Minerals Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Permanent Funds:							
<i>Nonspendable</i>							
Permanent fund principal			\$63,224,478				\$63,224,478
<i>Committed</i>							
Permanent fund income			225,089				225,089
Special Revenue Funds:							
<i>Restricted</i>							
Distribution to educational beneficiaries		\$1,622,412,984				\$104,987,987	1,727,400,971
Capitol building maintenance						3,367,502	3,367,502
Indian cultural education						667,591	667,591
<i>Committed</i>							
Grants Designated for transfer to State general fund				\$5,999,622			5,999,622
					\$172,444,215		172,444,215
<i>Assigned</i>							
Operating Expenses	\$75,854						75,854
Potential mineral title disputes					76,630,216		76,630,216
Total Fund Balances:	<u>\$75,854</u>	<u>\$1,622,412,984</u>	<u>\$63,449,567</u>	<u>\$5,999,622</u>	<u>\$249,074,431</u>	<u>\$109,023,080</u>	<u>\$2,050,035,538</u>

Fiscal Year Ended June 30, 2010

<u>Fund Balances</u>	<u>General Fund</u>	<u>Common Schools</u>	<u>Coal Development Fund</u>	<u>Energy Infrastructure & Impact Grant Fund</u>	<u>Lands & Minerals Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Permanent Funds:							
<i>Nonspendable</i>							
Permanent fund principal			\$62,225,366				62,225,366
<i>Committed</i>							
Permanent fund income earned			223,827				223,827
Special Revenue Funds:							
<i>Restricted</i>							
Distribution to educational beneficiaries		\$1,221,501,801				\$75,480,332	1,296,982,133
Capitol building maintenance						2,938,226	2,938,226
Indian cultural education						562,644	562,644
<i>Committed</i>							
Grants Designated for transfer to State general fund				\$9,877,910			9,877,910
					\$127,810,225		127,810,225
<i>Assigned</i>							
Operating Expenses	\$28,973						28,973
Potential mineral title disputes					21,026,092		21,026,092
Total Fund Balances:	<u>\$28,973</u>	<u>\$1,221,501,801</u>	<u>\$62,449,193</u>	<u>\$9,877,910</u>	<u>\$148,836,317</u>	<u>\$78,981,202</u>	<u>\$1,521,675,396</u>

The accompanying notes are an integral part of these financial statements.

NOTE 5 – INVESTMENTS

The Board's investment policy is to invest Trust assets in a manner that balances the growth of the portfolio for the benefit of future beneficiaries with maintaining income for distributions to current beneficiaries. This is accomplished by investing in a widely diversified portfolio.

N.D.C.C. 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.

Investments

The following investments are reported at fair value, which represents stated market prices. Actual gains and losses realized by the Board will be determined at the time of the sale and will be based on market conditions at that date. Funds held by Northern Trust as of June 30, 2011 and 2010 are classified as investments in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Equity Securities:		
Common stock	\$699,775,032	\$508,539,131
Preferred stock	6,811,402	2,348,151
Convertible equity	8,376,303	5,806,512
Equity exchange traded fund	197	8,443
Corporate convertible bonds	125,689,340	99,566,529
Fixed Income	808,857,556	600,333,206
Other Assets		425
Cash and Cash Equivalents	22,995,123	31,373,371
	<u>\$1,672,504,953</u>	<u>\$1,247,975,768</u>

The Board holds other investments with a minimal risk since they are guaranteed by either the Federal government or the State of North Dakota. As of June 30, 2011, these investments included \$219,872,221 in U.S. Treasury Bills and \$23,475,000 in Bank of North Dakota certificate of deposits that will mature in less than one year. As of June 30, 2010, these investments included \$66,075,000 in Bank of North Dakota certificate of deposits and a \$13,400,000 loan to the State Mill that matured in less than one year.

In addition, the Board holds unclaimed mutual funds 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, 2011 and 2010, respectively, the Board held \$185,233 and \$184,126 in unclaimed mutual funds.

Common Schools Trust Fund owns the building occupied by the State Land Department. For the periods ending June 30, 2011 and 2010, the book value of the building was \$712,613 and \$676,990, respectively. The book value of the building is included in the investments line of the balance sheet.

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 exposure by maintaining a diversified portfolio that contains a wide variety of maturity dates and credit ratings for the debt securities held. The Board has adopted an asset allocation schedule and approves the hiring of all managers within the various asset classes. The Board does not have a formal policy regarding the maturities of its investments.

The following tables show the investments by investment type and maturity at June 30, 2011 and 2010. The investments are shown by type, amount, and duration; and assume the call dates as the maturity dates.

Fiscal Year 2011

Investment Type	Maturity Amount	Weighted Average Maturity (years)
Asset Backed Securities	\$4,089,142	0.142677
Commercial Mortgage-Backed	3,288,001	0.205690
Commercial Paper	5,109,213	0.000854
Corporate Bonds	264,001,802	3.095074
TIPS Fund	135,979,773	1.321137
Corporate Convertible Bonds	125,689,340	2.190194
Government Agencies	24,140,099	0.246668
GNMA Fund	155,856,541	1.206043
Short Bond Fund	103,322,747	0.266509
Government Bonds	50,343,837	0.600215
Government Mortgage Backed Securities	43,199,286	1.760169
Gov't-issued Commercial Mortgage-Backed	366,359	0.016870
Guaranteed Fixed Income	2,286,350	0.059274
Index Linked Government Bonds	2,562,422	0.069565
Municipal/Provincial Bonds	1,559,185	0.010936
Non-Government Backed CMOs	17,862,013	0.777856
Short Term Bills and Notes	11,978,679	0.012973
Short Term Investment Funds	11,134,863	0.000000
Total	<u>\$962,769,652</u>	<u>11.982704</u>

Fiscal Year 2010

Investment Type	Maturity Amount	Weighted Average Maturity (years)
Asset Backed Securities	\$6,461,528	0.296732
Commercial Mortgage-Backed	3,182,143	0.254494
Corporate Bonds	200,362,909	3.225143
TIPS Fund	109,681,718	1.423408
Corporate Convertible Bonds	99,566,530	2.625593
Government Agencies	26,008,483	0.445570
GNMA Fund	51,893,683	0.399521
Short Bond Fund	91,380,787	0.327191
Government Bonds	38,860,966	0.679690
Government Mortgage Backed Securities	49,848,855	2.723747
Gov't-issued Commercial Mortgage-Backed	791,760	0.047133
Guaranteed Fixed Income	2,826,695	0.166801
Index Linked Government Bonds	1,651,857	0.059579
Municipal/Provincial Bonds	1,349,972	0.011586
Non-Government Backed CMOs	16,003,626	0.904831
Other Fixed Income	28,227	0.000000
Short Term Bills and Notes	4,815,462	0.007951
Short Term Investment Funds	31,134,643	0.000000
Total	\$735,849,844	13.598970

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

Other investments included above, such as variable rate collateralized mortgage obligations (CMOs), have a high degree of sensitivity to interest rate changes. As of June 30, 2011 and 2010, respectively, the Board held \$14,961,389 and \$11,682,450 in variable rate CMOs.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The Board does not have a formal policy regarding credit risk. The following table presents the Board's ratings as of June 30, 2011 and 2010, respectively.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Credit Risk Ratings

Fiscal Year 2011	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$524,150					\$1,367,384					\$2,197,608	
Commercial Mortgage-Backed	1,106,678	\$1,109,852									1,071,471	
Commercial Paper											5,109,213	
Corporate Bonds		4,795,998	\$33,975,078	\$48,399,143	\$85,868,891	70,892,370	\$3,097,653				5,354,425	
TIPS Fund	11,618,244										135,979,773	
Corporate Convertible Bonds		2,822,100	16,452,615	32,146,649	31,620,023	15,499,826	2,024,825				20,785,501	
Government Agencies	4,337,801					171,735						
GNMA Fund	23,968,364											
Short Bond Fund	14,427,036	440,546	7,211,861	2,380,491								\$6,105,433
Government Bonds	67,273											43,132,013
Government Mortgage Backed Securities												366,359
Gov't-issued Commercial Mortgage-Backed	2,286,350											
Guaranteed Fixed Income												
Index Linked Government Bond											2,562,422	
Municipal/Provincial Bonds	8,009,038	1,551,167									8,018	
Non-Government Backed C.M.O.s		130,772			1,729,126	230,663	2,915,234	1,284,971		379,773	3,182,436	
Other Fixed Income												
Short Term Bills and Notes												11,978,679
Short Term Investment Funds	\$66,344,934	\$10,850,435	\$57,639,554	\$82,926,283	\$119,218,040	\$88,161,978	\$8,037,712	\$1,284,971	\$0	\$379,773	\$466,343,488	\$61,562,484

Fiscal Year 2010	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$2,914,624					\$1,178,836					\$2,368,068	
Commercial Mortgage-Backed	1,059,126	\$1,065,655									1,057,362	
Corporate Bonds	4,720,092	5,362,684	\$29,422,411	\$51,096,247	\$57,795,821	45,755,507	\$5,423,500				186,647	
TIPS Fund											109,681,718	
Corporate Convertible Bonds	2,335,900		15,255,515	21,463,651	17,245,548	8,777,538					34,488,378	
Government Agencies	24,866,836					136,638					1,005,009	
GNMA Fund											51,893,683	
Short Bond Fund	24,960,501	417,842	3,088,837	1,737,408							91,380,787	
Government Bonds											5,569,340	\$3,087,238
Government Mortgage Backed Securities												49,848,855
Gov't-issued Commercial Mortgage-Backed												791,760
Guaranteed Fixed Income	2,826,695											
Index Linked Government Bond											1,651,857	
Municipal/Provincial Bonds	5,980,223	1,349,972										
Non-Government Backed C.M.O.s		140,288			1,636,874	229,777	3,945,470	1,107,090			2,963,904	
Other Fixed Income												
Short Term Bills and Notes												4,815,462
Short Term Investment Funds	\$69,663,997	\$8,935,241	\$47,766,763	\$74,297,306	\$76,678,243	\$56,078,266	\$9,368,970	\$1,107,090	\$0	\$0	\$333,409,623	\$58,543,315

The accompanying notes are an integral part of these financial statements.

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 things 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 income to distribute to trust beneficiaries. The Board does not have a formal policy regarding foreign currency risk. The Board's exposure to foreign currency risk is presented in the following tables:

Fiscal Year 2011

Currency	Debt	Equity	Total
Australian dollar	\$(30,680)	\$14,287,138	\$14,256,458
British pound sterling	(2,259)	37,773,072	37,770,813
Canadian dollar	10,024	-	10,024
Danish krone	(74,045)	3,198,860	3,124,815
Euro	(786,734)	51,032,597	50,245,863
Hong Kong dollar	-	4,541,387	4,541,387
New Zealand dollar	153,940	198,893	352,833
Norwegian krone	(51,198)	1,011,039	959,841
Polish zloty	(24,477)	-	(24,477)
Hungarian	(16,397)	-	(16,397)
Mexican peso	(22,060)	-	(22,060)
Swedish krona	(52,569)	5,436,405	5,383,836
Japanese yen	-	33,662,619	33,662,619
Singapore dollar	-	2,850,798	2,850,798
Swiss franc	-	8,883,882	8,883,882
Czech Koruna	63,380	1,019,326	1,082,706
South African rand	(8,100)	1,019,326	1,011,226
	<u>\$(841,175)</u>	<u>\$164,915,342</u>	<u>\$164,074,167</u>

Fiscal Year 2010

Currency	Debt	Equity	Total
Australian dollar	\$117,927	\$10,588,171	\$10,706,098
British pound sterling	(76,643)	29,328,856	29,252,213
Canadian dollar	119,448	-	119,448
Danish krone	18,549	2,448,278	2,466,827
Euro	(368,315)	37,304,690	36,936,375
Hong Kong dollar	-	3,192,857	3,192,857
New Zealand dollar	90,435	126,200	216,635
Norwegian krone	(17,335)	706,719	689,384
Polish zloty	(12,779)	-	(12,779)
Hungarian	(67,288)	-	(67,288)
Mexican peso	65,534	-	65,534
Swedish krona	-	2,889,978	2,889,978
Japanese yen	-	29,694,836	29,694,836
Singapore dollar	-	2,132,778	2,132,778
Swiss franc	-	7,306,974	7,306,974
	<u>\$(130,467)</u>	<u>\$125,720,337</u>	<u>\$125,589,870</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 Assets. At June 30, 2011 and 2010, the Board had one type of derivative security: currency forwards.

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order 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 Assets with a loss of \$13,214,156 for fiscal year 2011 and a gain of \$6,132,762 in fiscal year 2010. At June 30, 2011 and 2010, the Board's investment portfolio included the currency forwards balances shown below.

Currency	Cost	Purchases	Sales	Fair Value	
				June 30, 2011	June 30, 2010
Australian dollar	(\$8,668,460)	\$0	(\$8,801,867)	(\$8,801,867)	(\$6,018,073)
Canada dollar	(4,237,020)	-	(4,297,379)	(4,297,379)	(4,675,213)
Czech Republic koruna	(2,326,653)	-	(2,397,305)	(2,397,305)	-
Denmark krone	(6,003,619)	-	(6,129,320)	(6,129,320)	(4,881,308)
Euro members	(43,803,927)	868,470	(45,420,022)	(44,551,552)	(30,710,746)
Hungary forint	(2,328,042)	-	(2,396,888)	(2,396,888)	(1,804,696)
Mexico peso	(2,613,902)	-	(2,603,790)	(2,603,790)	(1,557,389)
New Zealand dollar	(3,965,198)	-	(4,081,296)	(4,081,296)	(2,762,482)
Norway krone	(3,495,930)	-	(3,558,047)	(3,558,047)	(2,845,621)
Poland zloty	(2,182,563)	-	(2,193,924)	(2,193,924)	(1,544,672)
Sweden krona	(3,904,542)	-	(3,958,783)	(3,958,783)	-
United Kingdom pound	(508,307)	-	(497,251)	(497,251)	(4,428,348)
United States dollar	85,486,129	86,336,412	(850,285)	85,486,128	63,404,389
South Africa rand	(1,447,966)	-	(1,479,011)	(1,479,011)	-
Total forwards subject to currency risk				(\$1,460,285)	\$2,175,840

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 assets. 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, US government securities and irrevocable letters of credit. US securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. In all cases the borrower provides more collateral than the value of securities lent. Therefore, there is no credit risk related to security lending transactions. Non-US 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 60 days as of June 30, 2011.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 21 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.

The following represents the Board's balances related to securities lending transactions at June 30, 2011 and 2010. Securities lending collateral is invested in investment pools and is not exposed to custodial credit risk.

Fiscal Year 2011

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$5,372,990	\$5,533,750		
US Agencies	6,027,552	6,155,741		
US Corporate Fixed	96,648,663	98,561,931	\$804,760	\$821,875
US Equities	47,645,905	48,496,263		
US Government Fixed	9,269,965	9,485,899		
	<u>\$164,965,075</u>	<u>\$168,233,584</u>	<u>\$804,760</u>	<u>\$821,875</u>

Fair Value of Securities on Loan against Cash Collateral	\$164,965,075
Fair Value of Securities on Loan against Non Cash Collateral	\$ 804,760
Total Fair Value of Securities on Loan	\$165,769,835

Fiscal Year 2010

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$2,861,768	\$3,013,590		
US Agencies	7,721,474	7,920,339		
US Corporate Fixed	65,395,533	67,245,309	\$265,781	\$272,749
US Equities	30,040,381	30,955,575	15,462	15,971
US Government Fixed	8,106,314	8,310,425		
	<u>\$114,125,470</u>	<u>\$117,445,238</u>	<u>\$281,243</u>	<u>\$288,720</u>

Fair Value of Securities on Loan against Cash Collateral	\$114,125,470
Fair Value of Securities on Loan against Non Cash Collateral	\$ 281,243
Total Fair Value of Securities on Loan	\$114,406,713

NOTE 7 – FARM LOAN POOL

N.D.C.C. 15-03 authorizes the Board to invest in first mortgage farm loans. All purchased loans are credited to the pool and the investments, repayments, interest and income are credited to the various trusts in proportion to their participation. The pool is administered by the BND in accordance with standard banking practices, including executing all instruments on behalf of the Board and handling foreclosures. As of June 30, 2011 the non-current and current portions of the loans were \$37,061,741 and \$2,877,439 respectively. The same amounts as of June 30, 2010 were \$40,967,939 and \$2,869,564 respectively.

As of June 30, 2011 and 2010, the pool had net assets of \$44,122,998 and \$48,294,201 respectively. For the same period, the pool earned net income of \$2,828,796 and \$2,915,394.

NOTE 8 – ENERGY CONSTRUCTION LOAN PROGRAM

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

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

As of June 30, 2011 the non-current and current portions of the loans were \$885,864 and \$87,600 respectively. As of June 30, 2011 the program had net assets of \$1,027,394 and earned net income of \$37,757.

NOTE 9 - COAL AND OIL AND GAS WARRANTS

The Board is authorized to make loans to coal and oil and gas development impacted counties, cities and school districts and other political subdivisions from the Coal Development Trust fund. A warrant is executed by the governing body as evidence of the loan. The loans bear interest at either six or two percent annually. The coal warrants are payable only from the borrowing entities share of coal severance tax collected and do not constitute a general obligation of the entity. Oil and gas warrants are payable from any funds of the borrowing entity and constitute a general obligation. No losses are anticipated on the warrants and an allowance has not been provided. As of June 30, 2011 the non-current and current portions of the loans were \$4,041,989 and \$359,866 respectively. The same amounts as of June 30, 2010 were \$4,398,518 and \$353,870 respectively.

NOTE 10 - DEVELOPMENTALLY DISABLED FACILITY LOAN FUND PROGRAMS NO. 2 & NO. 3

N.D.C.C. 6-09.6 created the Developmentally Disabled Facility Loan Fund Programs for the purpose of making loans to nonprofit corporations for the establishment of facilities for disabled persons. Program No. 2 was authorized to borrow \$5,000,000 and program No. 3, \$4,951,145 from the Common Schools Trust fund to finance the programs.

The programs are administered by the BND and are charged a fee of one-half percent of the principal balance of the outstanding loans. Principal and interest payments from the loans are deposited in the Lands and Minerals Trust fund after the deduction of loan administration fees. The loans are repaid through an appropriation from the Human Services Department fund with loan collections and other revenue sources that have been deposited in the Lands and Minerals Trust fund.

The loans bear interest at 9%, thereby causing a cash flow shortage in the Lands and Minerals Trust fund. Each year the fund must pay more to the Human Services Department fund than it will receive in loan collections from the Bank.

NOTE 11 - SCHOOL CONSTRUCTION LOANS

N.D.C.C. 15-60-10 was enacted in 1993 authorizing the Board to fund low interest school construction loans from the Coal Development Trust. The outstanding principal balance of loans made from this fund may not exceed forty 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. 21-03. The superintendent may also determine the loan amount and a percent of interest 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 on a loan cannot exceed a rate of two percent below the net interest rate on comparable tax-exempt obligations and the final interest rate may not exceed six percent.

The BND processes and services all loans. The Bank receives payments of principal and interest from the school districts and remits these payments to the Board for deposit in the Coal Development Trust fund. As of June 30, 2011 the non-current and current portions of the loans were \$23,682,648 and \$2,738,262 respectively. The same amounts as of June 30, 2010 were \$26,376,220 and \$2,728,314 respectively.

NOTE 12 - OFFICE LEASE COMMITMENT

The Board's administrative agent, the Office of Commissioner of University and School Lands (State Land Department) rents office space owned by the Common Schools Trust Fund. The Land Department's commitment to rent its office space from the Common Schools Trust is continuous, with periodic adjustments made in accordance with acceptable management practices and market conditions. For the periods ending June 30, 2011 and 2010 rent of \$11,889 and \$11,889 was paid by the non-Common Schools Trusts.

NOTE 13 - CAPITAL ASSETS

Governmental Activities:	Balance 7/1/10	Additions	Retirements	Balance 6/30/11
Land	\$7,784,173	\$700	(\$523)	\$7,784,350
Equipment	8,808			8,808
Less accumulated depreciation:				
Equipment	(3,998)	(1,762)		(5,760)
Net capital assets	\$7,788,983	(\$1,062)	(\$523)	\$7,787,398

Governmental Activities:	Balance 7/01/09	Additions	Retirements	Balance 6/30/10
Land	\$7,834,318	\$182	(\$50,327)	\$7,784,173
Equipment	\$15,158		(6,350)	\$8,808
Less accumulated depreciation:				
Equipment	(8,586)	(1,762)	6,350	(3,998)
Net capital assets	\$7,840,890	(\$1,580)	(\$50,327)	\$7,788,983

Under the provisions of the Enabling Act, land was granted to the State for the support of the common schools and other institutions. Under Constitutional authority, no grant land may be sold for less than ten dollars an acre which is the value per acre used for balance sheet purposes. In fiscal year 2011, 69.95 acres were acquired and 52.28 acres were sold. In fiscal year 2010, 18.24 acres were acquired and 471.83 acres were sold.

The Board assumes ownership of all of the foreclosed farm loan pool properties pending disposition of the property. The foreclosed property is recorded at the lower of cost or fair value. No loans were foreclosed and no sales of farm real estate occurred during the current fiscal year.

All land held by the Board is considered a capital asset and not depreciable according to GASB 34.

A total of \$1,762 and \$1,762 in equipment depreciation for fiscal years ending June 30, 2011 and 2010 was charged to the education fund.

NOTE 14 - DUE FROM (TO) OTHERS

The following is a detail of the amounts that are due from and to other trust funds managed by the State Land Department at June 30, 2011 and 2010.

Fund	2011		2010	
	Due from other funds	Due to other funds	Due from other funds	Due to other funds
General fund	\$70,243	\$2,720,446		\$3,796,195
Land and Minerals Trust	672,411		\$1,176,885	171,896
Non major perpetual funds	152,202		476,790	
Common Schools	1,895,833	70,243	2,311,422	
Capitol Trust			2,994	
	<u>\$2,790,689</u>	<u>\$2,790,689</u>	<u>\$3,968,091</u>	<u>\$3,968,091</u>

As stated in Note 1 of these financial statements, the Board of University and School Lands is a state agency of North Dakota; as such, the other state agencies of the state and political subdivisions are related parties. The following is detail of amounts due from and to other State agencies as June 30, 2011 and 2010.

Fund	Due from other state agencies	Due to other state agencies	Due from other state agencies	Due to other state agencies
Land and Minerals Trust:				
Bank of North Dakota			\$24,386	
			<u>24,386</u>	
Coal Development Trust:				
State Treasurer	\$459,481	\$321,636	516,008	\$361,206
	<u>459,481</u>	<u>321,636</u>	<u>516,008</u>	<u>361,206</u>
General Fund:				
Attorney General		1,692		6,877
Dept. of Transportation		3,117		1,777
Information Technology Department		12,622		5,106
Central Services		819		
Office of Management and Budget		15,541		482
	<u>-</u>	<u>33,791</u>	<u>-</u>	<u>14,242</u>
Perpetual Funds:				
State Treasurer	10,254,510		5,599,284	
Developmentally Disabled Facility Loan No. 3	1,264,715		916,391	
Bank of North Dakota		93,939		97,641
	<u>11,519,224</u>	<u>93,939</u>	<u>6,515,675</u>	<u>97,641</u>
Total Due To/Due From	<u>\$11,978,705</u>	<u>\$449,366</u>	<u>\$7,056,069</u>	<u>\$473,089</u>

NOTE 15 – PERPETUAL FUND DISTRIBUTION POLICY

According to sections 1 and 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 assets' ending value 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 16 – TRANSFERS FROM (TO) OTHER STATE AGENCIES

The following detail represents amounts transferred to beneficiaries and other State agencies as of June 30, 2011 and 2010.

Fund	2011		2010	
	Transfers from other agencies	Transfers to other agencies	Transfers from other agencies	Transfers to other agencies
Perpetual Funds:				
Department of Public Instruction		\$38,589,000		\$38,589,000
N.D.S.U.		619,000		619,000
School for the Blind		103,000		103,000
School for the Deaf		180,000		180,000
State Hospital		228,000		228,000
Ellendale		98,000		98,000
Valley City State University		130,000		130,000
Mayville State University		89,000		89,000
Industrial School		219,000		219,000
School of Science		194,000		194,000
School of Mines		214,000		214,000
Veterans Home		124,000		124,000
U.N.D.		346,000		346,000
		<u>41,133,000</u>		<u>41,133,000</u>
Coal Development Trust:				
Lignite Research Fund		2,210,826		2,314,380
General Fund of North Dakota		1,000,000		1,505,172
		<u>3,210,826</u>		<u>3,819,552</u>
Land and Minerals:				
General Fund of North Dakota		35,314,242		499,835
		<u>35,314,242</u>		<u>499,835</u>
Capitol Building Trust:				
Facilities Management		101,700		5,000
		<u>101,700</u>		<u>5,000</u>
Total Transfers		<u>\$79,759,768</u>		<u>\$45,457,387</u>

NOTE 17 – ASSIGNED FUND BALANCE

On August 25, 2011 the Board of University and School Lands classified \$76,630,216 of the Lands and Minerals Trust Fund as an assigned fund balance for fiscal year 2011 financial statement purposes. This assignment was made by the Board to indicate that these funds should not be transferred out of the Lands and Minerals Trust Fund until potential title disputes related to certain riverbed leases have been resolved.

As of the date of the Board's action, no lawsuits have been filed and there is no expectation that the Board will lose any potential title dispute that may arise. However, it may be some time before all potential title disputes are resolved, by the courts or through negotiations and agreements between the various parties. This assignment is made to ensure that if the State loses or settles title disputes related to specific riverbed tracts, that funds will be available to make refunds to those entities that leased these minerals in good faith.

NOTE 18 – CONTINUING APPROPRIATIONS

The following information discloses the Board'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 15-08.1-09 Lands and Minerals. To pay from the lands and minerals trust fund all principal and interest to the common schools trust fund on any loans made to the developmentally disabled loan fund program nos. 2 and 3.

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

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

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

NOTE 19 – LONG TERM LIABILITIES

Compensated Absences Payable

State Land Department employees can earn annual leave at a variable rate based on years of service. The amount of annual leave earned ranges from 1 and 2 days per month and accrued annual leave cannot exceed 30 days as of April 30th of each year. State Land Department employees can 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 Sate is liable for 10 percent of the employee’s accumulated unused sick leave.

The reported liabilities for compensated absences were \$152,742 and \$127,160 at June 30, 2011 and 2010, respectively. This balance includes the employer’s share of FICA taxes.

	Balance 7/1/10	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter	Balance 6/30/11
Governmental Activities						
Other long-term liabilities:						
Compensated absences	\$127,160	\$98,442	\$72,860	\$8,157	\$144,585	\$152,742

	Balance 7/1/09	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter	Balance 6/30/10
Governmental Activities						
Other long-term liabilities:						
Compensated absences	\$133,576	\$78,903	\$85,319	\$6,791	\$120,369	\$127,160

NOTE 20 – PENSION PLAN

The Board of University and School Lands participates in the North Dakota Public Employees' Retirement System (PERS) administered by the State of North Dakota. The following is a brief description of the plan.

Defined Benefit Pension Plan:

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Board of University and School Lands. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' 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 employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees' who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Board of University and School Lands has implemented a salary reduction agreement and is currently contributing the employees share. The Board of University and School Lands is required to contribute 4.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The Board of University and School Lands' required and actual contributions to NDPERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$192,456, \$90,023, and \$81,576 respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1657, Bismarck, ND 58502-1657.

NOTE 21 - POSTRETIREMENT BENEFITS

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

The benefits, fully paid by the Agency, are equal to \$4.50 for each of the employee's or decreased employee's years of credited service not to exceed the premium in effect for selected coverage. For this pay-as-you-go plan, total agency expenditures for the periods ending June 30, 2011 and 2010 were \$9,086 and \$6,947.

NOTE 22 - RISK MANAGEMENT

The Board 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 Board participates in the following funds or pools:

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

The Board pays an annual premium to the Fire and Tornado Fund to cover property damage to 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 Board with blanket fidelity bond coverage in the amount of \$3,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

North Dakota Workforce Safety and Insurance is an enterprise fund of the State of North Dakota. The Bureau 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.

BOARD OF UNIVERSITY AND SCHOOL LANDS
 Bismarck, North Dakota
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2011

	Special Revenue Funds										Total				
	M.D.S.U.	School for the Blind	School for the Deaf	State Hospitals	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines		Veterans Home	U.N.D.	Capitol Building	Indian Cultural Education
Assets:															
Cash	\$62,131	\$13,325	\$17,700	\$17,988	\$12,147	\$15,373	\$11,563	\$24,524	\$18,517	\$18,459	\$14,739	\$28,796	\$2,348,325	\$5,645	\$2,692,352
Investments	24,786,516	2,917,052	8,752,190	8,960,013	4,299,800	4,185,975	2,658,756	9,871,468	8,178,547	9,896,920	2,806,718	12,184,117	975,000	660,215	100,871,417
Interest receivable	194,868	31,774	57,670	65,111	32,127	38,911	26,817	75,322	60,218	64,727	32,497	91,897	5,977	2,117	779,933
Accounts receivable	371,618	16,870	263,432	24,637	106,759	35,377	31,085	112,154	85,500	85,011	3,771	254,398	38,200		1,423,852
Invested securities lending collateral	2,398,232	284,409	841,869	869,688	413,481	406,945	257,935	955,058	792,185	938,811	275,643	1,178,579		63,457	9,677,292
Loans															
Farm loans	793,429	153,157	217,472	222,825	142,811	180,761	130,108	307,912	226,740	228,817	179,442	364,078			3,147,552
Due from other funds	19,653	279	10,041	15,641	1,724	424	223	2,613	29,346	44,517	323	27,418			152,202
Total Assets	\$28,627,547	\$3,416,866	\$10,200,374	\$10,175,913	\$5,008,889	\$4,863,766	\$3,114,687	\$11,349,081	\$9,391,053	\$11,077,272	\$3,313,133	\$14,129,283	\$3,367,502	\$731,434	\$118,766,600
Liabilities:															
Accounts payable	\$14,609	\$1,732	\$5,126	\$5,266	\$2,518	\$2,478	\$1,571	\$5,815	\$4,824	\$5,717	\$1,678	\$7,177		\$386	\$59,927
Securities lending collateral	2,398,232	284,409	841,869	869,688	413,481	406,945	257,935	955,058	792,185	938,811	275,643	1,178,579		63,457	9,677,292
Due to other state agencies	1,840	355	504	516	331	420	302	714	526	531	417	845			7,301
Total Liabilities	\$2,415,681	\$288,496	\$847,459	\$875,500	\$416,330	\$409,843	\$651,507	\$945,059	\$797,535	\$945,059	\$277,738	\$1,186,601	\$3,367,502	\$63,843	\$9,743,520
Equity:															
Fund Balance:															
Special revenue funds	\$26,211,668	\$3,130,370	\$9,352,875	\$9,300,413	\$4,592,559	\$4,453,973	\$2,854,879	\$10,387,484	\$8,593,518	\$10,132,213	\$3,035,395	\$12,942,682	\$3,367,502	\$567,591	109,023,060
Restricted	28,211,666	3,130,370	9,352,875	9,300,413	4,592,559	4,453,973	2,854,879	10,387,494	8,593,518	10,132,213	3,035,395	12,942,682	3,367,502	667,591	109,023,060
Total Fund Balance	\$28,627,347	\$3,416,866	\$10,200,374	\$10,175,913	\$5,008,889	\$4,863,766	\$3,114,687	\$11,349,081	\$9,391,053	\$11,077,272	\$3,313,133	\$14,129,283	\$3,367,502	\$731,434	\$118,766,600

BOARD OF UNIVERSITY AND SCHOOL LANDS

Bismarck, North Dakota
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2010

	Special Revenue Funds											Total				
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home		U.N.D.	Total	Capitol Building	Indian Cultural Education
Assets:																
Cash	\$77,553	\$14,783	\$28,305	\$40,877	\$12,855	\$16,177	\$34,751	\$38,453	\$46,686	\$15,566	\$194,371	\$372,938	\$194,371	\$4,103	\$511,410	
Investments	10,515,247	2,183,230	5,693,056	6,587,470	2,701,341	3,159,881	7,650,540	8,254,810	6,896,758	2,164,289	7,961,821	89,429,105	2,775,000	557,700	72,761,805	
Interest receivable	156,727	27,452	44,462	51,694	25,717	32,972	61,348	48,516	50,187	28,521	73,056	623,597	18,020	1,183	642,800	
Accounts receivable	82,375	2,764	292,098	50,832	89,743	24,526	86,549	59,069	85,962	2,028	323,417	1,174,116	7,841		1,181,957	
Invested securities lending collateral	1,459,285	185,023	496,910	579,834	236,698	278,756	674,766	551,274	607,350	194,820	704,485	6,128,845		48,575	6,177,220	
Loans																
Farm loans	870,858	168,103	238,694	244,370	156,747	198,401	337,860	248,867	251,147	196,954	388,807	3,454,713	2,894		3,454,713	
Due from other funds	42,728	3,571	156,770	6,032	52,393	18,686	21,606	15,575	12,152	1,166	145,586	476,780			479,784	
Total Assets	\$19,204,773	\$2,584,928	\$8,956,287	\$7,961,608	\$3,275,494	\$3,730,409	\$9,887,520	\$7,216,566	\$7,950,250	\$2,603,354	\$9,843,682	\$81,659,802	\$2,938,226	\$611,561	\$85,209,689	
Liabilities:																
Accounts payable	\$10,284	\$1,376	\$3,505	\$4,091	\$1,670	\$1,973	\$4,760	\$3,889	\$4,284	\$1,374	\$4,970	\$43,232		\$342	\$43,574	
Securities lending collateral	1,459,285	185,023	496,910	579,834	236,698	278,756	674,766	551,274	607,350	194,820	704,485	6,128,845		48,575	6,177,220	
Due to other state agencies	1,939	375	531	544	349	442	753	554	559	439	890	7,693			7,693	
Total Liabilities	\$1,471,518	\$196,774	\$500,946	\$584,569	\$238,717	\$283,171	\$680,279	\$555,717	\$612,193	\$196,633	\$710,345	\$8,176,570		\$48,917	\$8,225,487	
Equity:																
Fund Balance:																
Special revenue funds	\$17,733,255	\$2,388,152	\$6,455,351	\$6,877,040	\$3,036,777	\$3,448,238	\$8,187,241	\$6,660,849	\$7,338,057	\$2,408,721	\$8,933,337	\$75,460,332	\$2,938,226	\$582,644	\$78,981,202	
Restricted	17,733,255	2,388,152	6,455,351	6,877,040	3,036,777	3,448,238	8,187,241	6,660,849	7,338,057	2,408,721	8,933,337	75,460,332	2,938,226	582,644	78,981,202	
Total Fund Balance	\$19,204,773	\$2,584,928	\$6,956,287	\$7,581,608	\$3,275,494	\$3,730,409	\$8,887,520	\$7,216,566	\$7,950,250	\$2,603,354	\$9,843,682	\$81,659,802	\$2,938,226	\$811,561	\$85,209,689	

BOARD OF UNIVERSITY AND SCHOOL LANDS
 Bismarck, North Dakota
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Nonmajor Governmental Funds
 June 30, 2011

Revenues:	Special Revenue Funds:										Total					
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Elandstad	Valley City State U.	Wayville State U.	Industrial School	School of Sciences	School of Mines	Veterans Home	U.A.D.	Total	Capitol Building	Indian Cultural Education	Nonmajor Governmental Funds
Investment income	\$650,392	\$95,670	\$234,228	\$248,195	\$108,123	\$119,378	\$71,069	\$281,735	\$234,333	\$264,597	\$81,884	\$330,531	\$2,712,149	\$34,635	\$18,581	\$2,766,365
Loan income																
Farm loans	60,035	11,589	19,485	16,880	10,806	13,877	9,845	23,288	17,156	17,313	13,578	27,548	238,160			238,160
Increase in fair value of investments	2,835,975	389,965	981,059	1,042,663	433,358	506,316	300,554	1,201,865	930,661	1,095,170	348,386	1,962,298	11,265,137			11,340,678
Securities lending income	3,128	371	1,098	1,134	539	531	336	1,245	1,033	1,224	359	1,537	12,535			12,618
Royalties	1,682,186	105,361	1,542,456	438,461	626,074	224,348	194,876	468,662	660,461	738,958	21,541	1,138,018	7,841,401			8,182,269
Bonuses	3,985,243	241,600	285,974	803,856	437,061	238,652	437,340	432,060	189,880	865,200	274,000	1,433,289	9,871,855			9,793,391
Rental income	173,283	38,068	61,824	30,884	58,471	59,196	38,664	55,212	48,593	40,551	27,538	119,803	752,087			859,815
Total Revenues	9,200,342	851,624	3,113,132	2,581,853	1,675,230	1,350,099	1,064,684	2,463,897	2,158,123	3,043,013	787,305	4,413,022	32,483,324	552,066	107,808	33,143,198
Excess of revenue over expenditures	9,097,411	835,218	3,077,524	2,551,373	1,653,782	1,335,665	1,038,565	2,419,253	2,126,660	3,008,156	752,674	4,355,345	32,051,655	530,976	104,947	32,687,578
Other Financing Uses:																
Transfer to Educational Institutions	(618,000)	(103,000)	(180,000)	(228,000)	(88,000)	(130,000)	(88,000)	(219,000)	(194,000)	(214,000)	(124,000)	(346,000)	(2,544,000)	(101,700)		(2,544,000)
Transfer to Facilities Management	(619,000)	(103,000)	(180,000)	(228,000)	(88,000)	(130,000)	(88,000)	(219,000)	(194,000)	(214,000)	(124,000)	(346,000)	(2,544,000)	(101,700)		(2,645,700)
Total Other Financing Uses	(1,237,000)	(206,000)	(360,000)	(456,000)	(176,000)	(260,000)	(176,000)	(438,000)	(388,000)	(428,000)	(248,000)	(692,000)	(5,088,000)	(203,400)		(5,291,400)
Net Change in Fund Balance	8,478,411	732,218	2,897,524	2,323,373	1,555,782	1,005,665	849,565	2,200,253	1,932,660	2,784,156	828,674	4,009,345	29,507,655	429,276	104,947	30,041,878
Fund Balance - beginning	17,733,255	2,395,152	6,455,951	6,977,040	3,035,777	3,418,238	1,895,314	8,187,241	8,660,849	7,338,057	2,406,721	8,933,337	75,480,332	2,838,226	562,644	78,981,202
Fund Balance - ending	\$28,211,666	\$3,130,370	\$9,352,875	\$9,300,413	\$4,592,559	\$4,423,923	\$2,844,879	\$10,387,484	\$9,893,518	\$10,122,213	\$3,035,395	\$12,942,682	\$104,887,987	\$3,307,502	\$667,591	\$109,023,080

BOARD OF UNIVERSITY AND SCHOOL LANDS

Bismarck, North Dakota
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Nonmajor Governmental Funds
 June 30, 2010

Revenues:	Special Revenue Funds										Total					
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Indian Cultural Education	Nonmajor Governmental Funds
Investment income	\$507,563	\$73,054	\$170,430	\$214,877	\$80,005	\$95,871	\$57,989	\$179,907	\$190,958	\$225,208	\$76,532	\$243,544	\$2,115,948	\$18,702	\$18,864	\$2,153,514
Loan income																
Firm loans	61,672	11,905	16,904	17,320	11,101	14,050	10,113	23,033	17,624	17,785	13,948	28,299	244,654			244,654
Increase in fair value of investments	1,322,878	204,574	431,002	603,710	198,161	250,081	170,927	332,634	492,577	623,305	227,665	642,028	5,499,542			5,555,081
Securities lending income	1,780	238	606	707	288	341	181	823	672	741	238	859	7,475			7,534
Royalties	837,781	29,739	1,285,328	470,911	631,848	253,964	87,089	386,952	550,473	635,841	18,224	955,161	6,153,351			6,319,902
Bonuses	2,607,552	267,919	461,060	263,565	171,380	449,160	26,560	3,284,887	955,785	314,604	6,800	964,880	9,773,132			11,117,217
Rental income	174,816	37,254	55,090	29,062	52,539	56,639	35,786	58,652	43,769	37,714	25,656	114,444	721,620			830,232
Total Revenues	5,514,042	624,683	2,431,420	1,599,152	1,145,303	1,119,106	368,655	4,267,826	2,251,857	1,855,198	369,263	2,949,215	24,515,732	1,634,040	78,362	26,228,134
Expenditures:																
Current:																
General government																
Intergovernmental																
Education	88,776	15,916	28,923	26,845	19,244	23,756	15,320	32,761	27,630	29,409	15,447	46,488	370,525		1,785	370,525
Total Expenditures	88,776	15,916	28,923	26,845	19,244	23,756	15,320	32,761	27,630	29,409	15,447	46,488	370,525	24,116	1,785	396,426
Excess of revenue over expenditures	5,425,266	608,767	2,402,497	1,572,307	1,126,059	1,095,350	373,245	4,235,067	2,224,227	1,825,789	353,816	2,902,717	24,145,207	1,609,924	76,577	25,831,708
Other Financing Uses:																
Transfer to Educational Institutions	(619,000)	(103,000)	(180,000)	(228,000)	(96,000)	(130,000)	(89,000)	(219,000)	(194,000)	(214,000)	(124,000)	(346,000)	(2,544,000)			(2,544,000)
Transfer to Facilities Management	(619,000)	(103,000)	(180,000)	(228,000)	(96,000)	(130,000)	(89,000)	(219,000)	(194,000)	(214,000)	(124,000)	(346,000)	(2,544,000)			(2,549,000)
Total Other Financing Uses	(1,238,000)	(206,000)	(360,000)	(456,000)	(192,000)	(260,000)	(178,000)	(438,000)	(388,000)	(428,000)	(248,000)	(692,000)	(5,088,000)			(5,088,000)
Net Change in Fund Balance	4,606,266	505,767	2,222,497	1,344,307	1,028,059	965,350	284,245	4,016,067	2,030,227	1,611,789	229,816	2,556,717	21,601,207	1,604,924	76,577	23,282,708
Fund Balance - beginning	12,825,989	1,892,385	4,232,854	5,632,713	2,008,718	2,482,888	1,620,969	4,171,174	4,630,622	5,726,268	2,176,905	6,376,620	59,879,125	1,333,302	486,067	55,698,484
Fund Balance - ending	\$17,732,255	\$2,398,152	\$6,455,351	\$6,977,040	\$3,036,777	\$3,448,238	\$1,905,314	\$8,187,241	\$6,660,849	\$7,338,057	\$2,406,721	\$8,933,337	\$75,480,332	\$2,938,226	\$562,644	\$79,981,202



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**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***

The Governor of North Dakota
Legislative Audit and Fiscal Review Committee

Board of University and School Lands
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund of the Board of University and School Lands as of and for the year ended June 30, 2011 and have issued our report thereon dated November 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Board of University and School Land is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board of University and School Land's internal control over financial reporting as a basis for designing our auditing procedures 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 Board of University and School Land's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board of University and School Land's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as finding 11-1 to be a material weakness.

Compliance and Other Matters

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

The Board of University and School Lands' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Board of University and School Lands' responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Governor, Legislative Audit and Fiscal Review Committee, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
November 21, 2011

11-1 Royalty Revenue and Receivables

Condition: During the audit it was noted that there are no specific controls or internal audit function over royalty revenue to ensure that the income being received for this type of revenue is accurate. There are also no processes in place to ensure the royalty receivable report run for the year-end royalty receivable balance contains all of the adequate information. As a result, the initial royalty receivable report that was generated was materially misstated which we detected as a result of our audit procedures.

Criteria: A good system of internal accounting control contemplates proper procedures in place to ensure all revenues received are appropriate and that the reports run for year-end adjustments contain all information necessary.

Cause: The Board does not have a process in place to ensure the funds they are receiving from outside companies for royalties are accurate and that the reports run for royalties receivable contain all information to ensure only the amount received after year-end for production before year-end are included.

Effect: Inadequate internal controls over these areas could result in a material misstatement of the financial statements.

Recommendation: We recommend that a process be put in place to ensure that all revenues received are accurate and that the reports run for receivables contain only the information for those amounts still owed to the Board as of year-end.

Response: The Board concurs with the recommendation. Due to the dramatic increase in oil activity and resulting revenues the trusts are receiving, we recognize that processes need to be improved upon and continually monitored to ensure revenues received are accurate including year-end receivables. During the latter part of fiscal year 2011, a Revenue Compliance Division was created and staffed to develop processes to ensure revenues are received and accurately reported.



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**Independent Auditor's Specific Comments Requested by the
North Dakota Legislative Audit and Fiscal Review Committee
Year Ended June 30, 2011**

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 regarding the June 30, 2011 audit of the Board of University and School Lands are as follows:

Audit Report Communications

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

Unqualified

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?

See findings identified on page 43.

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

No

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

Yes, improvements were made, but there were still findings noted in the current year.

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

Yes, a separate management letter has been issued and is attached following page 46. The management letter identifies the audit adjustments and the passed audit adjustments that were identified during the audit. There were no additional findings or recommendations noted in this letter.

Audit Committee Communications

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

The Board implemented GASB 54 – Fund Balance Reporting and Governmental Fund Type Definitions in the current year which affected the fund balance classifications reported in the governmental funds balance sheets.

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

None

3. Identify any significant audit adjustments.

There were material audit adjustments detected during the audit. The material audit adjustments are detailed in the management letter following page 46.

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

None

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

None

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

None

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

The agency does not consult with any other accountants regarding auditing or accounting matters.

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 Board's business process over management of state lands, mineral and surface leases, royalties, investments, grants management, and general ledger accounting. There were no exceptions identified that were directly related to the SLIMS database application.

This report is intended solely for the information and use of the Board of University and School Lands, Legislative Audit and Fiscal Review Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties

Eide Bailly LLP

Bismarck, North Dakota
November 21, 2011



CPAs & BUSINESS ADVISORS

Governor Dalrymple
Legislative Audit and Fiscal Review Committee

Board of University and School Lands
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of University and School Lands for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards *Government Auditing Standards* and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 27, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board of University and School Lands are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

	<u>Debit</u>	<u>Credit</u>
<u>Common Schools Fund</u>		
Fund Balance	\$676,990	
Expenditures	35,623	
Investments		\$712,613
To remove capital asset that is recorded as an investment		

The following material misstatements detected as a result of audit procedures were corrected by management:

	<u>Debit</u>	<u>Credit</u>
<u>General Fund</u>		
Due to other funds	\$23,159,131	
Revenues		\$23,159,131
To adjust interfund payable for oil and gas royalties		
<u>Common Schools Fund</u>		
Royalties Revenue	\$1,438,042	
Accounts Receivable		\$1,438,042
To adjust oil and gas royalties accounts receivable		
<u>Lands & Minerals Fund</u>		
Royalties Revenue	\$1,475,139	
Accounts Receivable		\$1,475,139
To adjust oil and gas royalties accounts receivable		
<u>Other Governmental Funds</u>		
Royalties Revenue	\$ 276,994	
Accounts Receivable		\$ 276,994
To adjust oil and gas royalties accounts receivable		

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 21, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This information is intended solely for the use of the Governor, Legislative Audit and Fiscal Review Committee, and management of the Board of University and School Lands and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
November 21, 2011