

**BOARD OF UNIVERSITY
AND SCHOOL LANDS**

BISMARCK, NORTH DAKOTA

*FINANCIAL STATEMENTS
AS OF
JUNE 30, 2008 and 2007
AND
INDEPENDENT AUDITOR'S REPORT*

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

June 30, 2008 and 2007

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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, 2008 and 2007, 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 an opinion 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, 2008 and 2007, and the changes in its financial position, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21 to the financial statements, certain errors resulting in the understatement of previously reported receivables as of June 30, 2006, were discovered by management of the Board of University and School Lands during the current year. Accordingly, the 2007 financial statements have been restated and an adjustment has been made to fund balance/net assets as of July 1, 2006 to correct the error.

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, 2008 and 2007, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2008, 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 important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of University and School Lands' basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Bismarck, North Dakota
December 8, 2008

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 this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2008 and 2007. 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, 2008 and 2007 (restated), by \$1,074,877,377 and \$1,032,396,613 (*net assets*) respectively.
- The Board's net assets increased for the year ending June 30, 2008 by \$42,480,764 and increased by \$132,653,115 for the previous fiscal year (restated).

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 and demonstrate compliance with legal 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, and the State Lands Maintenance fund. Data from the other fifteen 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 Maintenance 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

The largest portion of the Board's assets are represented by investments in financial securities. The Board uses these assets to provide distributions to educational entities and general government.

	Net Assets		Changes in Net Assets		
	Governmental Activities 2008	Governmental Activities 2007 (Restated)	Governmental Activities 2008	Governmental Activities 2007 (Restated)	
Current and other assets	\$1,175,152,790	\$1,124,966,051			
Capital assets	9,444	2,381			
Total assets	1,175,162,234	1,124,968,432			
Long-term liabilities	107,154	108,580			
Other liabilities	100,177,703	92,463,239			
Total liabilities	100,284,857	92,571,819			
Net Assets					
Net assets invested in capital assets	9,444	2,381			
Restricted net assets:					
Nonexpendable	948,910,305	931,333,146			
Expendable	26,845,702	21,654,687			
Unrestricted net assets	99,111,926	79,406,399			
Total net assets	\$1,074,877,377	\$1,032,396,613			
			Revenues		
			General Revenues		
			Interest on investments	\$1,744,163	\$1,909,454
			Change in fair value of investments	97,944	65,787
			Rents	332,370	379,311
			Royalties	14,312,460	7,166,708
			Loan income	872,877	779,083
			Contributions to permanent funds	19,181,247	15,995,440
			Taxes	29,497,234	10,272,361
			Donations	673,622	
			Total General Revenues	66,711,917	36,568,144
			Program Revenues		
			Interest on loans	2,604,326	2,458,975
			Interest on investments	35,378,332	29,904,611
			Change in fair value of investments	(75,155,035)	74,761,387
			Rents	5,738,340	5,580,873
			Royalties	55,150,526	35,439,370
			Fees to Maintenance fund	359,170	449,975
			Total Program Revenue	24,075,659	148,595,191
			Total Revenues	90,787,576	185,163,335
			Expenses		
			Governmental Activities		
			General government	144,285	1,002,086
			Intergovernmental	2,771,397	2,444,403
			Education	4,744,187	4,596,118
			Total Expenses	7,659,869	8,042,607
			Excess before transfer	83,127,707	177,120,728
			Transfers	(40,646,943)	(44,467,613)
			Increase in net assets	42,480,764	132,653,115
			Net assets - beginning adjusted	1,032,396,613	899,743,498
			Net assets - ending	\$1,074,877,377	\$1,032,396,613

Financial Analysis of the Government's Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal 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

Capital assets. The Board's investment in capital assets for its governmental funds as of June 30, 2008 and 2007, are \$9,444 and \$2,381 (net of accumulated depreciation) respectively. This investment in capital assets includes equipment.

Economic Factors

The position of the funds improved during the most recent reporting period due to a strong oil and gas sector, however, did suffer from weak securities markets.

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 Dept, 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, 2008 And 2007

	<u>2008</u>	<u>2007</u>
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
Assets:		
Cash	\$19,135,911	\$7,448,206
Investments	957,187,241	934,778,333
Interest receivable	7,527,065	7,184,712
Accounts receivable	14,164,381	11,313,547
Contracts receivable	-	9,707
Invested securities lending collateral	94,402,841	86,432,929
Loans		
Farm loans	30,570,616	28,467,390
School loans	31,559,891	35,604,457
Energy impact loans	5,455,747	1,512,824
Due from other state agencies	7,312,547	4,289,685
Farm and other real estate	802,575	890,312
Land	7,033,975	7,033,949
Equipment (net of accumulated depreciation)	9,444	2,381
Total Assets	<u>1,175,162,234</u>	<u>1,124,968,432</u>
Liabilities:		
Accrued payroll	97,123	97,960
Accounts payable	740,970	718,810
Securities lending collateral	94,402,837	86,432,929
Due to other state agencies	443,140	451,072
Claimant liability	4,487,587	4,756,342
Long-term liabilities:		
Compensated absences due within one year	6,046	6,126
Compensated absences due in more than one year	107,154	108,580
Total Liabilities	<u>100,284,857</u>	<u>92,571,819</u>
Net Assets		
Net assets invested in capital assets	9,444	2,381
Restricted net assets		
Nonexpendable	948,910,305	931,333,146
Expendable	26,845,702	21,654,687
Unrestricted net assets	99,111,926	79,406,399
Total Net Assets	<u>\$1,074,877,377</u>	<u>\$1,032,396,613</u>

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, 2008 And 2007

Functions/Programs	2008		2007 (Restated)	
	Expenses	Program Revenues Charges for Operating Grants and Contributions	Expenses	Program Revenues Charges for Operating Grants and Contributions
Governmental activities:	Revenue	(Expense)	Revenue	(Expense)
General government	\$144,285	(\$144,285)	\$1,002,086	(\$1,002,086)
Intergovernmental	2,771,397	(2,771,397)	2,444,403	(2,444,403)
Education	4,744,187	19,331,472	4,596,118	143,999,073
Total	\$7,659,869	16,415,790	\$8,042,607	140,552,584
Net (expense) revenue		\$16,415,790		\$140,552,584
General revenues:				
Taxes:				
Coal severance taxes	3,282,610		3,418,424	
Oil and gas taxes	6,000,000		-	
Oil extraction taxes	20,214,624		6,853,937	
Contributions to permanent fund	19,181,247		15,995,440	
Unrestricted investment earnings	1,744,163		1,909,454	
Change in fair value	97,944		65,787	
Royalties	14,312,460		7,166,708	
Loan income	872,877		779,083	
Rents	332,370		379,311	
Donations	673,622			
Transfers:				
Transfers to/from other state agencies	(5,046,943)		(11,069,013)	
Transfers to educational institutions	(35,600,000)		(33,398,600)	
Total general revenues and transfers	26,064,974		(7,899,469)	
Total change in net assets	42,480,764		132,653,115	
Net assets - beginning, as previously stated	1,032,396,613		897,229,075	
Prior Period Adjustment				2,514,423
Net assets, as restated	1,032,396,613			899,743,498
Net assets - ending	1,074,877,377			1,032,396,613

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 Years Ended June 30, 2008 And 2007

	2008						2007 (Restated)						
	Common Schools	Coal Development Fund	Maintenance Fund	Energy Dev. Impact Fund	Lands & Minerals Fund	Other Governmental Funds	Total	Common Schools	Coal Development Fund	Maintenance Fund	Energy Dev. Impact Fund	Other Governmental Funds	Total
Assets:													
Cash	\$3,386,193	\$314,215	\$7,530,573	\$7,669,797	\$25,828,450	\$285,133	\$19,135,911	\$2,148,117	\$2,370	\$719,174	4,494,868	\$83,677	\$7,448,206
Investments	851,386,812	22,898,028			27,878	57,103,951	957,187,241	843,180,829	22,071,039			69,328,865	894,779,333
Interest receivable	6,830,613	186,868				481,706	7,527,065	6,286,033	190,318			706,361	7,184,712
Accounts receivable	12,785,573				893,040	485,768	14,164,381	10,620,657	9,707			692,890	11,313,547
Contracts receivable								9,707					9,707
Invested securities lending collateral	79,705,233	9,529,633				5,167,975	94,402,841	77,904,795	3,399,967			5,128,167	86,432,929
Loans													
Farm loans	28,161,240					2,409,376	30,570,616	26,225,810				2,241,580	28,467,390
School loans		31,559,891					31,559,891	35,604,457					35,604,457
Energy impact loans		5,455,747				5,455,747	5,455,747	1,512,824					1,512,824
Due from other state agencies	6,733,737	533,193			45,617		7,312,547	3,705,405				43,979	4,285,685
Due from other funds	4,893,327				1,309,495		6,617,686	377,406		55,950		159,865	593,321
Farm and other real estate	645,035					157,540	802,575	755,774				134,538	890,312
Land	6,322,479					711,496	7,033,975	6,322,479				711,470	7,033,949
Total Assets	\$1,000,810,242	\$70,437,575	\$7,530,573	\$7,669,797	\$28,104,480	\$67,217,809	\$1,181,770,476	\$977,538,812	\$63,321,276	\$775,124	\$4,494,868	\$79,429,292	\$1,125,559,372
Liabilities:													
Accrued payroll			\$97,123				\$97,123	\$657,565		\$97,960			\$97,960
Accounts payable	\$665,215	\$8,041	23,272			\$44,442	740,970	77,904,795	\$7,798	10,179		\$43,268	718,810
Securities lending collateral	79,705,233	9,529,630				5,167,974	94,402,837	3,389,967				5,128,167	86,432,929
Due to other state agencies	56,008	373,235	9,107			4,790	443,140	48,948		19,727		4,186	451,072
Due to other funds			6,617,686				6,617,686	4,756,342		537,371	55,950		593,321
Claimant liability	4,487,587					4,487,587	4,487,587	4,756,342					4,756,342
Total Liabilities	\$4,914,043	\$9,910,906	\$6,747,188			\$5,217,206	\$106,789,343	\$83,367,650	\$3,785,976	\$685,237	\$5,950	\$5,175,621	\$93,050,434
Equity:													
Fund Balance:													
Permanent funds													
Reserved	896,280,073						896,280,073	877,262,472				58,375,016	935,637,488
Unreserved	19,616,186					479,261	20,095,447	16,908,690				441,655	17,350,345
Special revenue funds													
Reserved		34,117,200					34,117,200	34,237,709					34,237,709
Unreserved		26,409,469				2,140,795	65,107,928	25,297,591		109,887	4,438,918	15,437,000	45,283,396
Total Fund Balance	\$15,896,199	\$60,526,669	\$783,385	\$7,669,797	\$28,104,480	\$2,000,603	\$1,074,981,133	\$94,171,162	\$9,535,300	\$109,887	\$4,438,918	\$74,253,671	\$1,032,508,938
Total Liabilities and Fund Balances	\$1,000,810,242	\$70,437,575	\$7,530,573	\$7,669,797	\$28,104,480	\$67,217,809	\$1,181,770,476	\$977,538,812	\$63,321,276	\$775,124	\$4,494,868	\$79,429,292	\$1,125,559,372
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets													
Total fund balances - governmental funds							1,074,981,133						\$1,032,508,938
Net book value of office equipment							9,444						2,381
Liability for compensated absences							(113,200)						(114,706)
Net Assets of governmental activities							1,074,877,377						\$1,032,396,613

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 Years Ended June 30, 2008 and 2007

	2008					2007 (Restated)							
	Common Schools	Coal Development Fund	Maintenance Fund	Energy Dev. Impact Fund	Lands & Minerals Fund	Other Governmental Funds	Total	Common Schools	Coal Development Fund	Maintenance Fund	Energy Dev. Impact Fund	Other Governmental Funds	Total
Revenues:													
Investment income	\$32,881,598	\$825,921			\$713,694	\$2,299,818	\$36,821,031	\$27,912,290	\$1,018,908			\$2,761,033	\$31,693,231
Loan income						194,308	2,439,653	2,059,691	669,111			178,879	2,238,570
Farm loans	2,245,345	673,922					873,922		89,972				698,111
School loans		198,955					198,955						88,872
Energy impact loans						(4,709,432)	164,674						220,405
Developmentally disabled loan fund loans	164,674						(74,977,079)	220,405	65,787			4,665,445	74,827,174
Increase/(decrease) in fair value of investments	(70,445,603)	177,956					10,730	70,095,942	5,286			7,137	120,634
Securities lending income	165,490	45,233					221,453	108,411					42,606,078
Royalties and bonuses	50,068,655				13,627,410	5,766,920	69,462,985	32,341,825	4,954,700			1,005,484	5,960,184
Rental income	5,055,795				216,300	800,625	6,070,710	4,954,700					3,418,424
Coal severance tax		3,282,610					3,282,610		3,418,424				2,878,042
Oil and gas taxes				6,000,000			6,000,000			\$1,904,766			1,904,766
Unclaimed property collections	2,764,762		\$2,436,711				2,764,762						13,117,388
Fees	16,416,485						16,416,485	13,117,398					6,853,937
Tobacco settlement	20,214,624						20,214,624	6,853,937					18,882,231
Oil extraction tax							673,622						18,882,231
Donations						5,036,581	92,865,116	180,542,641	5,288,488	1,904,766			188,618,126
Total Revenues	59,529,815	5,304,597	2,436,711	6,000,000	14,557,404	5,036,581	92,865,116	180,542,641	5,288,488	1,904,766	-	18,882,231	188,618,126
Expenditures:													
Current:													
General government		55,134			396,529	15,521	487,184	36,681				471,555	508,136
Intergovernmental				2,769,121		2,277	2,771,398				2,444,403		2,444,403
Education	4,404,781		1,763,213			339,405	6,507,399	4,266,367		1,958,969		329,751	6,533,087
Total Expenditures	4,404,781	55,134	1,763,213	2,769,121	396,529	367,203	9,745,981	4,266,367	36,581	1,958,969	2,444,403	801,306	9,485,628
Excess of revenue over expenditures	55,125,034	5,249,463	673,498	3,230,879	14,160,875	4,679,378	83,119,137	156,276,274	5,251,907	(32,603)	(2,444,403)	18,080,925	177,132,500
Other Financing Sources (Uses):													
Transfer to Public Instruction	(33,400,000)						(33,400,000)	(31,100,000)				(2,298,600)	(31,100,000)
Transfer to Educational Institutions						(2,200,000)	(2,200,000)					(2,298,600)	(2,298,600)
Transfer to Lignite Research Fund		(2,297,827)					(2,297,827)		(2,392,897)			(6,883,000)	(8,674,116)
Transfer to State General Fund		(1,960,267)			(587,348)		(2,547,615)		(1,791,116)			(2,000)	(2,000)
Transfer to Facilities Management						(201,500)	(201,500)						
Total Other Financing Uses	(33,400,000)	(4,258,094)			(587,348)	(2,401,500)	(40,646,942)	(31,100,000)	(4,184,013)			(8,183,600)	(44,467,613)
Net Change in Fund Balance	21,725,034	991,369	673,498	3,230,879	13,573,526	2,277,878	42,472,194	125,176,274	1,067,894	(32,203)	(2,444,403)	8,897,325	132,664,867
Fund Balance - July 1, As Previously Stated	894,171,162	59,535,300	109,887	4,438,918	14,530,955	59,722,715	1,053,923,215	767,069,481	58,467,406	142,090	6,883,321	64,767,951	887,328,629
Prior Period Adjustment								1,925,427				598,995	2,514,422
Fund Balance - July 1, As Restated	894,171,162	59,535,300	109,887	4,438,918	14,530,955	59,722,715	1,053,923,215	769,994,898	58,467,406	142,090	6,883,321	65,356,946	889,844,051
Fund Balance - ending	\$915,896,196	\$60,526,669	\$783,385	\$7,668,797	\$28,104,481	\$67,000,603	\$1,096,995,408	\$894,171,162	\$59,535,500	\$109,887	\$4,438,916	\$74,255,671	\$1,032,509,959
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities													
Net change in fund balance							\$42,472,194						\$132,664,867
Depreciation expense on equipment							(1,746)						(1,740)
Office equipment additions							6,608						6,608
Increase in compensated absences liability							1,506						1,506
Net Assets of governmental activities							\$42,480,763						\$132,653,115

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, 2008

	Original Appropriation	Final Adjusted Appropriation	First Year 2008 Expenditures	Unexpended Appropriation on 6/30/07
State Lands Maintenance Fund:				
Salaries and Wages	\$2,500,324	\$2,510,208	\$1,184,127	\$1,326,081
Operating Expenses	675,700	675,700	299,891	375,809
Capital Assets	10,000	10,000	8,808	1,192
Contingencies	50,000	50,000	-	50,000
	<u>\$3,236,024</u>	<u>\$3,245,908</u>	<u>\$1,492,826</u>	<u>\$1,753,082</u>
Energy Development Impact Office:				
Grants	\$5,888,100	\$5,888,100	\$0	\$5,888,100
Lands and Minerals Trust:				
North Dakota General Fund	\$15,000,000	\$15,000,000	\$15,000,000	\$0
Heritage Center	1,500,000	1,500,000	339,164	1,160,836
Cold War Center	250,000	250,000	-	250,000
Oil & Gas Division	285,000	285,000	248,186	36,814

Permanent Educational Trusts:

For the years ending on June 30, 2008 and June 30, 2007, the permanent educational trusts managed by the Board distributed \$35,600,000 and \$33,398,600 respectively in accordance with N.D.C.C. 15-03-05.2. For the same periods, the trusts paid administrative expenses of \$4,468,870 and \$4,138,774 respectively in accordance with N.D.C.C. 15-03-16.

Reconciliation of Administrative Expenses to Appropriated Expenditures

	Fiscal Year 2007	Fiscal Year 2008
Biennial Legislative Appropriation Expenditures	\$1,536,187	\$1,184,127
Continuing Appropriation Authority Expenditures	7,949,439	8,561,854
Total Expenses as reflected in the Financial Statements	<u>\$9,485,626</u>	<u>\$9,745,981</u>

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, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. Fund Accounting Structure

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal 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.

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

Permanent Funds - report resources that are legally restricted to the extent that only earnings may be used for purpose of the beneficiaries.

The Permanent Educational 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 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 beneficiaries of the Common Schools Trust are publicly funded schools, grades K-12. Other beneficiaries of various Trusts are the North Dakota State University, School for the Blind, School for the Deaf, State Hospital, Valley City State University, Mayville State University, North Dakota Youth Correction Center, 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, NDSU-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.

Special Revenue Funds - include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes.

The State Lands Maintenance fund is used to pay operating expenses of the State Land Department.

The Coal Development trust fund receives a portion of the coal severance tax. The trust makes loans to energy impacted entities and low interest loans to school districts for new construction. Income from the Trust is distributed to the General Fund of the State annually.

The Lands and Minerals Trust fund accounts for producing and non-producing mineral interests formerly owned by the Bank of North Dakota (BND). The income is distributed to the General Fund of the State biennially.

The Energy Development Impact Office fund provides grant assistance to counties, cities, school districts and other political subdivisions impacted by oil or gas development.

The Capitol Building Trust fund was created by the Enabling Act for the benefit of "public buildings at the capital....".

The Indian Cultural Educational Trust "is established for the purpose of generating income to benefit Indian culture."

The Board reports the Coal Development trust and State Lands Maintenance fund and Common Schools Trust fund as major governmental funds.

C. 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 permanent 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.

D. 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.

E. 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.

F. Capital Assets

Capital assets include equipment and are valued at historical cost or at estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair market 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 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.

G. Accumulated Unpaid Annual and Sick Leave

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.

H. Restricted Net Assets and Reserved Fund Balances

The expendable restricted net assets in permanent funds represent a \$10,000,000 reserve fund and the current year's excess income. The reserved fund balance represents the net corpus of the trust.

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 - CONTRACT RECEIVABLES

Contract receivables result from the sale of land to individuals on contract. Title to the land passes to the purchaser when the contract has been paid in full. No contracts were canceled by the Board during the years ended June 30, 2008 and 2007. No losses are anticipated and an allowance has not been provided.

NOTE 4 - 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 as of June 30, 2008 and 2007 were \$19,135,911 and \$7,448,206 respectively and the bank balances were \$19,184,462 and \$7,489,024. 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 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.

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.

At June 30, 2008, the following table shows the investments by type, amount and duration and assumes the call dates as the maturity dates.

<u>Investment Type</u>	<u>Maturity Amount</u>	<u>Weighted Average Maturity (years)</u>
Asset Backed Securities	\$6,259,061	0.372189
Commercial Mortgage-Backed	12,264,203	1.167744
Corporate Bonds	228,501,956	1.538511
Corporate Convertible Bonds	61,057,397	2.989128
Government Agencies	103,725,418	0.025314
Government Bonds	29,438,492	0.612229
Government Mortgage Backed Securities	61,793,105	4.863220
Gov't-issued Commercial Mortgage-Backed	1,424,517	0.123758
Municipal/Provincial Bonds	1,708,959	0.035615
Non-Government Backed CMOs	12,895,078	0.824370
Short Term Bills and Notes	8,539,111	0.004927
Short Term Investment Funds	12,742,635	0.000000
Total	<u>\$540,349,932</u>	<u>2.154684</u>

The table above includes the market 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. The Board held \$10,559,947 in CMOs at fiscal year end.

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, 2008.

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$2,334,381										\$2,754,918	
Commercial Mortgage-Backed	9,952,236			\$1,169,762							2,311,968	
Corporate Bonds	3,396,529	\$3,474,591	\$24,761,600	28,843,344	\$37,300,446	\$23,177,453	\$2,105,878				105,442,116	
Corporate Convertible Bonds	1,432,035		7,347,881	14,080,143	12,841,958	7,031,859					18,323,523	\$89,130,826
Government Agencies	13,796,630			797,963							3,096,786	
Government Bonds	23,813,778		1,349,128	1,178,800								61,793,095
Government Mortgage Backed Securities												1,424,518
Gov't-issued Commercial Mortgage-Backed Municipal/Provincial Bonds		1,708,959										
Non-Government Backed C.M.O.s	10,466,146										2,428,932	
Short Term Bills and Notes	199,214											8,339,898
Short Term Investment Funds											12,742,636	
	\$65,390,949	\$5,183,550	\$33,458,609	\$46,070,012	\$50,142,404	\$30,209,312	\$2,105,878				\$147,100,879	\$160,688,337

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 adds 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 for the year ending June 30, 2008.

<u>Currency</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	\$(116,016)	\$6,073,017	\$5,957,001
British pound sterling	(205,076)	21,909,441	21,704,365
Canadian dollar	9,439		9,439
Danish krone	(54,501)	1,442,118	1,387,617
Euro	(869,344)	29,021,500	28,152,156
Hong Kong dollar	-	2,051,211	2,051,211
New Zealand dollar	35,485	107,487	142,972
Norwegian krone	(68,348)	2,024,339	1,955,991
Mexican peso	7,423	-	7,423
Swedish krona	-	2,087,040	2,087,040
Japanese yen	-	19,240,179	19,240,179
Singapore dollar	-	1,039,041	1,039,041
Swiss franc	-	4,577,156	4,577,156
	<u>\$(1,260,938)</u>	<u>\$89,572,529</u>	<u>\$88,311,591</u>

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. 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 Land's loans was approximately 65 days as of June 30, 2008.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 36 days as of this statement date. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

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 Board's following balances represent the securities lending activity for ending June 30, 2008

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$0	\$0		
US Agencies	11,717,447	12,000,874		
US Corporate Fixed	44,301,485	45,493,679	\$57,385	\$58,764
US Equities	28,717,231	29,536,627		
US Government Fixed	9,666,679	9,878,155	334,101	341,597
	<u>\$94,402,482</u>	<u>\$87,168,641</u>	<u>\$391,486</u>	<u>\$400,361</u>

Fair Value of Securities on Loan against Cash Collateral	\$94,402,842
Fair Value of Securities on Loan against Non Cash Collateral	\$391,486
Total Fair Value of Securities on Loan	\$94,794,328

NOTE 7 – FARM LOAN POOL AND FARM REAL ESTATE

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, 2008 and 2007, the pool had net assets of \$34,770,129 and \$31,448,064 respectively. For the same period, the pool earned net income of \$2,337,905 and \$2,135,216.

The Board assumes ownership of all of the foreclosed properties pending disposition of the real estate. The foreclosed property is recorded in an account titled "farm real estate" at the lower of cost or estimated market. No loans were foreclosed and two sales of farm real estate occurred during the current fiscal year.

NOTE 8 - 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, 2008 the non-current and current portions of the loans were \$5,133,708 and \$322,040 respectively. The same amounts as of June 30, 2007 were \$1,347,698 and \$165,126 respectively.

NOTE 9 - 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 10 - 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, 2008 the non-current and current portions of the loans were \$28,983,493 and \$2,576,398 respectively. The same amounts as of June 30, 2007 were \$32,890,012 and \$2,714,445 respectively.

NOTE 11 - LAND

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 2008, 2.6 acres were acquired and none were sold. In fiscal year 2007, .99 acres were reacquired and 3,643.39 acres were sold.

NOTE 12 - CAPITAL ASSETS

Governmental Activities:	Balance 7/1/06	Additions	Retirements	Balance 6/30/07	Balance 7/01/07	Additions	Retirements	Balance 6/30/08
Equipment	\$6,350	\$0	\$0	\$6,350	\$6,350	\$8,808	\$0	\$15,158
Less accumulated depreciation:								
Equipment	(2,699)	(1,270)		(3,969)	(3,969)	(1,745)		(5,714)
Net capital assets	\$3,651	(\$1,270)	(\$0)	\$2,381	\$2,381	\$7,063	(\$0)	\$9,444

A total of \$1,745 and \$1,270 in depreciation for fiscal years ending June 30, 2008 and 2007 was charged to the education function.

NOTE 13 – LONG TERM DEBT

Governmental Activities:	Balance 7/1/07	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter	Balance 6/30/08
Other long-term liabilities:						
Compensated absences	\$114,706	\$72,526	\$74,032	\$6,046	\$107,154	\$113,200

Governmental Activities:	Balance 7/1/06	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter	Balance 6/30/07
Other long-term liabilities:						
Compensated absences	\$104,204	\$77,167	\$66,665	\$6,126	\$108,580	\$114,706

Assets of the Maintenance Fund are used to pay off these liabilities.

NOTE 14 - PENSIONS

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

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, 2008, 2007, and 2005 were \$77,026, \$75,613 and \$68,158 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 1214, Bismarck, ND 58502-1214.

NOTE 15 - OTHER POSTRETIREMENT BENEFITS

Former employees receiving retirement benefits under the Retirement Plan of the Land Dept. are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. During each month of employment, the Land Dept. contributes 1% of each employee's salary into the Retiree Health Benefits Fund. Total contributions for the fiscal years ending June 30, 2008, 2007 and 2006 were \$6,176, \$8,291 and \$7,474.

NOTE 16 - 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.

NOTE 17 - DUE TO / DUE FROM

Fund	2008		2007	
	Due from other funds	Due to other funds	Due from other funds	Due to other funds
Maintenance Fund		\$6,617,686	\$55,950	\$537,371
Land and Minerals Trust	\$1,309,495		135,543	
Nonmajor funds	414,864		24,422	
Common Schools	4,893,327		377,406	
EDIO				55,950
	<u>\$6,617,686</u>	<u>\$6,617,686</u>	<u>\$593,321</u>	<u>\$593,321</u>
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	\$45,617		\$43,978	
	<u>45,617</u>		<u>43,978</u>	
Coal Development Trust:				
State Treasurer	533,193	\$373,235	540,301	\$378,211
	<u>533,193</u>	<u>373,235</u>	<u>540,301</u>	<u>378,211</u>
Maintenance Fund:				
Attorney General		2,233		1,266
Dept. of Transportation		1,931		5,986
Information Technology Department		4,263		3,592
Central Services		680		1,052
State Historical Society				7,831
		<u>9,107</u>		<u>19,727</u>
Permanent Funds:				
State Treasurer	5,085,001		1,426,383	
Developmentally Disabled Facility Loan No. 2	215,843		620,045	
Developmentally Disabled Facility Loan No. 3	1,432,893		1,658,977	
Bank of North Dakota		60,798		53,134
	<u>6,733,737</u>	<u>60,798</u>	<u>3,705,405</u>	<u>53,134</u>
Total Due To/Due From	<u>\$7,312,547</u>	<u>\$443,140</u>	<u>\$4,289,685</u>	<u>\$451,072</u>

NOTE 18 – TRANSFERS IN AND OUT

<u>Fund</u>	<u>2008</u>		<u>2007</u>	
	<u>Transfers from other agencies</u>	<u>Transfers to other agencies</u>	<u>Transfers from other agencies</u>	<u>Transfers to other agencies</u>
Nonexpendable Trusts:				
Department of Public Instruction		\$33,400,000		\$31,100,000
N.D.S.U.		535,000		573,000
School for the Blind		88,000		104,000
School for the Deaf		155,000		161,000
State Hospital		195,000		155,000
Ellendale		84,000		117,600
Valley City State University		113,000		134,000
Mayville State University		78,000		88,000
Industrial School		189,000		202,000
School of Science		169,000		153,000
School of Mines		185,000		161,000
Veterans Home		107,000		118,000
U.N.D.		302,000		332,000
		<u>35,600,000</u>		<u>33,398,600</u>
Coal Development Trust:				
Lignite Research Fund		2,297,827		2,392,897
General Fund of North Dakota		1,960,267		1,791,116
		<u>4,258,094</u>		<u>4,184,013</u>
Land and Minerals:				
General Fund of North Dakota		587,349		6,883,000
		<u>587,349</u>		<u>6,883,000</u>
Capitol Building Trust:				
Facilities Management		201,500		2,000
		<u>201,500</u>		<u>2,000</u>
Total Transfers		<u>\$40,646,943</u>		<u>\$44,467,613</u>

NOTE 19 - 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, 2008 and 2007 rent of \$11,889 and \$11,889 was paid by the non-Common Schools Trusts and the book value of the building was \$757,691 and \$798,059 respectively. The book value of the building is included in the Investments line of the balance sheet.

NOTE 20 - PERMANENT FUND DISTRIBUTION POLICY

State law permits the Board to use one-tenth of the realized gains and losses in the current and previous years to be included in its calculation of income available for distribution in the current year. When determining the amount of distribution from any of the permanent educational trusts, the Board must consider both the preservation of trust corpus and its ability to produce income for future years and the demands for distribution of current income. Any realized gains and losses that are spent must be spent for the purposes for which the trust was established.

Any income in excess of the amount of distribution for the current year can be acted on in one of three ways by the Board:

1. Distribute to the fund beneficiary all or a portion of the income in excess of the previous fiscal year's distribution;
2. Retain for distribution in future years all or a portion of the income in excess of the preceding fiscal year's distribution in an amount not to exceed ten million dollars; or
3. Add to the permanent fund all or a portion of the income in excess of the preceding fiscal year's distribution.

At June 30, 2008 and 2007, realized gains and losses available for distribution in the current year totaled \$13,867,520 and \$16,228,472 respectively for the permanent educational trusts. This amount is included in restricted net assets - expendable, in the government-wide statement of net assets.

NOTE 21 - PRIOR PERIOD ADJUSTMENT

The adjustment resulted from the correction of the previous practice of booking royalty and bonus receipts in the month in which they were received. Application of the modified accrual method dictates that royalties should be recorded in the month earned rather than received.

Fund balances of June 30, 2007, have been adjusted to reflect the following:

Common Schools Fund:

Fund Balance \$1,925,427

Other Governmental Funds:

Fund Balance \$588,995

Net Assets in Government Wide Statement of Activities:

Change to beginning Net Assets \$2,514,422

NOTE 22 - SUBSEQUENT EVENT

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial systems has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, investments under management of the Board likely incurred a significant decline in fair value since June 30, 2008.

BOARD OF UNIVERSITY AND SCHOOL LANDS
 Bismarck, North Dakota
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2008

	Permanient Funds										Special Revenue Funds					Total	
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Total	Capitol Building	Indian Cultural Education		Total
Assets:																	
Cash	\$66,990	\$14,607	\$20,180	\$20,369	\$13,440	\$15,613	\$12,019	\$28,041	\$20,895	\$21,249	\$18,879	\$31,939	\$284,233	\$0	\$900	\$900	\$285,133
Investments	13,350,196	2,033,968	4,132,312	5,271,629	1,931,920	2,647,386	1,771,927	4,455,031	4,557,964	5,243,023	2,407,310	7,050,528	\$55,123,352	1,415,823	594,776	1,990,599	67,103,961
Interest receivable	121,704	22,238	33,407	39,274	19,790	25,905	18,872	45,442	35,847	38,851	23,328	56,885	\$479,261	2,090	355	2,445	481,706
Accounts receivable	185,621	8,038	54,079	56,352		4,820			66,316	87,221	1,117	3,025	\$479,381	6,377		6,377	485,758
Invested securities lending collateral	1,248,804	190,890	387,416	522,375	181,123	248,200	166,123	417,872	427,323	491,549	225,692	661,008	\$5,167,975				5,167,975
Loans																	
Farm loans	607,351	117,238	166,470	170,567	109,318	136,368	99,595	235,699	173,564	175,154	137,359	278,693	\$2,408,376				2,408,376
Due from other funds	72,519	18,080	36,923	82,689	1,096	4,628	1,477	22,132	65,336	92,910	2,937	10,101	\$410,818	4,046		4,046	414,864
Farm real estate	26,355	5,513	8,866	5,299	6,518	8,032	4,468	6,093	6,197	6,458	6,458	16,932	\$110,818			16,932	127,750
Land	151,177	34,817	49,257	22,057	49,841	49,013	31,870	37,444	37,313	33,930	27,537	83,160	\$611,551	99,945		99,945	711,496
Total Assets	15,912,877	2,445,189	4,867,910	6,493,811	2,313,045	3,141,770	2,106,451	5,249,554	5,350,760	6,199,584	2,848,615	8,197,209	65,076,575	1,528,281	612,953	2,141,234	67,217,809
Liabilities:																	
Accounts payable	10,644	1,634	3,254	4,436	1,547	2,123	1,423	3,568	3,630	4,171	1,932	5,640	44,002			\$440	\$44,442
Securities lending collateral	1,248,804	190,690	387,416	522,375	181,123	246,200	166,123	417,872	427,323	491,549	225,692	661,007	5,167,974				5,167,974
Due to other state agencies	1,207	233	331	338	217	276	198	469	345	348	274	554	4,780			440	4,780
Total Liabilities	1,260,655	192,557	391,001	527,149	182,897	250,599	167,744	421,709	431,298	486,068	227,898	887,201	5,216,786			440	5,217,226
Equity:																	
Fund Balance:																	
Reserved	14,430,318	2,230,394	4,463,502	5,927,388	2,110,388	2,865,266	1,919,835	4,762,403	4,923,615	5,696,865	2,597,381	7,473,202	59,380,547				59,380,547
Unreserved	121,704	22,238	33,407	39,274	19,790	25,905	18,872	45,442	35,847	36,651	23,328	56,885	\$479,261	\$1,528,281	\$612,953	\$2,140,794	2,620,058
Total Fund Balance	14,552,022	2,252,632	4,496,909	5,966,662	2,130,158	2,891,171	1,938,707	4,807,845	4,959,462	5,693,516	2,620,717	7,530,087	59,859,808	1,528,281	612,953	2,140,794	62,000,605
Total Liabilities and Fund Balances	15,812,877	2,445,189	4,867,910	6,493,811	2,313,045	3,141,770	2,106,451	5,249,554	5,350,760	6,199,584	2,848,615	8,197,209	65,076,575	1,528,281	612,953	2,141,234	67,217,809

BOARD OF UNIVERSITY AND SCHOOL LANDS

Blensack, North Dakota
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2007

Account	Permanent Funds (Restricted)										Special Revenue Funds (Restricted)				Total Nonmajor Governmental Funds		
	School for the Blind	School for the Deaf	School for the Gifted	State Hospital	Elkdale	Valley City State U.	Meyville State U.	Industrial School	School of Science	School of Mines	Veterans Home	U.N.D.	Capitol Building	Minerals Fund		Total	
ASSETS:																	
Cash	\$9,418	\$13,265	\$12,813	\$12,462	\$1,094,938	\$10,540	\$9,139	\$17,721	\$12,887	\$13,137	\$10,025	\$20,470	\$2,829	\$104,821	\$185,889	\$43,877	
Investments	2,115,508	3,893,139	5,323,855	2,37,029	1,693,747	4,018,946	1,693,747	4,018,946	4,398,208	4,933,792	2,692,798	7,413,473	784,000	13,726,000	55,019,865	14,610,000	
Interest receivable	20,880	30,622	35,394	18,422	17,639	42,414	42,414	42,414	32,891	32,983	21,782	62,129	8,724	255,082	441,855	284,708	
Accounts receivable	784	20,710	37,922	3,508	342	3,105	342	3,105	40,378	54,197	1,084	1,680	922	474,272	217,798	475,094	
Invested securities lending collateral	198,395	382,634	481,859	181,770	256,429	177,575	432,483	432,483	404,653	452,910	241,789	893,311			5,128,187	5,128,187	
Loans	565,063	154,878	158,689	101,705	128,732	92,859	219,283	219,283	181,478	182,855	127,791	259,285			2,241,580	2,241,580	
Due from other state agencies	1,857	3,231	2,080	94	64	1,149	613	926	201	691	2,537	989	9,951	43,979	14,471	43,979	
Due from other funds	32,012	10,795	6,378	7,974	6,378	9,809	5,437	9,783	7,469	6,984	7,859	20,702		136,543	134,538	134,538	
Farm real estate	151,177	34,817	48,287	49,842	49,017	31,970	37,444	37,444	37,313	39,930	27,537	89,180	99,019		811,551	99,019	
Land	\$15,428,479	\$2,485,705	\$4,537,841	\$2,307,207	\$3,220,353	\$2,228,121	\$5,381,795	\$5,381,795	\$5,085,254	\$5,084,189	\$3,024,402	\$9,550,099	\$98,045	\$14,530,955	\$15,437,000	\$15,437,000	
Total Assets																	
	10,414	3,061	4,150	1,534	1,534	2,194	1,499	3,651	3,414	3,822	2,040	5,945			43,288	\$43,288	
LIABILITIES:																	
Accounts payable	188,395	382,634	491,859	181,770	266,429	177,575	432,483	432,483	404,663	452,910	241,789	893,311			5,128,187	5,128,187	
Securities lending collateral	1,055	204	298	180	190	241	410	410	301	304	239	464			4,186	4,186	
Due to other state agencies	200,273	385,984	498,405	183,484	258,834	179,247	438,554	438,554	408,378	457,038	244,078	699,840			5,175,821	5,175,821	
Total Liabilities																	
	14,068,172	2,274,552	4,140,935	2,105,291	2,037,379	2,031,235	4,602,827	4,602,827	4,824,215	5,174,170	2,759,692	7,798,350	908,045	14,530,955	15,437,000	15,437,000	
Fund Balance:																	
Reserved	112,809	20,890	35,394	18,422	17,639	42,414	42,414	42,414	32,891	32,983	21,782	62,129	908,045	14,530,955	15,437,000	15,437,000	
Unreserved	14,180,781	2,253,662	4,105,541	2,123,713	2,019,740	2,048,821	4,040,413	4,040,413	4,858,878	5,207,187	2,737,910	7,856,221	908,045	14,530,955	15,437,000	15,437,000	
Total Fund Balance																	
	15,428,479	2,485,705	4,537,841	2,307,207	3,220,353	2,228,121	5,381,795	5,381,795	5,085,254	5,084,189	3,024,402	9,550,099	908,045	14,530,955	15,437,000	15,437,000	
Total Liabilities and Fund Balance																	

BOARD OF UNIVERSITY AND SCHOOL LANDS
 Bismarck, North Dakota
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Nonmajor Governmental Funds
 June 30, 2008

Revenues:	Permanent Funds										Special Revenue Funds			Total				
	N.D.S.U.	School for the Blind	School for the Deaf	Sixth Hospital	Ellendale	Valley City State U.	Mayville State U.	Industrial School	School of Science	School of Mines	Veterans Clinic	U.N.D.	Total		Capitol Building	Indian Cultural Education	Nonmajor Governmental Funds	
Investment income	\$575,208	\$63,212	\$158,185	\$216,190	\$78,706	\$107,578	\$79,319	\$181,351	\$177,723	\$201,685	\$98,512	\$287,622	\$2,240,502	\$42,036	\$17,280	\$59,316	\$2,299,818	
Loan income																		
Farm loans	48,981	9,455	13,425	13,756	8,816	11,159	8,032	19,008	13,997	14,126	11,077	22,476	194,308				194,308	
Increase in fair value of investments	(1,124,168)	(173,504)	(331,185)	(460,547)	(162,476)	(225,901)	(152,726)	(361,966)	(378,412)	(431,025)	(207,176)	(600,334)	(4,629,420)		(80,012)	(80,012)	(4,709,432)	
Securities lending income	2,593	396	804	1,095	378	515	345	887	887	1,021	468	1,372	10,730				10,730	
Royalties and bonuses	1,333,034	107,384	613,788	766,560	135,684	119,030	19,451	230,201	641,689	874,665	36,489	203,887	5,081,870	685,050		685,050	5,766,920	
Rental income	153,149	32,482	49,695	55,344	47,342	50,503	32,699	50,652	39,509	37,132	22,153	113,894	694,554	112,171	3,900	116,071	800,625	
Oil and gas tax revenue																		
Donations																		
Total Revenues	989,797	59,425	504,710	592,988	108,458	62,885	(19,880)	100,113	495,383	697,614	(37,476)	28,117	3,582,544	839,257	614,750	1,454,047	5,036,591	
Expenditures:																		
Current																		
General government														15,521		15,521	15,521	
Intergovernmental															2,277		2,277	
Education	82,556	14,225	24,358	25,468	18,013	20,233	13,287	29,509	23,607	26,251	15,131	47,567	\$339,405				339,405	
Total Expenditures	82,556	14,225	24,358	25,468	18,013	20,233	13,287	29,509	23,607	26,251	15,131	47,567	339,405	15,521	2,277	17,798	357,203	
Excess of revenue over expenditures	906,241	45,200	480,352	566,920	90,445	42,652	(32,167)	71,604	471,596	671,363	(52,607)	(18,450)	3,243,139	823,736	612,513	1,436,249	4,679,388	
Other Financing Sources (Uses):																		
Transfer to Educational Institutions	(535,000)	(88,000)	(155,000)	(195,000)	(84,000)	(113,000)	(78,000)	(189,000)	(169,000)	(185,000)	(107,000)	(302,000)	(2,200,000)				(2,200,000)	
Transfer to Facilities Management	(55,000)	(88,000)	(155,000)	(195,000)	(84,000)	(113,000)	(78,000)	(189,000)	(169,000)	(185,000)	(107,000)	(302,000)	(2,200,000)	(201,500)		(201,500)	(2,401,500)	
Total Other Financing Uses	(371,241)	(42,800)	(325,352)	(371,920)	(84,445)	(70,348)	(110,167)	(117,398)	(302,596)	(486,363)	(159,607)	(320,450)	1,043,139	622,236	612,513	1,234,749	2,277,888	
Net Change in Fund Balance	14,180,761	2,295,432	4,171,567	5,594,742	2,123,713	2,981,519	2,045,874	4,945,241	4,656,676	5,207,153	2,780,324	7,850,458	56,816,670	906,045		906,045	59,722,715	
Fund Balance - beginning	14,552,022	2,252,632	4,496,909	5,966,662	2,130,158	2,891,171	1,838,707	4,827,845	4,859,462	5,693,516	2,620,717	7,650,008	59,839,609	1,529,261	612,513	2,140,784	62,000,603	
Fund Balance - ending																		

BOARD OF UNIVERSITY AND SCHOOL LANDS

Bismarck, North Dakota

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Normal Governmental Funds

June 30, 2007

Revenues:	Permanent Funds (Restated)								Special Revenue Funds (Restated)				Total Nonmajor Govern- mental Funds				
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellendale	Valley City	Mayville	Industrial School	School of Science	School of Mines	Veterans Home	U.M.D.		Capitol Building	Minerals Fund	Total	
Investment income	\$452,803	\$73,942	\$131,863	\$175,553	\$67,985	\$95,164	\$65,780	\$180,395	\$144,983	\$160,253	\$90,150	\$258,413	\$30,530	\$847,730	\$884,260		
Loan income																	
Farm loans	45,092	8,704	12,350	12,883	8,118	7,304	7,304	17,400	12,886	13,004	10,168	20,991			178,879		
Increase in fair value of investments	1,125,407	185,189	326,488	431,279	1,66,084	238,044	164,183	400,610	357,282	383,031	226,078	647,779			4,865,445		
Securities lending income	1,718	278	505	685	253	357	247	802	563	630	338	965			7,137		
Royalties and bonuses	693,275	31,065	297,808	598,346	45,424	64,564	45,119	132,408	468,334	641,339	42,749	72,114			7,168,708		
Rental income	147,089	34,304	50,509	21,322	45,810	48,258	33,084	52,987	40,727	38,728	20,821	94,834			1,005,464		
Oil and gas tax revenue																	
Total Revenues	2,441,384	333,480	819,312	1,239,848	336,372	454,980	315,807	784,201	1,014,775	1,248,865	390,342	1,064,760	152,512	8,277,787	18,882,231		
Expenditures:																	
Current:																	
General government																	
Education	79,124	14,722	23,445	23,133	16,152	20,000	13,884	29,545	22,811	23,784	16,184	47,147	19,581	452,984	471,565		
Total Expenditures	79,124	14,722	23,445	23,133	16,152	20,000	13,884	29,545	22,811	23,784	16,184	47,147	19,581	452,984	471,565		
Excess of revenue over expenditures	2,362,260	318,758	795,867	1,216,715	320,220	434,980	302,113	734,656	891,964	1,225,171	374,158	1,047,649	10,122,201	133,951	7,859,724	18,080,925	
Other Financing Sources (Uses):																	
Transfer to Educational Institutions	(573,000)	(104,000)	(161,000)	(155,000)	(117,600)	(134,000)	(88,000)	(202,000)	(153,000)	(161,000)	(118,000)	(332,000)	(2,288,600)		(2,298,600)		
Transfer to Facilities Management																	
Transfer to General Fund																	
Total Other Financing Uses	(573,000)	(104,000)	(161,000)	(155,000)	(117,600)	(134,000)	(88,000)	(202,000)	(153,000)	(161,000)	(118,000)	(332,000)	(2,288,600)		(2,298,600)		
Net Change in Fund Balance	1,789,260	214,758	634,867	1,061,715	202,620	300,980	214,113	532,656	838,964	1,064,171	256,158	715,649	7,823,801	131,951	941,773	1,073,724	9,897,328
Fund Balance - July 1, As Previously Stated	12,343,682	2,079,408	3,514,987	4,486,931	1,921,093	2,656,333	1,834,761	4,409,539	3,780,284	4,090,963	2,524,168	7,132,832	50,786,837	773,022	13,207,392	13,860,414	64,107,351
Prior Period Adjustment	47,839	1,258	21,723	36,088		2,528		3,046	37,648	54,019		1,078		1,072	381,790	382,962	688,966
Fund Balance - July 1, As Restated	12,391,521	2,080,666	3,536,690	4,533,027	1,921,093	2,660,859	1,834,761	4,412,585	3,817,932	4,144,982	2,524,168	7,134,910	50,993,070	774,094	13,589,182	14,353,276	65,366,348
Fund Balance - ending	14,180,781	2,295,432	4,171,557	5,594,742	2,123,713	2,961,519	2,048,874	4,945,241	4,656,876	5,207,153	2,780,324	7,850,459	58,161,671	906,045	14,530,955	15,437,000	74,253,671



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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 years ended June 30, 2008 and 2007 and have issued our report thereon dated December 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 opinions 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as deficiencies 08-1 and 08-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider deficiencies 08-1 and 08-2 to be material weaknesses.

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' responses to the findings identified in our audit are 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 them.

This report is intended solely for the information and use of the Governor, 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

December 8, 2008
Bismarck, North Dakota

**BOARD OF UNIVERSITY AND SCHOOL LANDS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

08-1 Recording of Transactions

Condition: We identified misstatements in the Board's financial statements causing us to detect material audit adjustments.

Criteria: A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause: Inadequate internal controls over recording of transactions affect the Board's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Effect: Inadequate internal controls over recording of transactions resulted in misstatements in amounts that were material in relation to the financial statements.

Recommendation: We recommend that all general ledger accounts are reconciled in a timely manner and adjustments made for any differences noted.

Response: The Board fully concurs with the recommendation for the need to reconcile general ledger accounts in a timely manner. The adjustments noted have now been made.

08-2 Preparation of Financial Statements

Condition: We identified misstatements in the Board's financial statements causing us to detect material corrections to the Board's financial statements.

Criteria: Management is responsible for the correct presentation and reporting of the items in the Board's financial statements.

Cause: Inadequate internal controls over preparation of financial statements affected the Board's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Effect: Inadequate internal controls over preparation of financial statements resulted in misstatements in amounts that were material in relation to the financial statements.

Recommendation: We recommend that management should ensure that a process is in place related to the preparation of financial statements which will detect misstatements so these misstatements will get corrected.

Response: The Board fully agrees with the recommendations that processes be put in place to detect material misstatements in the preparation of financial statements.

The rapid energy development that has transpired in the past fiscal year has placed considerable strain on our ability to effectively manage all of our responsibilities. Due to this accelerating workload that is expected to continue, increasing the number of FTEs to an adequate level in order to keep up with all additional related tasks has already been made a part of the executive budget request for the next biennium.



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**BOARD OF UNIVERSITY AND SCHOOL LANDS
INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2008**

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, 2008 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 material weaknesses identified on page 31.

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.

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 34. Please refer to this document for all recommendations and agency responses.

Audit Committee Communications:

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

None

- 2. Identify any significant accounting estimates, 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 significant audit adjustments detected during the audit. The significant audit adjustments are detailed in the management letter following page 34.

- 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.**

Please see "Difficulties Encountered in Performing the Audit" section of the management letter following page 34.

- 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

December 8, 2008
Bismarck, North Dakota



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Governor Hoeven
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, 2008, and have issued our report thereon dated December 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Board of University and School Lands. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Board of University and School Land's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

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 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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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

At times, the controller was uncooperative to our staff concerning the auditing procedures that they needed to perform. We discussed this situation with management and received an appropriate response from the controller. We consider this issue to be resolved.

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. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

Common Schools Fund

	<u>Debit</u>	<u>Credit</u>
<i>To adjust the common schools' tobacco settlement receivable</i>		
Accounts receivable	\$3,031,076	
Tobacco settlement revenue		\$3,031,076
<i>To record due from maintenance fund for royalty income</i>		
Due from maintenance fund	\$4,892,852	
Royalty income		\$4,892,852
<i>To record 2008 royalty receivable</i>		
Accounts receivable	\$4,556,692	
Royalty and bonus revenue		\$4,556,692
<i>To record 2007 prior period adjustment for royalty income and receivable</i>		
Accounts receivable – 2007	\$2,391,775	
Fund balance – 2007		\$1,925,427
Royalty and bonus revenue – 2007		466,348

Maintenance Fund

<i>To record due to other funds for royalty income</i>		
Miscellaneous income	\$6,309,166	
Due to other funds		\$6,309,166

Land and Minerals Fund

<i>To record due from maintenance fund for royalty income</i>		
Due from maintenance fund	\$1,001,452	
Royalty income		\$1,001,452
<i>To record 2008 royalty receivable</i>		
Accounts receivable	\$893,039	
Royalty and bonus revenue		\$893,039

	<u>Debit</u>	<u>Credit</u>
<u>Other Governmental Funds</u>		
<i>To record due from maintenance fund for royalty income</i>		
Due from maintenance fund	\$414,862	
Royalty income		\$414,862
<i>To record 2008 royalty receivable</i>		
Accounts receivable	\$485,770	
Royalty and bonus revenue		\$485,770
<i>To record 2007 prior period adjustment for royalty income</i>		
Accounts receivable – 2007	\$692,890	
Fund balance – 2007		\$588,995
Royalty and bonus revenue – 2007		103,895

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 December 8, 2008.

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.

Issued but not Effective Accounting Standards

The GASB issued *Statement #52 Land and Other Real Estate Held as Investments by Endowments*. We recommend the Board review the statement and determine the effect on the financial statements. Statement 52 will be effective for Board for the year ended 6/30/09.

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
December 8, 2008