

**State Of
North Dakota**

***BOARD OF UNIVERSITY AND
SCHOOL LANDS***

State Land Department

Fifty-seventh Biennial Report

to the
Governor
and
Secretary of State



July 1, 2005 to June 30, 2007

1707 North 9th Street
PO Box 5523
Bismarck, ND 58506-5523
Phone: (701) 328-2800
Fax: (701) 328-3650



www.land.state.nd.us
www.discovernd.com

Gary D. Preszler, Commissioner

The Honorable John Hoeven
Governor of North Dakota
State Capitol
Bismarck ND 58505

The Honorable Alvin A. Jaeger
Secretary of State
State Capitol
Bismarck ND 58505

Dear Governor Hoeven and Mr. Jaeger:

It is my privilege to present the 2005-2007 Biennial Report for the Board of University and School Lands. The report presents an overview of the Board's authority under the Constitution and state law, and the activity of the Board as reported by each of the Land Department's division directors and the Energy Development Impact Office.

I am pleased to report that all trust funds remain healthy as the combined permanent trust funds grew by over \$212 million during the biennium, a noteworthy 29 percent rate of increase. What is also impressive is that the growth for this biennium follows a large 25 percent growth rate during the 2003-2005 biennium. Approximately one-half of the growth came from investment appreciation and three-fourths of the remaining corpus growth coming from energy related receipts. Higher oil and natural gas prices and advancements made in technology continue to drive a robust hydrocarbon exploration activity. As reported by the Minerals Management Division Director, several hot oil plays that began the previous biennium have continued to accelerate this biennium. The heightened activity and high oil prices continue to impact generous lease bonus collections and increasing royalty receipts. Short-term interest rates have also increased and the equity markets performance have been strong during the biennium adding to trust fund growth and future distribution potential.

The Board's investment policies and asset allocations are continually being monitored for performance and adherence to prudent investment strategies. With the current large amount of revenue being added to the trust's corpus, investing all the new money creates a pleasant challenge. Voter approval for Constitutional Measure No. 1, and upon the U.S. Congress enacting similar legislation, the transition to a "total return" method for determining distributions will further add to the Board's ability to optimally invest trust financial assets.

Special recognition and appreciation is owed to the Land Department employees for their dedication and inspiration to the benefit of trust beneficiaries. Trust beneficiaries continue to be well served.

Respectfully submitted,

Gary D. Preszler
Secretary, Board of University
and School Lands
Commissioner, State Land Department

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POLICY OF NON-DISCRIMINATION ON THE BASIS OF DISABILITY

The State Land Department does not discriminate on the basis of disability in the admission or access to, or treatment or employment in, its programs or activities. A coordinator has been designated to ensure compliance with the non-discrimination requirements contained in §35.107 of the Department of Justice regulations. Please call (701) 328-2800 for information concerning the provisions of the Americans with Disabilities Act, and the rights provided thereunder as they relate to the agency and access to its records.

Historical Overview

On February 22, 1889, Congress passed "An act to provide for the division of Dakota into two states, and to enable the people of North Dakota, South Dakota, Montana and Washington to form constitutions and state governments . . ." This Act is commonly known as the Enabling Act. Section 10 of this act granted sections 16 and 36 in every township to the new states "for the support of common schools." In cases where portions of sections 16 and 36 had been sold prior to statehood, indemnity or "in-lieu" selections were allowed. In North Dakota, this grant of land totaled over 2.5 million acres.

Under sections 12, 14, 16 and 17 of the Enabling Act (and other acts referred to therein), Congress provided further land grants to the state of North Dakota for the support of colleges, universities, the state capitol and other public institutions. These additional grants totaled approximately 668,000 acres, bringing the grand total of Enabling Act land grants to nearly 3.2 million acres.

CONSTITUTIONAL AUTHORITY

North Dakota's Constitution (Article X), adopted on October 1, 1889, entrusted the management of these lands (both acquired land and grant land) to the "board of university and school lands" (the Board). The Board was initially made up of the governor as chairperson, the secretary of state as vice-chair, the attorney general, superintendent of public instruction, and the state auditor. On June 10, 1986, a constitutional amendment replaced the state auditor with the state treasurer.

The Land Board currently consists of the following members:



*Governor John Hoeven
Chairman*



*Alvin A. Jaeger
Secretary of State
Vice Chairman*



*Wayne Stenehjem
Attorney General*



*Dr. Wayne Sanstead
Supt. of Public Instruction*



*Kelly Schmidt
State Treasurer*

COMMISSIONER OF UNIVERSITY & SCHOOL LANDS

Under N.D.C.C. § 15-02-01, the Board of University and School Lands is required to appoint a commissioner to act on its behalf. Specific responsibilities of the Board and the Commissioner are set out in N.D.C.C. ch. 15-01 through ch. 15-08.1.

Generally, the Commissioner of University and School Lands is responsible for the following:

- ◆ Acting as the general agent for the Board.
- ◆ Supervising all aspects and activities of the State Land Department.
- ◆ Having general charge and supervision of all grant lands and associated records, maps, books and papers.
- ◆ Enforcing the Unclaimed Property Act (N.D.C.C. § 15-02-05.2 and ch. 47-30.1).

The office of the Commissioner of University and School Lands has been commonly called the State Land Department.

In 1989, the Energy Development Impact Office became a division of the Office of the Commissioner, however, the EDIO Director is appointed directly by the Board of University and School Lands (N.D.C.C. § 57-62-04).

LAND SALES & ACQUISITIONS

Since statehood in 1889, much of the grant land has been sold. Beginning in 1939, whenever the state sold grant land, it reserved five percent of the minerals. In 1941, the reservation was increased to 50 percent; and, since June 28, 1960, the North Dakota Constitution has mandated a 100 percent mineral reservation. Today, the Land Department manages in excess of 660,000 of the original, grant land surface acres, and over 1.8 million of the original mineral acres. Approximately 51,000 acres have since been acquired through foreclosure or other means, bringing the total surface acreage to approximately 708,000 acres.

In 1977, the legislature transferred management authority for minerals acquired by the Bank of North Dakota and for the minerals under sovereign land (navigable rivers/lakes) to the Department. This brings the total mineral acres managed to over 2.5 million acres.

Agency Overview

The Land Grant to the State from the federal government and the State Constitution provides that the Board shall manage the land, minerals and proceeds from the land for the exclusive benefit of the institutions for which they were granted. The income earned is to be distributed according to N.D.C.C. ch. 15.03-05.2, again, for the exclusive benefit of those trust beneficiaries. (See "Schedule of Net Asset Balances" and "Schedule of Distributions by Trust", page 19.)

This income is generated through prudent management of trust assets, consisting of approximately 708,000 surface acres, over 2.5 million mineral acres, and over \$947 million of financial assets. The surface acres are leased to ranchers and farmers across the state. The 2.5 million mineral acres are offered for oil, gas, coal, gravel and scoria leasing. Revenues from all sources are deposited in trust funds and are invested in the Farm Loan Pool administered by the Bank of North Dakota, U.S. Treasury notes and bonds, and corporate bonds and stocks. The income from these investments, together with surface and mineral rentals, is distributable to schools (public grades K-12), educational and other public institutions at specified intervals throughout the biennium. (See "Investments", pages 14-18, and "Surface Management", pages 9-11.)

The following is a list of beneficiaries of the various trust funds administered by the Land Department pursuant to Article IX of the North Dakota Constitution:

- | | |
|----------------------------------|--------------------------------|
| 1) Common Schools | 8) Mayville State University |
| 2) North Dakota State University | 9) Industrial School |
| 3) School for the Blind | 10) State College of Science |
| 4) School of the Deaf | 11) Schools of Mines |
| 5) State Hospital | 12) Veterans Home |
| 6) Ellendale State College* | 13) University of North Dakota |
| 7) Valley City State University | 14) Capitol Building |

** The beneficiaries of this trust are now Dickinson State University, Minot State University, MSU-Bottineau, Veterans Home, School of the Blind, State Hospital, and the State College of Science.*

Common Schools Trust Fund

The largest trust administered by the Land Department is the Common Schools Trust Fund. Distributions from the Common Schools Trust Funds are a part of the tuition apportionment payments made to the various school districts each year. Distributions during the 2005-2007 biennium were approximately \$306 per student per year for each child in kindergarten through grade 12.

Besides the sources of revenue listed above, the Common Schools Trust Fund receives 10 percent of the oil and gas extraction tax (ND Constitution Article X, Section 24) amounting to approximately \$6.57 million per year, which is invested according to the policy of the Board in the permanent funds of that trust fund. (See "Schedule of Permanent Fund Receipts by Trust", page 19.)

The Common Schools Trust Fund also receives 45 percent of the proceeds from the tobacco class-action lawsuit settlement (N.D.C.C. § 54-27-25). These funds become part of the permanent funds and are invested according to the policy of the Board. (See "Schedule of Permanent Fund Receipts by Trust", page 19.)

Lands and Minerals Trust Fund

The Land Department manages the Lands and Minerals Trust Fund created by N.D.C.C. ch. 15-08.1 and § 61-33-07. This trust fund consists of approximately 704,750 mineral acres formerly owned by the Bank of North Dakota, and the minerals located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state. All monies collected in this fund are subject to legislative appropriation each biennium. This fund serves as a collection vehicle for repayment of the developmentally disabled facilities loans funded by the Common Schools Trust. The Bank of North Dakota administers the loans. The principal and interest payable to the Common Schools Trust is appropriated from the Land and Minerals Trust Fund. (See "Schedule of Other Funds", page 19.)

Coal Development Trust Fund

The Coal Development Trust Fund was established by N.D.C.C. § 57-62-02 and pursuant to Section 21 of Article X of the North Dakota Constitution. The Fund receives 30% of the coal severance tax. The fund must be held in trust and administered by the Board for loans to coal impacted counties, cities, and school districts as provided by section N.D.C.C. § 57-62-03, and for loans to school districts pursuant to N.D.C.C. ch. 15.1-36. The unloaned balance is invested according to the policy of the Board. (See "Investments", page 14 and "Schedule of Other Funds", page 19.)

Unclaimed Property

The Land Department administers the Uniform Unclaimed Property Act (N.D.C.C. ch. 47-30.1). In this capacity the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and via various methods of publication, provides an opportunity for the owner to be reunited with the property. Property acquired under this Act is held in trust in perpetuity on behalf of the owner; therefore, owners have one place they can search for their property. The interest income from unclaimed property is distributed to ND public grades K-12. (See "Unclaimed Property Division", page 12.)

Energy Development Impact Office

The Energy Development Impact Office (EDIO) (N.D.C.C. ch. 57-62) is also a part of the Land Department. The EDIO allocates funds appropriated by the state legislature to assist local political subdivisions in dealing with problems arising from oil development. In the allocation of these funds, the Director of the office accepts applications for funding, travels to visit with subdivisions requesting the funding, allocates the funds, and administers the payout of the funds to the grantees. (See "Energy Development Impact Office", page 6.)

Mission Statement

The mission of the State Land Department, under the direction of the Board of University and School Lands, is to serve as a trustee for the benefit of the common schools (public grades K-12), various institutions of higher education, and certain other state institutions.

Land Department Statement of Goals

The primary goal of the Department is to maximize distributable income and trust growth within the parameters allowed by state law, board policy, the prudent investor rule and sound land and mineral management practices. To achieve this primary goal, the following subgoals have been established:

1. To obtain a "fair market" return from the surface lands while improving their condition and value.
2. To develop and pursue a strong, effective minerals management program which maximizes revenue to the trusts.
3. To develop and pursue an aggressive, fair minerals audit program to ensure that the trusts receive all royalties.
4. To continue to raise awareness of the Uniform Unclaimed Property Act among businesses and potential claimants.

5. To preserve the purchasing power of the trusts by maintaining and increasing, relative to inflation, the income distributable to trust beneficiaries.
6. To manage the permanent financial assets of the trusts within the guidelines of the Prudent Investor Rule.

Energy Development Impact Office Statement of Goals

The primary goal of the office is to ensure that local subdivisions hosting energy activity are not required to bear a disproportionate share of the costs associated with that activity (both in its "boom" and "bust" cycles.) The guiding principle of the office is to ensure that the benefit to all of the people of North Dakota, from the extraction of energy resources will not be gained at the expense of those whose lives or property are disturbed, without adequate compensation, in the process.

Funding Sources and Expenses

- Funding for the State Land Department is received through the State Lands Maintenance fund. This fund consists of fees charged for services, plus a portion of interest and income earned by the various trusts (N.D.C.C. § 15-03-01.1).
- Funds for oil impact grants are requested from the Oil Impact Grant Fund. The administration expenses of the Energy Development Impact Office are paid out of the Oil Impact Grant Fund.

Land Department Statement of Appropriations and Expenditures

Land Department and Energy Development Impact Office	2005-2007 Appropriations	2005-2007 Expenditures	Unexpended Appropriations
Salaries and wages	\$2,229,222	\$2,139,284	\$89,938
Operating expenses	648,700	589,034	59,666
Capital Assets	10,000	0	10,000
Contingencies	50,000	0	50,000
Grants	4,888,100	4,888,100	0
Total	\$7,826,022	\$7,616,418	\$209,604

Other Land Department Information

PUBLICATIONS

In addition to this report, the Department publishes:

- A semi-annual newsletter which is distributed to surface lessees and other interested parties.
- Lists of tracts to be leased at quarterly oil and gas lease sales, together with a summary of the results of these sales.
- Lists of individuals entitled to unclaimed property (N.D.C.C. § 47-30.1-19.1).
- Summaries of grant awards made by the Energy Development Impact Office.
- An informational brochure relating to owners of unclaimed property.
- An informational brochure relating to holders of unclaimed property.
- An informational brochure relating to the operations of the State Land Department.

Notice of the leasing and sale of surface and mineral tracts is given by publication in the official county newspaper where the land is located. Newly reported unclaimed property owners are published in the official county newspaper of the owner's last known address.

MEETINGS

The Board of University and School Lands meets monthly, unless there is insufficient business to require a Board meeting. The regular meeting day is the last Thursday of the month.

Minutes of the Board and other information regarding the activities of the State Land Department can be obtained from:

*State Land Department
1707 N 9th Street
P.O. Box 5523
Bismarck, ND 58506-5523*

General Information 701-328-2800
Fax 701-328-3650

WORLD WIDE WEB ADDRESS

The Land Department maintains a web site at:
www.land.state.nd.us

ND STATE LAND DEPARTMENT PERSONNEL

Employee	Position	Land Department Employment Dates
Bayley, Keith	Account Budget Specialist	1988-Present
Brand, Mike	Director of Surface Management	1979-Present
Engleson, Jeff	Director of Investment Division	1986-Present
Erdmann, Levi	Programmer Analyst	2003-Present
Fisher, Linda	Administrator of Unclaimed Property; Leasing Coordinator	1991-Present
Glanville, Monica	Audit Technician	2003-Present
Gudvangen, Peggy	Director of Audits	2005-Present
Humann, Mike	Land Conservationist	1987-Present
Haupt, Mike	Range Specialist	1987-Present
Jacobs, Debra	Administrative Assistant	1998-Present
Jacobson, Bev	Office Assistant	2006-Present
Larson, Rick	Deputy Commissioner; Director of Minerals Management & EDIO	1987-Present
Pascua, Jayden	Data Processing Information Specialist	1999-Present
Pazdernik, Bonnie	Office Assistant	1997-Present
Preszler, Gary D.	Commissioner	2001-Present
Reichert, Michael	Auditor	2006-Present
Saude, Jerry	Land Management Specialist	1991-Present
Schell, Judith F.	Administrative Assistant	2000-Present
Tober, Loa	Administrative Assistant	1998-Present



*First row (left to right): Keith Bayley, Judith Schell, Jayden Pascua, Mike Humann
 Second row: Monica Glanville, Linda Fisher, Bonnie Pazdernik, Bev Jacobson, Loa Tober, Deb Jacobs, Mike Haupt
 Third row: Jeff Engleson, Gary Preszler, Peggy Gudvangen, Mike Brand, Jerry Saude, Mike Reichert, Levi Erdmann
 (Not pictured, Rick Larson)*

Energy Development Impact Office

Rick D. Larson, Director

The Energy Development Impact Office (EDIO) was organized in 1975 by Legislative authorization of the Coal Development Impact Program under N.D.C.C. ch. 57-62. On July 1, 1989 the EDIO was combined with the Land Department and is currently under the direction of the Board of University and School Lands. The coal program began in 1975 and expired in 1989. The Oil Impact Grant Program began in 1981 and is still in existence.

During the 2005-2007 biennium, the Oil Impact Grant Program helped reduce the financial hardships of local political subdivisions which resulted from activities of the oil industry. The program is funded by 6.67 percent of the Oil & Gas Gross Production Tax. For the 2005-2007 biennium, that allocation reached \$5 million. The allocation cannot exceed \$5 million for a biennium. For the 2007-2009 biennium the maximum that goes into this program increases to \$6 million.

During the 2005-2007 biennium, the office conducted grant rounds in the spring of 2006 and the spring of 2007.

To receive funding, applicants must show:

1. That oil activity in the area has created a financial hardship which cannot be handled without help from the Oil Impact Grant Program;
2. That the project will alleviate the hardship that resulted from oil activity; and
3. That the applicant's financial resources to handle the project are insufficient (this implies that the applicant has made a diligent local taxing effort to accomplish its goal).

These funds are awarded by the EDIO Director after conducting visits with the local political subdivisions requesting the funding. Following these visits, the Director considers information received during these meetings, the information included in the application, and any other compiled data relating to oil production, oil taxation, and property taxation. Information is also obtained through the state's automated records from the Oil & Gas Division of the Industrial Commission showing oil wells, oil production, and salt water production, which helps establish the degree of oil-related traffic in each township. Also, the EDIO collects oil tax and property tax data from various sources, including the State Treasurer's Office, the State

2005-2007 Biennium Oil Impact Grant Applications and Awards

Summary by County

<u>County</u>	<u>\$ Requested</u>	<u>\$ Awarded</u>	<u>%</u>
Billings	\$ 73,000	\$ 5,000	0.1
Bottineau	1,481,478	415,000	8.4
Bowman	8,709,752	390,000	7.9
Burke	1,682,952	492,800	9.9
Divide	1,630,092	504,500	10.2
Dunn	2,741,685	251,000	5.1
G. Valley	1,789,456	369,500	7.4
McHenry	69,600	40,000	.8
McKenzie	3,140,698	184,000	3.7
McLean	4,500	1,500	0.1
Mercer	34,700	9,000	0.2
Mountrail	3,769,062	641,000	12.9
Renville	1,675,640	402,100	8.1
Slope	825,700	154,100	3.1
Stark	4,271,929	239,000	4.8
Ward	180,100	42,000	.8
Williams	<u>40,700,487</u>	<u>830,500</u>	<u>16.7</u>
TOTAL	<u>\$72,780,830</u>	<u>\$4,971,000</u>	<u>100.0</u>

2005-2007 Biennium Oil Impact Grant Applications and Awards

Summary by Class of Subdivision

<u>Class</u>	<u>\$ Requested</u>	<u>\$ Awarded</u>	<u>%</u>
County	\$ 44,351,881	\$1,191,000	24.0
School	3,499,174	255,000	5.1
City	12,508,065	674,100	13.6
Park District	351,400	0	0.0
Airport Auth.	337,250	42,000	0.8
Township	8,117,482	2,238,900	45.0
Fire Ambul.	<u>3,615,579</u>	<u>570,000</u>	<u>11.5</u>
TOTAL	<u>\$72,780,830</u>	<u>\$4,971,000</u>	<u>100.0</u>

The tables on this page summarize the amounts allocated by county and by class of subdivision for the oil impact grant program. Counties and townships accounted for 69 percent of the total amount awarded, most of which was for road projects. Altogether, the EDIO allocated grants totaling \$4,971,000 during the 2005-2007 biennium.

A total of 714 requests were received in the two grant rounds to counties, cities, townships, schools, fire and ambulance districts and other local units of government in an area west of a line from Bottineau to Bowman. The EDIO is a program that successfully channels financial help to where it is most needed, at minimum operational expense to the State of North Dakota.

Minerals Management

Rick D. Larson, Director

The Minerals Management Division administers mineral interests held in trust for the benefit of various North Dakota schools and institutions. The Division also administers mineral interests formerly owned by the Bank of North Dakota, plus the minerals under navigable rivers and lakes.

OIL AND GAS ACTIVITY

The high price of oil and gas and horizontal drilling technology has spurred increased interest in Board of University and School Lands minerals. In November 2006 we leased 114,298 acres, which is the most at one sale since November 1980. Quarterly lease sales are conducted by public auction.

Oil and gas royalty revenue was \$58,378,390 this biennium compared to \$28,200,594 the previous biennium. Additionally, the oil and gas lease sales generated \$22,570,515 in bonuses for the trust beneficiaries and the State, which amounts to an average of \$71.66 per mineral acre.

High prices, horizontal drilling, new field discoveries and favorable response to unitization have all been factors that contributed to these revenues that provide additions to the permanent trust funds and the State's general fund. Bowman County continues to lead the State in oil and gas production, amounting to over 40% of the State's production. The Cedar Hills Red River units in Bowman County operated by ConocoPhillips Company and Continental Resources Inc. have increased production by water or air injection.

Many companies are looking at the Middle Bakken formation in the Williston Basin. The Bakken activity across the line in Montana is expected to extend deep into North Dakota. The Bakken play continues to move eastward. EOG Resources, Inc. drilled a number of wells in Mountrail County, Parshall field, that appear to hold potential for prolific reserves to be recovered. The first two wells EOG drilled north of Parshall were on State-owned minerals. The results, however, of drilling into the Bakken formation have been varied throughout the basin. The correct technique used to fracture stimulate the wells seems to be the key many companies are searching for to make this play economical. The companies that are busy drilling for the Bakken oil include Headington Oil Limited Partnership, Whiting Oil and Gas Corporation, Hess Corporation, Marathon Oil Company, Murex Petroleum Corporation, Samson Resources Company, EOG Resources, Inc, Petroleum Development Corporation, Continental Resources Inc, Ansbro Petroleum Company LLC, ConocoPhillips Company, Encore Operating, L.P., Tracker Resource Development II, L.L.C., Fidelity Exploration and Production Company, Helis Oil & Gas Company, L.L.C., Brigham Oil & Gas, L.P., and others.

Leasing activity has also moved further to the east in southern North Dakota. Leases have been issued in Dickey, Emmons, Kidder, Logan, McIntosh, and Stutsman Counties. Those areas have not been leased for at least twenty years and speculation suggests that the interest is generated by the potential for shallow natural gas.

COAL PRODUCTION

Total coal royalty, rental and bonus revenue for this biennium was \$2,491,929. Falkirk Mining Company, BNI Coal, Ltd., and Dakota Westmoreland Corporation were actively mining tracts where the state owned a mineral interest.

Oil and Gas Leasing Activity		
	2003-2005	2005-2007
Gross Mineral Acres Owned*	2,556,068	2,558,833
Acres Under Lease	539,281	738,305
# of Oil/Gas Lease Sales	8	8
Net Mineral Acres Leased	371,731	314,987
Ave. Bonus/Net Mineral Acre	\$60.29	\$71.66
*Approximate acreage only. Total acreage will vary due to estimates of the acreage owned by the state under navigable rivers and lakes.		

Mineral Division Receipts		
	2003-2005	2005-2007
Oil and gas royalty	\$28,200,594	\$58,378,390
Oil and gas bonus	\$19,135,241	\$22,570,515
Coal royalty and bonus	\$1,192,316	\$2,386,060
Oil and gas rental	\$1,344,397	\$1,406,708
Seismic and other damage payments	\$399,240	\$448,919
TOTAL	\$50,213,765	\$85,190,592

OIL AND GAS LEASE SALE RESULTS

North Dakota State Minerals

COUNTY		Aug-05	Nov-05	Feb-06	May-06	Aug-06	Nov-06	Feb-07	May-07	TOTAL
BILLINGS	TOTAL \$	\$49,360.00	\$2,015,665.00	\$301,300.00	\$510,021.00	\$64,814.60	\$168,766.41	\$61,757.48	\$800.00	\$3,172,484.49
	MIN. ACRES	1,200.00	5,019.20	2,643.60	2,430.69	1,862.22	9,232.93	1,358.74	160.00	23,907.38
	\$/MIN ACRE	\$41.13	\$401.59	\$113.97	\$209.83	\$34.81	\$18.28	\$45.45	\$5.00	\$132.70
BOTTINEAU	TOTAL \$	\$17,360.00	\$0.00	\$160.00	\$516.73	\$96.00	\$16,598.00	\$488.00	\$0.00	\$35,218.73
	MIN. ACRES	240.00	0.00	160.00	516.73	96.00	1,302.00	488.00	0.00	2,802.73
	\$/MIN ACRE	\$72.33	\$0.00	\$1.00	\$1.00	\$1.00	\$12.75	\$1.00	\$0.00	\$12.57
BOWMAN	TOTAL \$	\$1,559.02	\$0.00	\$22,400.00	\$9,920.00	\$5,760.00	\$15,528.56	\$28,795.14	\$15,120.00	\$99,082.72
	MIN. ACRES	386.34	0.00	640.00	320.00	240.00	2,258.38	5,306.94	320.00	9,471.66
	\$/MIN ACRE	\$4.04	\$0.00	\$35.00	\$31.00	\$24.00	\$6.88	\$5.43	\$47.25	\$10.46
BURKE	TOTAL \$	\$0.00	\$30,400.00	\$179,787.30	\$137,066.95	\$17,628.38	\$50,209.77	\$42,161.50	\$1,600.00	\$458,853.90
	MIN. ACRES	0.00	160.00	2,589.42	2,858.87	1,528.79	11,237.92	79.55	80.00	18,534.55
	\$/MIN ACRE	\$0.00	\$190.00	\$69.43	\$47.94	\$11.53	\$4.47	\$530.00	\$20.00	\$24.76
BURLEIGH	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$360.16	\$0.00	\$360.16
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	360.16	0.00	360.16
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$1.00
DICKEY	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$596.58	\$0.00	\$596.58
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	596.58	0.00	596.58
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$1.00
DIVIDE	TOTAL \$	\$65,580.00	\$279,408.00	\$0.00	\$135,200.00	\$405,139.20	\$1,446,693.35	\$55,169.67	\$0.00	\$2,387,190.28
	MIN. ACRES	839.50	1,467.39	0.00	400.00	2,069.62	17,620.45	659.55	0.00	23,056.51
	\$/MIN ACRE	\$78.12	\$190.41	\$0.00	\$338.00	\$195.76	\$82.10	\$83.65	\$0.00	\$103.54
DUNN	TOTAL \$	\$171,343.40	\$3,296,012.40	\$1,624,022.80	\$107,630.48	\$327,979.72	\$1,025,082.47	\$0.00	\$67,236.90	\$6,619,308.17
	MIN. ACRES	1,603.29	10,794.62	8,767.46	3,098.74	15,437.76	23,329.03	0.00	1,014.60	64,045.50
	\$/MIN ACRE	\$106.87	\$305.34	\$185.23	\$34.73	\$21.25	\$43.94	\$0.00	\$66.27	\$103.35
EMMONS	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,542.45	\$0.00	\$1,542.45
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	1,542.45	0.00	1,542.45
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$1.00
G. VALLEY	TOTAL \$	\$975.95	\$91,680.00	\$462,712.00	\$346,627.10	\$0.00	\$0.00	\$1,205.34	\$0.00	\$903,200.39
	MIN. ACRES	975.95	720.00	1,563.20	2,353.55	0.00	0.00	602.67	0.00	6,215.37
	\$/MIN ACRE	\$1.00	\$127.33	\$296.00	\$147.28	\$0.00	\$0.00	\$2.00	\$0.00	\$145.32
KIDDER	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$343.93	\$0.00	\$343.93
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	343.93	0.00	343.93
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$1.00
LOGAN	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$729.66	\$0.00	\$729.66
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	729.66	0.00	729.66
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$1.00
MCHENRY	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
MCINTOSH	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$204.00	\$0.00	\$204.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	204.00	0.00	204.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$1.00
MCKENZIE	TOTAL \$	\$277,987.49	\$191,346.63	\$434,223.05	\$2,206,535.95	\$778,600.00	\$1,074,408.25	\$38,288.68	\$90,480.00	\$5,091,870.05
	MIN. ACRES	5,368.48	1,107.59	4,148.35	3,047.95	832.50	17,320.51	3,232.41	520.00	35,577.79
	\$/MIN ACRE	\$51.78	\$172.76	\$104.67	\$723.94	\$935.26	\$62.03	\$11.85	\$174.00	\$143.12
MCLEAN	TOTAL \$	\$160.00	\$0.00	\$0.00	\$0.00	\$132,213.41	\$0.00	\$29,680.00	\$0.00	\$162,053.41
	MIN. ACRES	80.00	0.00	0.00	0.00	7,560.91	0.00	920.00	0.00	8,560.91
	\$/MIN ACRE	\$2.00	\$0.00	\$0.00	\$0.00	\$17.49	\$0.00	\$32.26	\$0.00	\$18.93
MERCER	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$32,144.31	\$30,021.60	\$0.00	\$0.00	\$62,165.91
	MIN. ACRES	0.00	0.00	0.00	0.00	14,587.17	2,740.32	0.00	0.00	17,327.49
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$2.20	\$10.96	\$0.00	\$0.00	\$3.59
MOUNTRAIL	TOTAL \$	\$439,393.00	\$16,320.00	\$289,789.33	\$0.00	\$65,952.32	\$247,779.30	\$8,740.00	\$264,765.00	\$1,332,738.95
	MIN. ACRES	3,381.13	320.00	14,141.97	0.00	10,992.32	9,696.96	92.00	938.95	39,563.33
	\$/MIN ACRE	\$129.95	\$51.00	\$20.49	\$0.00	\$6.00	\$25.55	\$95.00	\$281.98	\$33.69
RENVILLE	TOTAL \$	\$3,298.61	\$0.00	\$20,791.58	\$41,895.90	\$0.00	\$28,200.00	\$480.00	\$3,200.00	\$97,866.09
	MIN. ACRES	129.56	0.00	876.00	1,395.59	0.00	520.00	480.00	160.00	3,561.15
	\$/MIN ACRE	\$25.46	\$0.00	\$23.73	\$30.02	\$0.00	\$54.23	\$1.00	\$20.00	\$27.48
SLOPE	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,102.00	\$24,833.30	\$0.00	\$26,935.30
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	1,467.00	6,078.62	0.00	7,545.62
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.43	\$4.09	\$0.00	\$3.57
STARK	TOTAL \$	\$19,968.75	\$18,940.07	\$0.00	\$25,338.15	\$0.00	\$21,884.31	\$2,302.55	\$0.00	\$88,433.83
	MIN. ACRES	948.03	327.67	0.00	1,126.80	0.00	3,895.79	1,183.39	0.00	7,481.68
	\$/MIN ACRE	\$21.06	\$57.80	\$0.00	\$22.49	\$0.00	\$5.62	\$1.95	\$0.00	\$11.82
STUTSMAN	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,657.73	\$0.00	\$2,657.73
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	2,657.73	0.00	2,657.73
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$1.00
WARD	TOTAL \$	\$1,757.47	\$2,220.00	\$40,144.97	\$840.00	\$2,357.67	\$1,737.47	\$165,660.26	\$26,711.86	\$241,429.70
	MIN. ACRES	1,757.47	300.00	3,315.19	260.00	2,357.67	1,737.47	4,528.14	1,718.26	15,974.20
	\$/MIN ACRE	\$1.00	\$7.40	\$12.11	\$3.23	\$1.00	\$1.00	\$36.58	\$15.55	\$15.11
WILLIAMS	TOTAL \$	\$139,328.95	\$861,043.77	\$53,040.00	\$38,871.00	\$183,834.00	\$442,584.41	\$128.00	\$84,080.00	\$1,802,910.13
	MIN. ACRES	885.57	7,372.56	408.00	1,119.80	1,222.70	11,939.42	84.00	1,900.00	24,932.05
	\$/MIN ACRE	\$157.33	\$116.79	\$130.00	\$34.71	\$150.35	\$37.07	\$1.52	\$44.25	\$72.31
TOTALS	TOT BONUS \$	\$1,188,072.64	\$6,803,035.93	\$3,428,371.03	\$3,560,463.26	\$2,016,519.61	\$4,571,595.90	\$466,124.43	\$553,993.76	\$22,588,176.56
	MIN. ACRES	\$17,795.32	\$27,589.03	\$39,253.19	\$18,928.72	\$58,787.66	\$114,298.18	\$31,528.52	\$6,811.81	314,992.43
	\$/MIN ACRE	\$66.76	\$246.58	\$87.34	\$188.10	\$34.30	\$40.00	\$14.78	\$81.33	\$71.71

Surface Management

Michael D. Brand, Director

This division leases and manages surface acres held in trust for various schools and institutions. The major source of income on these lands comes from grazing and agricultural leases, with additional revenue being generated from rights-of-way, salt water disposal, and gravel and scoria mining.

The objective of surface management is to obtain a "fair market" return from the lands while maintaining or improving their condition and value.

LAND MANAGEMENT

Much staff time is spent on day-to-day land management projects that are not remarkable individually but in aggregate result in significant improvement in school trust lands. These projects include:

- Grazing management plans for the improvement of range condition and productivity.
- Reseeding of marginal cropland with native grasses.
- Development of dams and dugouts for livestock water and wildlife enhancement.
- Cooperative clean-up of trash sites and sealing abandoned water wells.
- Reclamation of oil well sites, pipeline rights-of-way, gravel mines and coal mines.
- Monitoring flood affected tracts.

Many of these projects are initiated and completed each biennium while some, such as grazing management plans, require 10-15 years to achieve results.

Another major responsibility of the surface management division is to review and issue easements and permits. The most common easements are for electrical lines, and for oil and gas pipelines and roads. The demand for pipelines and roads has increased because of increased interest due to several active plays and the higher price for oil. The larger spacing units associated with the longer horizontal laterals (typically now up to 1,280 acres) means that there are fewer pipelines and roads compared with the 160 acre spacing common to vertical wells. There is no indication yet that oil development is tapering off and we expect an increasing demand for roads, pipelines and electrical power lines.

FIELD PERSONNEL

Roger Martin, Napoleon	1992-Present
Chris Hansen, Napoleon	1998-Present
Frank Kartch, Bismarck	2006-Present
Larry Veikley, Minot	2002-Present
Dale Ferebee, Beach	2005-Present
Miles Johnsrud, Watford City	2002-2005

LEASING

A total of 1,654 grazing and agricultural leases were issued this biennium. Public auctions were held each spring and fall with the leases going to the highest bidder. Leasing interest continued to be high with a success rate over 99 percent. While flooding continued to be a problem in the eastern part of the state it is not as severe as it has been in previous bienniums. The flood waters have begun to recede making more acres available for leasing.

Total rental collected for the biennium increased by 6.7 percent to \$9.8 million from last biennium. This increase was due primarily to the continued long term health of the cattle market. Although higher cattle prices don't immediately translate into higher pasture rental, over time cash rent prices will edge higher.

The rental market for grazing lands has remained strong with continued increase in private land rental rates. Private land rental rates are the basis for calculating the minimum opening bid on school trust lands.

The continued demand for corn for ethanol production has also created a strong demand for cropland. Cropland only makes up 2.8 percent of school trust lands, but it is higher value land with more potential for competitive bidding.

Land Sales and Acquisitions 2005-2007

Acquisitions:	Acres
Acreage Corrections	1.67
Railroad Abandonment	5.55
Total Acquisitions	7.22
Sales:	
Acreage Corrections	21.99
Sales to D.O.T.	3,461.20
Farm Loan Pool Land	2,311.48
Total Sales	5,794.67

NOXIOUS WEED CONTROL

Biocontrol with flea beetles has continued to increase income for the trusts and significantly reduce spraying expenses on many tracts. As before, sandy soils are still poor habitat for flea beetles and spraying continues to be the only effective control method on those sites.

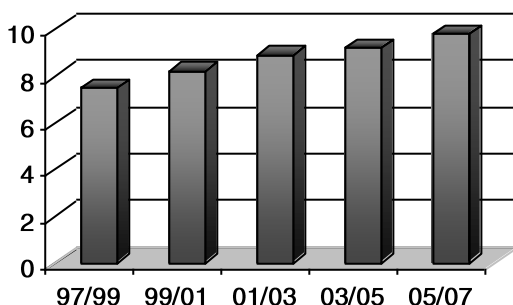
In past bienniums, insect rearing sites were established on trust lands to provide a source of flea beetles for leafy spurge control on other trust lands. Flea beetles are now readily available in most areas of the state so these insect rearing sites are less important. However, the fact that flea beetles are now widely distributed on trust lands points to the success of this program. Only one flea beetle collection day was held in 2006. Morton County, the Little Missouri Grazing Association, Billings County and the U.S. Forest Service collected flea beetles for their lands.

Leafy spurge control by flea beetles declined in this biennium. This was an expected result of the boom and bust "predator/prey" cycle. When there is an abundance of leafy spurge, flea beetles are expected to multiply. As they control the leafy spurge, their food source is reduced and the numbers of flea beetles goes down. We expect an increase in flea beetles in the next biennium and an increase in leafy spurge control.

No new infestations of spotted knapweed were found on trust lands and known infestations continued to be monitored for effective control. Saltcedar, yellow star thistle and knapweed are still a concern but there have not been any new infestations reported. Saltcedar was found frequently along the shores of Lake Sakakawea but has not yet been a problem on the tributaries.

The State Land Department has been paying 100% of the cost of controlling saltcedar, yellow star thistle, knapweed and Canada thistle on trust lands. This level of commitment by the State Land Department has been an important part of preventing the establishment and spread of these weeds.

Surface Rental \$ in Millions



Surface Acres by Trust Fund As of June 30, 2007

Trust Fund	Acres
Common Schools	632,408.07
School for the Blind	3,481.69
State Capitol	9,991.85
School for the Deaf	4,830.44
Ellendale State College 1	4,984.17
State Hospital	2,205.73
Industrial School	3,744.42
School of Mines 2	3,393.02
N.D.S.U.	15,117.68
Veterans' Home	2,753.69
U.N.D.	8,977.98
Valley City State University	640.00
ND State College of Science	3,731.31
Mayville State University	640.00
Valley City/Mayville 3	6,818.76
Farm Loan Pool 4	4,488.00
Total	708,206.81

1. Income from the assets held by the Ellendale Trust Fund is allocated equally among the following institutions: Dickinson State University, Minot State University, NDSU-Bottineau, School for the Blind, Veterans' Home, State Hospital, and State College of Science.
2. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota.
3. Receipts from acreage held jointly by Valley City and Mayville State Universities are allocated 62.5% to Valley City and 37.5% to Mayville.
4. Receipts from this acreage is distributed by formula to all of the above funds except the State Capitol fund.

SPECIAL PROJECTS

Five test wells for coal bed methane were located on school trust land in Burke County. The University of North Dakota, Energy and Environmental Research Center obtained an easement in the fall 2006, to conduct a two part energy research project, 1) To determine the potential for coal bed methane development from deep coal seams and 2) To test the ability of these deep unmineable coal seams to sequester CO2. Both of these test projects are federally funded and will be completed over a 2 to 3 year time period.

FORECLOSED AND OTHER PROPERTY

There were no foreclosures in this biennium due to the strong farm economy. Previously foreclosed property also had a strong resale market and 2,311.48 acres were resold at prices greater than appraised value.

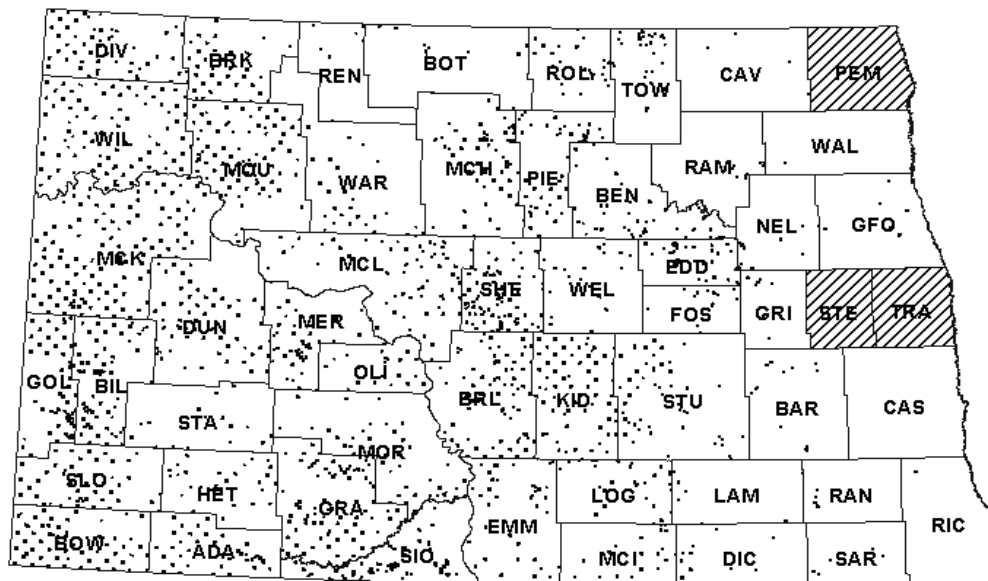
A multi-year cooperative project with the Department of Transportation and the Game and Fish Department was completed. The D.O.T. was directed by the legislature to open their no-mow and limited-mow areas to haying by

farmers and ranchers. These areas were established in the 1970's to mitigate the loss of wetland habitat caused by highway construction with Federal funds. Trust lands were made available for purchase by D.O.T. to mitigate the loss of habitat if and when the no-mow and limited-mow areas were opened to haying. The D.O.T. purchased 3,461.2 acres of trust land with high habitat values and limited agricultural value. The Game and Fish Department agreed to manage these areas for wildlife purposes. With this purchase completed, the Federal Highway Administration agreed to eliminate the unpopular no-mow and limited-mow restrictions.

About 282 acres of land was offered for sale adjacent to the east side of Bismarck in spring 2007. Numerous inquiries prompted the sale. The property was appraised at \$3.7 million. This property has excellent access from Old Highway 10 and will likely be sold for commercial development. There were no bids at auction for the property and it will continue to be leased for grazing until the market for this type of property matures. It is a high value parcel with greater than average potential for appreciation.

SURFACE ACRES BY COUNTY As of June 30, 2007

County	Acres	County	Acres	County	Acres
Adams	17,115.78	Golden Valley	28,983.55	Ramsey	2,056.50
Barnes	2,803.32	Grant	33,478.72	Ransom	1,120.00
Benson	12,725.28	Griggs	1,741.24	Renville	1,910.12
Billings	30,927.06	Hettinger	9,883.69	Richland	513.68
Bottineau	3,597.94	Kidder	28,643.79	Rolette	6,226.08
Bowman	29,310.48	LaMoure	1,435.72	Sargent	1,127.79
Burke	16,119.43	Logan	9,404.92	Sheridan	25,844.81
Burleigh	27,890.13	McHenry	22,720.56	Sioux	23,411.56
Cass	40.00	McIntosh	6,209.87	Slope	23,605.98
Cavalier	596.47	McKenzie	64,714.78	Stark	6,142.64
Dickey	3,981.51	McLean	21,039.90	Stutsman	15,664.01
Divide	20,792.74	Mercer	14,969.38	Towner	8,076.00
Dunn	25,653.18	Morton	18,113.89	Walsh	201.02
Eddy	10,274.62	Mountrail	32,445.36	Ward	11,038.98
Emmons	13,516.93	Nelson	2,853.66	Wells	5,248.80
Foster	3,111.51	Oliver	7,588.41	Williams	38,399.32
Grand Forks	1,274.77	Pierce	13,660.93	Total	708,206.81



Distribution of State School Lands
 No School Land
 School Land



Unclaimed Property

Linda Fisher, Administrator

The Unclaimed Property Division administers and enforces the Uniform Unclaimed Property Act (N.D.C.C. ch. 47-30.1). The purpose of the Act is: to collect and safeguard property remitted by holders; to make efforts to locate owners, and to support the Common Schools Trust Fund with interest earned on funds that remain unclaimed. The Act has been in effect since July 1, 1975.

CURRENT UNCLAIMED PROPERTY ISSUES

With an increasing number of businesses engaging in e-reporting, the security and encryption of data has become a topic of high-level significance during this biennium. From a compliance standpoint, new questions are being raised related to the increasing variety of tax-advantaged investment vehicles such as IRAs, annuities, deferred compensation plans and college savings accounts that are available to the public, and whether statutes are in place that provide clarity as to how, when and if all these different types of assets are to be reported. Some of the same questions have arisen related to internet banking.

COMPLIANCE AND REPORTING ENHANCEMENTS

During the biennium, we began requiring online reporting of negative/zero reports. Using e-mail addresses collected during the filing process, we were able to send thousands of electronic annual reporting reminders to businesses that would not otherwise have received them. We have also implemented a program that utilizes addresses obtained from the North Dakota Secretary of State to notify newly incorporated North Dakota businesses of unclaimed property reporting requirements in our state.

Electronic reporting statistics are on the increase with an average of 40% of reports during this biennium being submitted via electronic media of some sort, thereby resulting in increased accuracy, reduced data entry costs, and faster posting of owner names to our websites.

OUTREACH ENHANCEMENTS

In the past decade, one of the areas of biggest impact to unclaimed property programs nationwide has been the Internet. North Dakota has operated its own searchable database since the late 1990s, however, during this biennium we partnered with a number of other state unclaimed property programs in posting our data to a "States National Database" called MissingMoney.com. This website is endorsed by the National Association of Unclaimed Property Administrators and currently has the participation of 38 states. The site allows searchers to

cover multiple states with a single free name search. Nearly 40% of claims paid during this biennium were submitted on forms generated through the North Dakota Unclaimed Property website and MissingMoney.com.

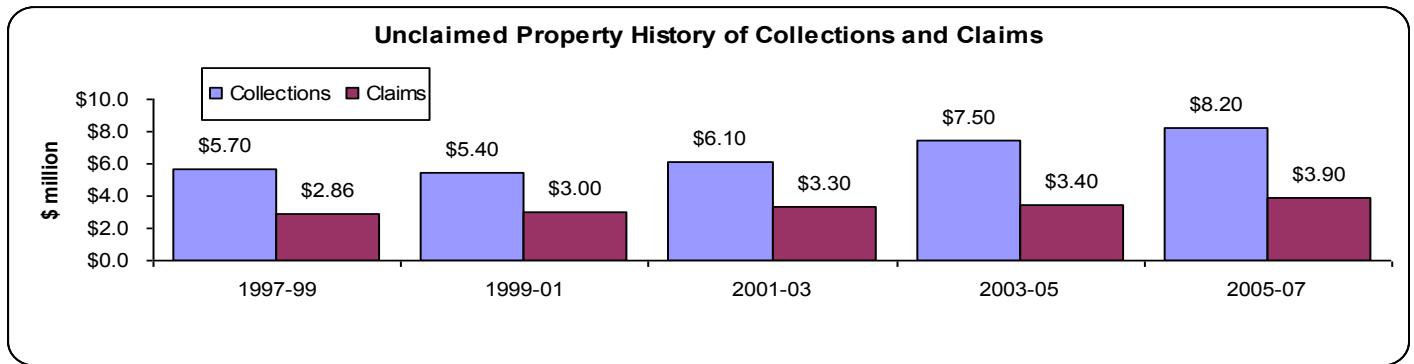
The internet has also provided an efficient, economical method of attempting to obtain current addresses for owners by matching old addresses and social security numbers (when they are available to us). Toward the end of this biennium we began purchasing some of these search services to help us "locate" securities owners prior to the conversion of their securities to cash. Since this is a relatively new initiative, results of these efforts are somewhat inconclusive at this time.

LEGISLATIVE CHANGES

Supreme Court intervention in unclaimed property litigation over the years has mandated that property be remitted to the owners' state of "last known address". North Dakota's statute defined last known address as being an address "sufficient for the delivery of mail". With tightening of postal addressing requirements, many old ND addresses, particularly those with no street address in small towns, were no longer technically "sufficient for the delivery of mail" and as such properties were being reported to states other than ours - most generally Delaware. The 2007 legislature repealed the "definition" to remove that technicality. We also had a statutory change eliminating the requirement that our two unclaimed property public notices be done in "consecutive" weeks.

EDUCATIONAL HIGHLIGHTS

In cooperation with our Audit staff, we have continued to focus our education efforts on professional groups that are charged with the compliance responsibility on behalf of their employers and clients. During this biennium, we purchased advertising space in the "Dakota CPA" publication, and made presentations not only to individual industry groups, but also at a variety of gatherings of CPAs, accounting clubs, and service organizations. We also began sending compliance information out with business-related claim checks.



Audit Division

Peggy J. Gudvangen, Director

The Audit Division is responsible for planning, coordinating and conducting reviews to ensure the state trust funds receive their entitled proceeds from abandoned property, mineral royalties and other programs offered through the State Land Department. The Audit Division also monitors the internal control structure of the Department and provides the Commissioner with updates.

UNCLAIMED PROPERTY

The Audit Division helps businesses gain a better understanding of the Uniform Unclaimed Property Act reporting requirements, and assists them with compliance. This is accomplished through compliance telephone calls, on-site visits and educational seminars to individual businesses and professional groups throughout the State.

Audit Division personnel contacted over 700 businesses in four different industry groups during the biennium. As a result of these contacts a total of \$48,345 of unclaimed property was reported by 45 holders with approximately 240 holders filing negative reports. A list was compiled of businesses that did not respond to compliance mailings or follow-up telephone calls. From this list, 21 businesses were selected for audit. As a result of these audits, approximately \$104,000 has been identified as "potentially reportable" unclaimed property. Final resolution and due diligence efforts continue to be made at the end of the biennium.

We continue to help holders within these industry groups to gain a better understanding of the Uniform Unclaimed Property Act reporting requirements and assist them with compliance.

MINERAL ROYALTIES

The Audit Division is responsible for reviewing royalty payment transactions and lessee production reports for compliance with State Land Department's lease terms, rules and regulations, and North Dakota statutes. The auditors review royalty transactions on selected leases or wells for proper gross production or market value as defined.

During the biennium, the Audit Division completed a review of oil production and values where the State Land Department had an interest. From this analysis, approximately \$136,000 in underpaid royalties, penalties and interest may be due and owing. Final resolution efforts continued at the end of the biennium.

OTHER PROGRAMS

In December 2006, the Audit Division completed a review of twenty-five Farm Real Estate Loans funded through the State Land Department (SLD) Farm Loan Program and administered by the Bank of North Dakota (BND). Our overall objective was to determine how the BND was administering the Farm Real Estate Loans.

Investments

Jeff Engleson, Director

The Investment Division is responsible for directing, implementing, coordinating and monitoring all aspects of the Land Board's investment program.

As of June 30, 2007, the total value of investment assets managed by the Division was approximately \$1,009.96 million, or just over \$1 billion. The bulk of these assets (\$936.26 million) are owned by the 13 permanent education trusts under the Board's control, while the remainder are owned by the Coal Development, Land & Minerals and Capitol Building trust funds. Listed below is a breakdown of the investment assets managed by the Division, by asset type:

- **Marketable Securities and CDs:** The total value of investment securities and Certificates of Deposit managed by the Board as of June 30, 2007 was \$939.08 million. \$924.57 million of investment securities are held in trust by our custodian bank, The Northern Trust Company, and are managed by investment professionals that are hired by the Board to achieve specific investment goals and objectives. The Land and Minerals Trust owns \$13.73 million of CDs purchased from the Bank of North Dakota (BND). The Capitol Building Trust owns \$784,000 of BND CDs.
- **Farm Loan Pool:** As of June 30, 2007, the total value of the Board's pool of farm real estate loans was \$31.48 million. Although BND handles the day-to-day administration of the farm loan pool, the Investment Division works closely with the bank in developing and implementing policies, goals and strategies for farm loans and in monitoring and evaluating the program on an ongoing basis.
- **Other Loans:** As of June 30, 2007, the Board had total outstanding loans, to political subdivisions and other governmental entities, of \$39.40 million. Legislatively directed loan programs from the Coal Development Trust Fund total \$37.12 million as of that date, and include \$35.61 million in school construction loans and \$1.51 million in loans to various energy impacted political entities. In addition, the Common Schools Trust Fund has two outstanding loans, totaling \$2.28 million, which have funded the building and furnishing of group homes for the developmentally disabled.

INVESTMENT GOALS AND OBJECTIVES

The type of investment assets owned by each trust fund managed by the Board is determined by the nature or purpose of the fund, and investment goals and objectives of the fund.

The 13 educational trust funds managed by the Board are permanent in nature, and were established to provide funding for education in North Dakota, both today, and for future generations. The long range goal for the permanent trusts is to have an investment program that will allow trust assets and distributions to beneficiaries to increase at a rate that meets or exceeds the historic annual rate of inflation (4 percent/year). To that end, the Board has developed a long-term investment allocation plan that includes a well diversified portfolio of stocks, bonds and other assets.

The primary purpose of the Coal Development Trust Fund is to provide loans to political subdivisions, as directed by the Legislature. The Board is responsible for administering the trust, and investing any moneys that have not been loaned. As of June 30, 2007, outstanding loans to political subdivisions totaled \$37.12 million, while the Board invested the remaining \$22.07 million of this trust's assets. Because of the limited authority the Board has over this trust, its assets are invested in a relatively short-term, high-quality bond portfolio, that can be liquidated as needed, to fund loan programs adopted by the Legislature.

The expendable nature of the Land & Minerals and Capitol Building trust funds result in these trusts being invested in short-term, high-quality bonds and CDs, that have minimal chance of principal loss.

During the 2005-07 biennium the Board continued to implement some of the recommendations made in the DiMeo Schneider asset allocation study. The Board also implemented other changes to the permanent trusts' investment program that should help improve investment performance over time. With total assets under management now at record levels and the expected changes resulting from the passing of Constitutional measure No. 1 by North Dakota voters, the Board will continue to develop and improve an investment program that already incorporates the purpose and nature of each trust into a specific investment plan.

PERMANENT TRUST INVESTMENT ASSETS

Portfolio Changes:

During the 2005 – 07 biennium, the Land Board continued to implement some of the recommendations that were included in the 2003 DiMeo Schneider investment study.

One of the recommendations in the DiMeo Schneider study was to convert the Board's passive international equities portfolio to a more actively managed portfolio. In January 2006 the Land Board approved switching the passive EAFE Index portfolio managed by State Street Global Advisors (SSGA) to SSGA's International Alpha product. SSGA's International Alpha product is a quantitative (computer model) driven, commingled (mutual fund like) product that seeks to outperform the EAFE Index by a minimum of 2% per year over a market cycle while maintaining strict risk controls. This portfolio was funded in February 2006.

Another recommendation of the DiMeo Schneider study was that the Board should add a growth component to the large cap domestic equity portfolio. At the beginning of the biennium, the large cap domestic equity portfolio included a passive S&P 500 Index account and an actively managed large cap value portfolio. In September 2006 the entire large cap portfolio was restructured when Northern Trust Global Advisors was hired to manage an S&P 500 enhanced index portfolio. With an enhanced portfolio, a manager attempts to outperform a given benchmark by a small margin (50-100 basis points per year) while keeping risk parameters very near the index. The current portfolio consists of two different money managers that use different methods to try to "enhance" returns. The large cap domestic equity portfolio now has broad exposure to the large cap equities and is also balanced between "growth" and "value" stocks.

Another change to the portfolio was implemented in December 2006 when the Board decided to eliminate cash as a specific asset class in the permanent trusts' asset allocation. In the past, maintaining a specific 1% allocation to cash made sense; however, as the trust funds have grown and cash flows from oil royalties and other outside sources have increased, the need to keep large amounts of cash around has diminished. Cash equivalents, which are essentially very short-term fixed income securities, will now be included as a part of the "multi-bond" portion of the permanent trusts' fixed income allocation. Including cash as a part of the trusts' "multi-bond" allocation gives the Commissioner the flexibility to increase the trusts' exposure to cash equivalents when it is a good investment opportunity (as it has been recently with an inverted yield curve) and to minimize exposure to cash equivalents when there are better fixed income opportunities.

Constitutional Measure #1:

During the 2005 legislative session HCR 3037 was introduced by legislative leaders at the Board's request. HCR 3037, which is a proposed amendment to Article IX of the N.D. Constitution, changes the way trust distributions are determined from the current "income" based approach to a "total return" approach. Under a total return approach to trust management, distributions are determined based on the amount of assets in the trusts and the growth of those assets over time. Under the current approach, distributions are based on the amount of "interest and income" generated by trust assets during a given year. Adopting a "total return" approach to trust management was a recommendation of both the DiMeo Schneider investment study in 2003 and the Yanni-Bilkey investment study in 1995.

During the 2005 legislative session the Commissioner and staff worked successfully with educational groups, legislative leaders and beneficiaries to educate them on the benefits of a "total return" approach to trust management. HCR 3037 was passed by the House by a vote of 84-1 and passed by the Senate by a vote of 41-4. The passage of HCR 3037 resulted in Constitutional Measure No. 1 being placed on the November 2006 general election ballot.

On November 7, 2006, North Dakota voters passed Constitutional Measure No. 1, with approximately 67% of voters voting "Yes" on the measure and 33% voting "No". Although North Dakota voters approved Constitutional Measure No. 1, implementing it still requires federal legislation. During 2007, the Commissioner and staff have worked with North Dakota's Congressional delegation to get legislation (S. 1740) introduced in the U.S. Congress that will allow for the implementation of Constitutional Measure No. 1. The Commissioner expects S. 1740 to be enacted within the next year and that a "total return" approach to trust management will be implemented effective July 1, 2009.

Constitutional Measure No. 1, once implemented, will allow the Land Board to better manage the permanent trusts to protect them from the impact of inflation while also providing stable, reliable distributions to trust fund beneficiaries. In addition, it will give the Land Board the ability to more optimally invest trust fund assets to meet its responsibilities to both current and future beneficiaries.

Asset Allocation:

During the biennium, the permanent trusts' asset allocation remained basically unchanged, with one exception. As previously noted, the Land Board eliminated cash as a separate asset class and now includes cash as part of the permanent trusts' fixed income portfolio. The target asset allocation for the permanent trusts is now 51% equities and 49% fixed income. A more detailed look at the amounts allocated to each asset class can be found in the tables that follow.

Fixed Income Investments:

The primary objective of permanent trusts' fixed income portfolio is to generate the long-term, predictable, income and cash flows needed to meet distribution goals. To meet this objective, a portion of the fixed income portfolio is dedicated to high quality, relatively high yielding, loans and fixed income securities, that are managed in more of a "buy and hold" manner than most institutional fixed income portfolios. The fixed income assets managed in this yield-oriented strategy include long-term government and corporate fixed income securities, mortgage backed securities, farm real estate loans, and developmentally disabled loans (DD Loans) #2 and #3. The total amount dedicated to the yield-oriented fixed income portfolio was over \$239 million as of June 30, 2007.

FIXED INCOME ASSETS MANAGED FOR YIELD FOR PERIODS ENDED JUNE 30, 2007, 2006 AND 2005					
Manager/Asset Class	6/30/07 Alloc. (\$ million)	% of Total Portfolio	FY Ended 6/30/07	FY Ended 6/30/06	FY Ended 6/30/05
Bank of North Dakota	\$ 7.28	0.8%	7.47%	7.30%	7.22%
Payden & Rygel Long Term	\$124.40	13.3%	6.01%	5.87%	6.03%
Avg. Yield on Cost – Fixed Income Securities	\$131.68	14.1%	6.10%	6.01%	6.20%
Farm Loan Pool	\$ 30.62	3.3%	7.49%	7.42%	7.30%
DD Loans #2 & #3	\$ 2.28	0.2%	9.00%	9.00%	9.00%
Avg. Yield on Cost – Loans	\$ 32.90	3.5%	7.61%	7.59%	7.54%
Payden & Rygel GNMA/Short Bond Funds	\$ 74.82	8.0%	4.81%	4.55%	3.60%
Avg. Yield on Cost – All Fixed Income Investments	\$239.40	25.6%	5.90%	5.83%	5.84%
Primary Objective - Yield-Oriented Fixed Income Assets			7.50%	7.50%	7.50%

Although the yield-oriented fixed income portfolio continues to earn a lower yield due to the low interest rate environment, the yield did climb slightly during the biennium as interest rates rose from the historic lows experienced the past few years.

The remainder of the fixed income portfolio is allocated to fixed income strategies that are managed for total return, rather than yield. The table below compares the total return earned by each portfolio to the benchmark return for that portfolio

FIXED INCOME ASSETS MANAGED FOR TOTAL RETURN FOR PERIODS ENDED JUNE 30, 2007								
MANAGER - Strategy Index	6/30/07 Allocation (\$ mil.)	% of Total Portfolio	Last Qtr. (%)	Last 1 Year (%)	Last 3 Years (%)	Last 5 Years (%)	Since Inception (%)	Inception Date
NORTHERN TRUST – TIPS Index Fund	\$85.26	9.2%	-0.72	3.92	3.77	N/A	3.75	6/1/04
LB US Treasury Inflation Notes Index			-0.76	3.99	3.80	N/A	3.71	
EVERGREEN – Intl. Fixed Income	\$47.78	5.1%	-0.88	3.94	4.33	N/A	3.82	4/5/04
ML Broad Global Bond (Ex-US) – Hedged			-0.88	4.20	4.53	N/A	4.04	
LAZARD – High Yield Bonds	\$74.20	8.0%	-0.03	10.07	7.23	N/A	6.72	1/1/04
Merrill Lynch HY Bond Index			0.30	11.63	8.93	N/A	8.01	
Merrill Lynch HY BB/B Index			0.08	10.73	8.38	N/A	7.50	
Payden & Rygel Cash Management	\$4.01	0.4%	1.24	5.44	3.83	2.88	4.33	8/1/95
6 Month T-Bill			1.30	5.34	3.57	2.64	4.15	

The Northern Trust TIPS portfolio is an index fund that should match the performance of the index over time.

Equity Securities:

The purpose of the permanent trusts' equity and convertible securities portfolio is to provide the growth needed to reach the Board's ultimate goal of increasing both trust assets, and distributions, at a rate greater than or equal to inflation. In order to help accomplish this goal, the Board has set a target asset allocation of 51% equities and 49% fixed income. The actual allocation to equities was 51.7% on June 30, 2007.

The permanent trusts' equity asset mix includes allocations to large-capitalization U.S equities, small- and mid-capitalization U.S equities, real estate investment trusts (REITs), international equities and convertible securities. The current weighting of each asset class in the equity portfolio is based on the DiMeo Schneider study. The schedule below summarizes the position of our combined equity and convertible securities portfolio as of June 30, 2007, and its performance since the Board implemented an asset allocation plan in August 1995.

EQUITY & CONVERTIBLE SECURITIES NET RETURNS FOR PERIODS ENDED JUNE 30, 2007								
<u>Asset Class</u> <u>MANAGER</u> <u>Benchmark/Index</u>	<u>6/30/07</u> <u>Allocation</u> <u>(\$ mil.)</u>	<u>% of</u> <u>Total</u> <u>Portfolio</u>	<u>Last</u> <u>Qtr.</u> <u>(%)</u>	<u>Last 1</u> <u>Year</u> <u>(%)</u>	<u>Last 3</u> <u>Years</u> <u>(%)</u>	<u>Last 5</u> <u>Years</u> <u>(%)</u>	<u>Since</u> <u>Inception</u> <u>(%)</u>	<u>Inception</u> <u>Date</u>
<u>Large Cap U.S. Equities</u>								
NORTHERN TRUST – Enhanced S&P 500 S&P 500	\$141.48	15.1%	5.80 6.28	N/A N/A	N/A N/A	N/A N/A	15.76 17.07	9/1/06
<u>Small/Mid Cap U.S. Equities</u>								
NORTHERN TRUST – Small/Mid Cap NTGA Benchmark (composite index + 2.00%)	\$98.77	10.6%	7.17 5.49	17.86 19.29	14.46 16.15	12.70 16.04	13.02 12.92	3/1/96
<u>Real Estate Investment Trusts (REITs)</u>								
DELAWARE INVESTMENT ADVISERS NAREIT Equity REIT	\$50.88	5.4%	-9.23 -9.04	13.63 12.57	19.96 21.13	N/A N/A	19.49 20.33	12/1/03
<u>International Equities</u>								
STATE STREET – International Alpha MSCI EAFE	\$98.63	10.6%	6.48 6.40	27.39 27.00	N/A N/A	N/A N/A	21.83 21.53	2/1/06
<u>Convertible Securities</u>								
TRUST COMPANY OF THE WEST Merrill Lynch All Convertibles	\$93.18	10.0%	4.66 4.35	14.26 15.45	6.16 8.55	8.86 11.10	9.21 10.26	6/30/90
Combined Equity and Convertibles	\$482.94	51.7%	4.16	19.11	14.20	12.98	10.87	8/1/95
All total return figures for periods of 1 year or greater have been annualized.								

The permanent trusts' combined equity and convertible securities portfolio continues to perform well, posting an annual return of 19.11 percent during fiscal year 2007 and 13.47 percent during fiscal year 2006. The Commissioner and staff monitor the performance of managers closely and hold meetings or conference calls with these managers regularly to make sure they are doing what they were hired to do.

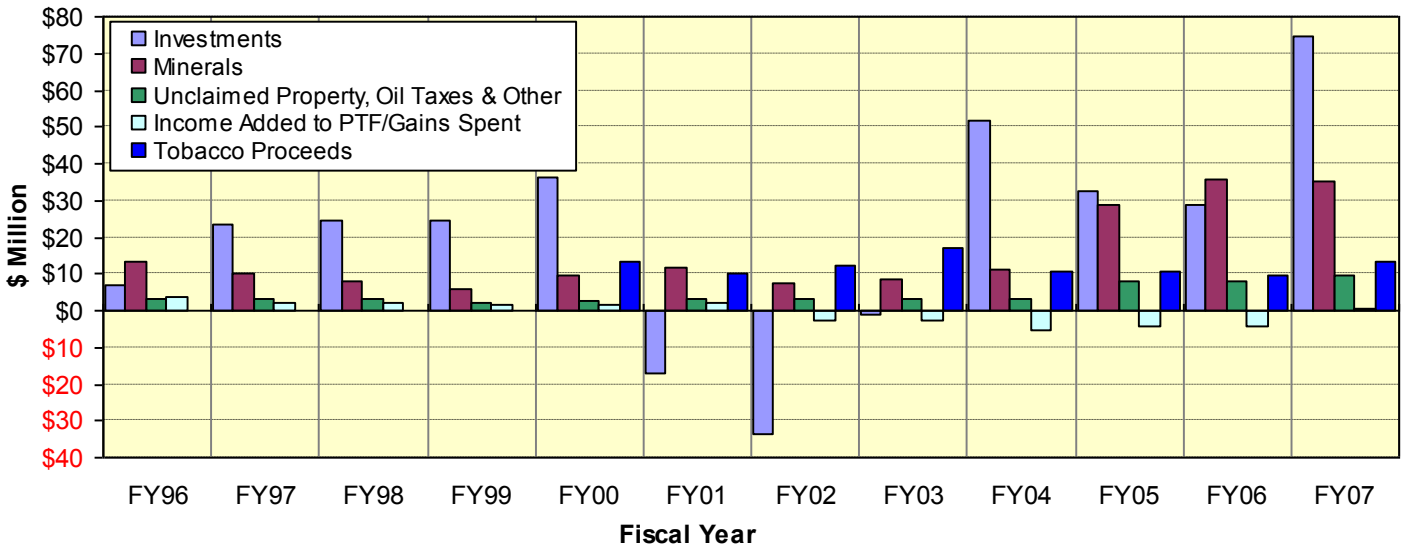
MONITORING AND EVALUATING PERFORMANCE

The Investment Division continued to prepare quarterly performance reports for the Board that summarize both the performance of the investment program as a whole and the performance of individual managers, and compares it to established benchmarks and goals. The reports are reviewed by an independent accounting firm to help ensure that accurate data is being presented to the Board.

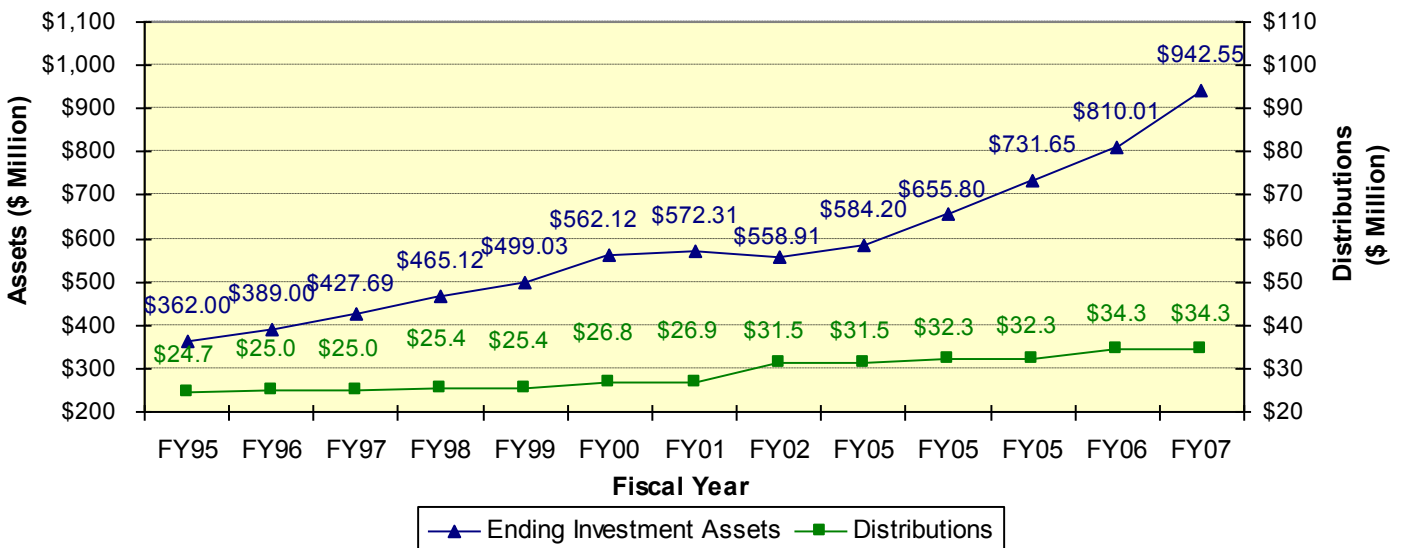
SUMMARY

Although the Board did not make major changes to the investment program during the biennium, overall performance was strong. The passage of Constitutional Measure No. 1 was the number one priority and biggest accomplishment of the division during the biennium. If Congress approves the changes included in Constitutional Measure No. 1, as expected, trust beneficiaries, and the citizens of North Dakota will benefit for generations to come.

SOURCES OF PERMANENT TRUST GROWTH



PERMANENT TRUST ASSETS AND DISTRIBUTIONS



Permanent Funds

	<i>Schedule of Net Asset Balances</i>		<i>Schedule of Income Available for Distribution by Trust</i>	
	6/30/05	6/30/07	7/03 to 6/05	7/05 to 6/07
Common Schools	\$688,309,788	\$888,741,715	\$68,599,421	\$86,301,319
North Dakota State University	11,328,423	14,127,183	1,334,030	1,593,204
School for the Blind	1,998,611	2,294,644	247,386	288,314
School for the Deaf	3,204,541	4,150,847	380,835	464,817
State Hospital	3,691,446	5,556,818	364,430	502,154
Ellendale State College	1,853,735	2,123,712	262,417	291,062
Valley City State University	2,439,274	2,958,012	309,345	366,870
Mayville State University	1,652,806	2,048,531	215,472	254,873
Industrial School	4,139,172	4,942,137	491,076	571,118
State College of Science	3,256,892	4,616,497	362,921	474,617
School of Mines	3,544,902	5,152,956	382,889	503,517
Veterans Home	2,403,353	2,778,630	273,265	314,172
University of North Dakota	6,657,761	7,848,894	747,002	910,802
Total	\$734,480,705	\$947,340,575	\$73,970,489	\$92,836,839

	<i>Schedule of Distributions By Trust</i>		<i>Schedule of Permanent Fund Receipts By Trust</i>	
	7/03 to 6/05	7/05 to 6/07	7/03 to 6/05	7/05 to 6/07
Common Schools	\$60,000,000	\$62,200,000	\$69,195,362	\$104,004,338
North Dakota State University	1,141,089	1,146,000	643,447	1,292,320
School for the Blind	215,476	208,000	64,924	46,882
School for the Deaf	323,948	322,000	289,633	495,861
State Hospital	292,000	310,000	528,080	1,251,866
Ellendale State College	234,062	235,200	38,051	61,829
Valley City State University	269,600	268,000	96,344	199,372
Mayville State University	186,000	176,000	19,531	165,570
Industrial School	398,756	404,000	201,311	232,344
State College of Science	308,205	306,000	311,308	850,636
School of Mines	312,000	322,000	421,374	1,050,254
Veterans Home	238,016	236,000	70,327	71,446
University of North Dakota	634,000	664,000	719,145	310,731
Total	\$64,553,150	\$66,797,200	\$72,598,837	\$110,033,448

Schedule of Sources of Income Available for Distribution

	7/03 to 6/05	7/05 to 6/07
Investment Income	\$40,773,189	\$49,208,994
Loan Income	4,553,500	4,429,237
Rents	9,505,149	9,286,839
Amortization of Gains & Losses	19,037,877	29,900,736
Other	100,774	11,032
Total	\$73,970,489	\$92,836,839

Schedule of Sources of Permanent Fund Receipts

	7/03 to 6/05	7/05 to 6/07
Mineral Bonus	\$14,229,794	\$17,138,675
Oil Extraction Taxes	7,350,267	13,135,956
Tobacco Collections	20,977,122	22,753,729
Royalties	25,807,837	52,988,732
Unclaimed Property	3,834,598	3,568,088
Other	399,219	448,269
Total	\$72,598,837	\$110,033,448

Other Funds

Schedule of Net Asset Balances Schedule of Distributions

	<i>Schedule of Net Asset Balances</i>		<i>Schedule of Distributions</i>	
	6/30/05	6/30/07	7/03 to 6/05	7/05 to 6/07
Capitol Building Fund	\$666,421	\$905,223	\$37,500	\$34,000
Coal Development Fund	57,853,452	59,535,297	2,767,981	3,413,769
Land & Minerals Fund	6,820,582	14,056,679	2,000,000	7,025,000
Total	\$65,342,460	\$74,497,199	\$4,807,486	\$10,472,769