



Financial Statements  
June 30, 2010 and 2009

# Board of University and School Lands

BOARD OF UNIVERSITY AND SCHOOL LANDS  
Bismarck, North Dakota

June 30, 2010 and 2009

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## INDEPENDENT AUDITOR'S REPORT

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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, 2010 and 2009, which collectively comprise the Board of University and School Lands' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of University and School Lands' management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Board of University and School Lands, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the Board of University and School Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2010 and 2009, 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.

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, 2010 and 2009, 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 November 8, 2010, 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 6 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  
November 8, 2010

## Management's Discussion and Analysis

As management of the Board of University and School Lands (Board), we offer readers of the Board's financial statements a narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2010, 2009 and 2008. 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, 2010, 2009 and 2008 by \$1,529,337,219, \$1,008,605,519 and \$1,074,877,376 (*net assets*) respectively.
- The Board's net assets increased for the year ending June 30, 2010 by \$520,731,700; decreased by \$66,271,857 for fiscal year 2009; and increased by \$42,480,473 for fiscal year 2008.
- Royalty revenues increased by \$17,294,152, from \$69,462,986 in fiscal year 2008 to \$86,757,138 in fiscal year 2009. Royalty revenues increased by \$295,655,411 from fiscal 2009 to \$382,412,549 in fiscal year 2010. This increase was due to the record mineral lease bonus payments collected as a result of the current Bakken/Three Forks oil play in North Dakota.
- Investment earnings decreased by \$93,349,548 from a loss of \$34,668,760 in fiscal year 2008 to a loss of \$128,018,308 in fiscal year 2009. Investment earnings increased by \$270,946,571, from fiscal year 2009 to a gain of \$142,928,263 in fiscal year 2010. These fluctuations were due to the state of the national economy and the resulting investment returns.

### Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the net assets managed by the Board changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

**Fund financial statements.** A *fund* is a grouping of related accounts used to maintain control of resources that have been segregated for specific objectives. The Board uses fund accounting to provide a relevant financial statement format for users and to demonstrate compliance with 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, State Lands Maintenance fund, Energy Development Impact fund and the Lands and Minerals fund. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these is provided in the *combining statements* immediately following the notes to the financial statements.

The Board is appropriated a biennial budget from the North Dakota Legislature for its State Lands 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

As noted earlier, changes in net assets may at times, serve as a useful indicator of the Board's financial position. As of June 30, 2010, the Boards total assets were \$1,529,337,219. As of June 30, 2009 and 2008, the Boards total assets were \$1,008,605,519 and \$1,074,877,376, respectively. 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.

The following is a comparative statement of net assets:

|   | <b>Statement of Net Assets</b> |                        |                        |
|---|--------------------------------|------------------------|------------------------|
|   | <u>2010</u>                    | <u>2009</u>            | <u>2008</u>            |
| Current and other assets                | \$1,645,740,527                | \$1,078,387,454        | \$1,167,316,239        |
| Capital assets                          | 7,788,983                      | 7,840,890              | 7,845,994              |
| <b>Total assets</b>                     | <u>1,653,529,510</u>           | <u>1,086,228,344</u>   | <u>1,175,162,233</u>   |
| Long-term liabilities                   | 120,369                        | 126,443                | 107,154                |
| Other liabilities                       | 124,071,922                    | 77,496,382             | 100,177,703            |
| <b>Total liabilities</b>                | <u>124,192,291</u>             | <u>77,622,825</u>      | <u>100,284,857</u>     |
| <b>Net Assets:</b>                      |                                |                        |                        |
| Net assets invested in capital assets   | 7,788,983                      | 7,840,890              | 7,845,994              |
| <b>Restricted Net Assets:</b>           |                                |                        |                        |
| Nonexpendable                           | 1,300,483,003                  | 879,305,267            | 941,039,855            |
| Expendable                              | -                              | 20,887,944             | 26,879,600             |
| Unrestricted net assets                 | 221,065,233                    | 100,571,418            | 99,111,927             |
| <b>Total net assets</b>                 | <u>1,529,337,219</u>           | <u>1,008,605,519</u>   | <u>1,074,877,376</u>   |
| <b>Total liabilities and net assets</b> | <u>\$1,529,337,219</u>         | <u>\$1,086,228,344</u> | <u>\$1,175,162,233</u> |

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

During fiscal year ending June 30, 2009, net assets decreased by \$66,271,857. This decrease was mainly due to an \$88,928,785 decrease in current and other assets and a \$22,662,032 decrease in liabilities. The majority of the decreases were due to a loss of investment earnings of \$61,653,519 and a change in security lending collateral of \$24,552,489.

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

|                                      | <b>Changes in Net Assets</b> |                     |                   |
|--------------------------------------|------------------------------|---------------------|-------------------|
|                                      | <u>2010</u>                  | <u>2009</u>         | <u>2008</u>       |
| <b>Revenues</b>                      |                              |                     |                   |
| <b>General Revenues:</b>             |                              |                     |                   |
| Interest on investments              | \$1,410,598                  | \$1,552,730         | \$1,744,137       |
| Change in fair value of investments  | 575,953                      | (378,683)           | 97,944            |
| Rents                                | 425,207                      | 273,540             | 332,371           |
| Royalties                            | 117,731,958                  | 19,914,455          | 14,312,460        |
| Loan income                          | 8,788,647                    | 715,919             | 872,877           |
| Contributions to permanent funds     | 11,203,425                   | 11,573,540          | 19,181,248        |
| Taxes                                | 31,667,531                   | 21,113,546          | 29,497,234        |
| Donations                            | -                            | -                   | 673,622           |
| Gain on Sale of Capital Asset - Land | 353,855                      | 9,568               | 211,346           |
| <b>Total General Revenue</b>         | <u>172,157,174</u>           | <u>54,774,615</u>   | <u>66,923,239</u> |
| <b>Program Revenues:</b>             |                              |                     |                   |
| Interest on loans                    | 3,194,685                    | 2,873,529           | 2,604,327         |
| Interest on investments              | 36,106,496                   | 34,191,409          | 35,298,325        |
| Change in fair value of investments  | 92,851,884                   | (166,973,212)       | (75,286,370)      |
| Rents                                | 6,394,696                    | 5,731,970           | 5,738,340         |
| Royalties                            | 264,680,591                  | 66,842,683          | 55,150,526        |
| Fees to Maintenance fund             | 2,464,314                    | 1,431,711           | 2,436,711         |
| <b>Total Program Revenue</b>         | <u>405,692,666</u>           | <u>(55,901,910)</u> | <u>25,941,859</u> |
| <b>Total Revenues</b>                | <u>577,849,840</u>           | <u>(1,127,295)</u>  | <u>92,865,098</u> |

## Expenses

|                                  |                        |                        |                        |
|----------------------------------|------------------------|------------------------|------------------------|
| Governmental Activities:         |                        |                        |                        |
| General government               | 674,958                | 405,014                | 458,615                |
| Intergovernmental                | 3,047,119              | 2,748,460              | 2,771,398              |
| Education                        | 7,938,676              | 6,198,690              | 6,507,399              |
| Total Expenses                   | <u>11,660,753</u>      | <u>9,352,164</u>       | <u>9,737,412</u>       |
| Excess before transfer           | 566,189,087            | (10,479,459)           | 83,127,686             |
| Transfers                        | <u>(45,457,387)</u>    | <u>(55,792,398)</u>    | <u>(40,646,943)</u>    |
| Increase(decrease) in net assets | <u>520,731,700</u>     | <u>(66,271,857)</u>    | <u>42,480,743</u>      |
| Net assets - beginning           | <u>1,008,605,519</u>   | <u>1,074,877,376</u>   | <u>1,032,396,633</u>   |
| Net assets - ending              | <u>\$1,529,337,219</u> | <u>\$1,008,605,519</u> | <u>\$1,074,877,376</u> |

During fiscal year ending June 30, 2010, the Board's revenues increased by \$578,977,135 due to additional royalty revenues of \$295,655,411, investment earnings of \$270,946,571 and production tax income of \$8,000,000 for the oil and gas impact grant fund (EDIO). Revenues decreased by \$93,992,393 from fiscal year ending June 30, 2008 to fiscal year ending June 30, 2009, due to the state of the national economy and resulting investment returns.

### 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

The Board's capital assets for its governmental funds as of June 30, 2010, 2009 and 2008, are \$7,788,983, \$7,840,890 and \$7,845,994 (net of accumulated depreciation for equipment) respectively. These capital assets include land and equipment. For additional details reference Note 1 - Summary of Significant Accounting Policies.

### Economic Factors

The historic trust growth that occurred during fiscal year 2010 was driven by both strong investment returns and record oil and gas lease bonus payments collected as a result of the current Bakken/Three Forks oil play in North Dakota.

### Requests for Information

This financial report is designed to provide a general overview of the Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the ND State Land 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, 2010 And 2009**

|  | <u>2010</u>            | <u>2009</u>            |
|--|------------------------|------------------------|
|  | <u>Governmental</u>    | <u>Governmental</u>    |
|  | <u>Activities</u>      | <u>Activities</u>      |
| <b>Assets:</b>                                 |                        |                        |
| Cash   | \$85,506,168           | \$9,817,827            |
| Investments                                    | 1,328,311,882          | 895,533,722            |
| Interest receivable                            | 10,326,018             | 7,510,048              |
| Accounts receivable                            | 19,400,727             | 11,125,725             |
| Invested securities lending collateral         | 117,445,238            | 72,356,846             |
| Loans  |                        |                        |
| Farm loans                                     | 43,837,503             | 38,334,417             |
| School loans                                   | 29,104,534             | 33,555,340             |
| Energy impact loans                            | 4,752,388              | 5,106,980              |
| Due from other state agencies                  | 7,056,069              | 5,046,539              |
| Capital Asset - Land                           | 7,784,173              | 7,834,318              |
| Equipment (net of accumulated depreciation)    | 4,810                  | 6,572                  |
| <b>Total Assets</b>                            | <u>1,653,529,510</u>   | <u>1,086,228,334</u>   |
| <b>Liabilities:</b>                            |                        |                        |
| Accrued payroll                                | 109,036                | 109,423                |
| Accounts payable                               | 1,558,677              | 687,891                |
| Securities lending collateral                  | 117,445,238            | 72,356,846             |
| Due to other state agencies                    | 473,089                | 462,740                |
| Claimant liability                             | 4,479,091              | 3,872,339              |
| Long-term liabilities:                         |                        |                        |
| Compensated absences due within one year       | 6,791                  | 7,133                  |
| Compensated absences due in more than one year | 120,369                | 126,443                |
| <b>Total Liabilities</b>                       | <u>124,192,291</u>     | <u>77,622,815</u>      |
| <b>Net Assets</b>                              |                        |                        |
| Net assets invested in capital assets          | 7,788,983              | 7,840,890              |
| Restricted net assets                          |                        |                        |
| Nonexpendable                                  | 1,300,483,003          | 879,305,267            |
| Expendable                                     | -                      | 20,887,944             |
| Unrestricted net assets                        | 221,065,233            | 100,571,418            |
| <b>Total Net Assets</b>                        | <u>\$1,529,337,219</u> | <u>\$1,008,605,519</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, 2010 And 2009**

|  | 2010                |                      |   | 2009               |                      |   |
|--|---------------------|----------------------|---|--------------------|----------------------|---|
|  | Expenses            | Charges for Services | Program Revenues<br>Operating Grants<br>and Contributions | Expenses           | Charges for Services | Program Revenues<br>Operating Grants<br>and Contributions |
| <b>Functions/Programs</b>              |                     |                      |   |                    |                      |   |
| <b>Governmental activities:</b>        |                     |                      |   |                    |                      |   |
| General government                     | \$674,958           |                      | (\$574,958)   | \$405,014          |                      | (\$405,014)   |
| Intergovernmental                      | 3,047,119           |                      | (3,047,119)   | 2,748,460          |                      | (2,748,460)   |
| Education                              | 7,938,676           | 2,464,314            | 397,753,990   | 6,198,690          | 1,431,711            | (62,100,600)  |
| <b>Total</b>                           | <b>\$11,660,753</b> |                      | <b>394,031,913</b>  | <b>\$9,352,164</b> |                      | <b>(65,254,074)</b>                                       |
| <b>Net (expense) revenue</b>           |                     |                      | <b>394,031,913</b>  |                    |                      | <b>(\$65,254,074)</b>                                     |
| <b>General revenues:</b>               |                     |                      |   |                    |                      |   |
| Taxes:                                 |                     |                      |   |                    |                      |   |
| Coal severance taxes                   |                     |                      | 3,306,257   |                    |                      | 3,426,578   |
| Oil extraction taxes                   |                     |                      | 28,361,274  |                    |                      | 17,686,968  |
| Contributions to permanent fund        |                     |                      | 11,203,425  |                    |                      | 11,573,540  |
| Unrestricted investment earnings       |                     |                      | 1,410,598   |                    |                      | 1,552,730   |
| Change in fair value                   |                     |                      | 575,953   |                    |                      | (378,683)   |
| Royalties                              |                     |                      | 117,731,958   |                    |                      | 19,914,455  |
| Loan income                            |                     |                      | 8,788,647   |                    |                      | 715,919   |
| Rents                                  |                     |                      | 425,207   |                    |                      | 273,540   |
| Gain on sale of capital asset - land   |                     |                      | 353,855   |                    |                      | 9,568   |
| Transfers:                             |                     |                      |   |                    |                      |   |
| Transfers to/from other state agencies |                     |                      | (4,324,387)   |                    |                      | (20,192,398)  |
| Transfers to educational institutions  |                     |                      | (41,133,000)  |                    |                      | (35,600,000)  |
| Total general revenues and transfers   |                     |                      | 126,699,787   |                    |                      | (1,017,883)   |
| Total change in net assets             |                     |                      | 520,731,700   |                    |                      | (66,271,857)  |
| <b>Net assets - beginning</b>          |                     |                      | <b>1,008,605,519</b>                                      |                    |                      | <b>1,074,877,376</b>                                      |
| <b>Net assets - ending</b>             |                     |                      | <b>1,529,337,219</b>                                      |                    |                      | <b>\$1,008,605,519</b>                                    |

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, 2010 And 2009

2009

2010

| Assets:                                    | 2010                    |                       |                     |                         |                       | 2009                     |                         |                      |                       |                    |                         |                     |                          |                        |
|--|-------------------------|-----------------------|---------------------|-------------------------|-----------------------|--------------------------|-------------------------|----------------------|-----------------------|--------------------|-------------------------|---------------------|--------------------------|------------------------|
|  | 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 | Lands & Minerals    | Other Governmental Funds | Total                  |
| Cash                                       | \$4,208,185             | \$191,414             | \$3,980,328         | \$9,877,910             | \$66,736,921          | \$511,410                | \$85,506,166            | \$3,184,674          | \$552                 | \$1,453,506        | \$4,923,244             | \$31,034,702        | \$255,851                | \$9,817,827            |
| Investments                                | 1,150,828,423           | 28,021,684            |                     |                         | \$76,700,000          | 72,761,805               | 1,328,311,882           | 790,825,417          | 22,130,721            |                    |                         |                     | 51,538,882               | 895,533,722            |
| Interest receivable                        | 9,066,708               | 233,694               |                     |                         | 382,816               | 642,800                  | 10,326,016              | 6,823,393            | 203,566               |                    |                         | (289)               | 483,388                  | 7,510,048              |
| Accounts receivable                        | 14,231,565              |                       |                     |                         | 3,987,205             | 1,181,957                | 19,400,727              | 9,472,002            |                       |                    |                         | 1,319,586           | 334,167                  | 11,125,725             |
| Invested securities lending collateral     | 99,826,555              | 11,441,463            |                     |                         |                       | 6,177,220                | 117,445,236             | 57,704,256           | 11,024,019            |                    |                         |                     | 3,628,571                | 72,356,846             |
| Loans                                      |                         |                       |                     |                         |                       |                          |                         |                      |                       |                    |                         |                     |                          |                        |
| Farm loans                                 | 40,382,790              |                       |                     |                         |                       | 3,451,713                | 43,837,503              | 35,313,309           |                       |                    |                         |                     | 3,021,108                | 38,334,417             |
| School loans                               |                         | 29,104,534            |                     |                         |                       |                          | 29,104,534              |                      | 33,565,340            |                    |                         |                     |                          | 33,565,340             |
| Energy impact loans                        |                         | 4,752,388             |                     |                         |                       |                          | 4,752,388               |                      | 5,106,960             |                    |                         |                     |                          | 5,106,960              |
| Due from other state agencies              | 6,515,675               |                       |                     |                         | 24,386                |                          | 7,056,069               | 4,472,705            | 590,060               |                    |                         | 43,774              |                          | 5,046,539              |
| Due from other funds                       | 2,311,422               |                       |                     |                         | 1,176,865             | 479,784                  | 3,968,091               | 759,887              |                       |                    |                         | 184,910             | 109,006                  | 1,043,803              |
| <b>Total Assets</b>                        | <b>\$ 1,327,371,323</b> | <b>\$ 74,261,155</b>  | <b>\$ 3,980,328</b> | <b>\$ 9,877,910</b>     | <b>\$ 149,008,213</b> | <b>\$ 85,209,689</b>     | <b>\$ 1,649,709,616</b> | <b>\$908,548,643</b> | <b>\$72,551,238</b>   | <b>\$1,453,506</b> | <b>\$4,923,244</b>      | <b>\$32,586,643</b> | <b>\$59,369,973</b>      | <b>\$1,079,431,247</b> |
| <b>Liabilities:</b>                        |                         |                       |                     |                         |                       |                          |                         |                      |                       |                    |                         |                     |                          |                        |
| Accrued payroll                            |                         |                       | \$109,036           |                         |                       |                          | \$109,036               |                      |                       | \$109,423          |                         |                     |                          | \$109,423              |
| Accounts payable                           | \$1,473,928             | \$9,293               | 31,882              |                         |                       | \$43,574                 | 1,558,677               | \$578,108            | \$7,910               | 65,520             |                         |                     | \$36,353                 | 687,891                |
| Securities lending collateral              | 99,826,555              | 11,441,463            |                     |                         |                       | 6,177,220                | 117,445,236             | 57,704,256           | 11,024,019            |                    |                         |                     | 3,628,571                | 72,356,846             |
| Due to other state agencies                | 89,548                  | 361,206               | 14,242              |                         |                       | 7,693                    | 473,089                 | 73,600               | 371,042               | 11,804             |                         |                     | 6,294                    | 462,740                |
| Due to other funds                         |                         |                       | 3,795,195           |                         | \$171,696             |                          | 3,966,891               | 4,254                | 735                   | 1,039,553          |                         |                     | 261                      | 1,043,803              |
| Claimant liability                         | 4,479,091               |                       |                     |                         |                       |                          | 4,479,091               | 3,672,339            |                       |                    |                         |                     |                          | 3,672,339              |
| <b>Total Liabilities</b>                   | <b>105,869,522</b>      | <b>11,811,962</b>     | <b>3,851,355</b>    |                         | <b>171,696</b>        | <b>6,228,487</b>         | <b>126,033,222</b>      | <b>62,232,557</b>    | <b>11,403,706</b>     | <b>1,225,300</b>   |                         |                     | <b>3,671,479</b>         | <b>78,533,042</b>      |
| <b>Equity:</b>                             |                         |                       |                     |                         |                       |                          |                         |                      |                       |                    |                         |                     |                          |                        |
| <b>Fund Balance:</b>                       |                         |                       |                     |                         |                       |                          |                         |                      |                       |                    |                         |                     |                          |                        |
| Permanent funds                            |                         |                       |                     |                         |                       |                          |                         |                      |                       |                    |                         |                     |                          |                        |
| Reserved                                   | 1,212,435,083           |                       |                     |                         |                       | 74,856,735               | 1,287,291,828           | 839,490,693          |                       |                    |                         |                     | 53,395,955               | 892,886,648            |
| Unreserved                                 | 9,066,708               |                       |                     |                         |                       | 4,124,467                | 13,191,175              | 6,823,393            |                       |                    |                         |                     | 483,170                  | 7,306,563              |
| Special revenue funds                      |                         |                       |                     |                         |                       |                          |                         |                      |                       |                    |                         |                     |                          |                        |
| Reserved                                   |                         | 30,774,738            |                     |                         |                       |                          | 30,774,738              |                      | 35,452,685            |                    |                         | 32,586,643          |                          | 35,452,685             |
| Unreserved                                 |                         | 31,674,465            |                     |                         |                       |                          | 169,391,563             |                      | 25,694,847            |                    | 4,923,244               |                     | 1,819,369                | 65,252,309             |
| Designated                                 |                         |                       |                     |                         |                       |                          |                         |                      |                       |                    |                         |                     |                          |                        |
| <b>Total Fund Balance</b>                  | <b>1,221,501,801</b>    | <b>62,449,193</b>     | <b>28,973</b>       |                         | <b>148,836,317</b>    | <b>78,981,202</b>        | <b>1,521,675,396</b>    | <b>846,314,086</b>   | <b>61,147,652</b>     | <b>228,206</b>     | <b>4,923,244</b>        | <b>32,586,643</b>   | <b>55,696,494</b>        | <b>1,050,699,205</b>   |
| <b>Total Liabilities and Fund Balances</b> | <b>\$1,327,371,323</b>  | <b>\$74,261,155</b>   | <b>\$3,860,328</b>  | <b>\$9,877,910</b>      | <b>\$149,008,213</b>  | <b>\$85,209,689</b>      | <b>\$1,649,709,616</b>  | <b>\$908,548,643</b> | <b>\$72,551,238</b>   | <b>\$1,453,506</b> | <b>\$4,923,244</b>      | <b>\$32,586,643</b> | <b>\$59,369,973</b>      | <b>\$1,079,431,247</b> |

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

|                                       |                        |
|---------------------------------------|------------------------|
| Capital Asset - Land                  | \$1,000,898,205        |
| Net book value of office equipment    | 7,834,316              |
| Liability for compensated absences    | 6,572                  |
| Net Assets of governmental activities | (127,169)              |
| <b>Total</b>                          | <b>\$1,008,905,519</b> |

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, 2010 And 2009

|  | 2010            |                       |                  |                         |                       |                          | 2009            |                |                       |                  |                         |                       |                          |                 |
|--|-----------------|-----------------------|------------------|-------------------------|-----------------------|--------------------------|-----------------|----------------|-----------------------|------------------|-------------------------|-----------------------|--------------------------|-----------------|
|  | 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 | Lands & Minerals Fund | Other Governmental Funds | Total           |
| <b>Revenues:</b>   |                 |                       |                  |                         |                       |                          |                 |                |                       |                  |                         |                       |                          |                 |
| Investment income  | \$3,861,313     |                       |                  |                         | \$817,074             | \$2,153,514              | \$37,373,322    | \$31,864,688   |                       |                  |                         | \$702,956             | \$2,128,996              | \$35,448,333    |
| Loan income  |                 |                       |                  |                         |                       |                          |                 |                |                       |                  |                         |                       |                          |                 |
| Farm loans   | 2,860,351       | 788,647               |                  |                         |                       | 244,654                  | 3,105,005       | 2,541,934      |                       |                  |                         |                       | 217,418                  | 2,759,352       |
| School loans   |                 |                       |                  | \$8,000,000             |                       |                          | 8,000,000       |                |                       |                  |                         |                       |                          | 715,919         |
| Energy impact loans  | 89,680          |                       |                  |                         |                       |                          | 89,680          |                |                       |                  |                         |                       |                          | 114,177         |
| Developmentally disabled loan fund loans   | 87,352,342      |                       |                  |                         |                       |                          | 87,352,342      |                |                       |                  |                         |                       |                          | (167,351,895)   |
| Increase/(decrease) in fair value of investments   | 121,760         |                       |                  |                         |                       |                          | 143,772         |                |                       |                  |                         |                       |                          | 294,806         |
| Royalties/leasing income   | 248,754,108     |                       |                  |                         |                       |                          | 392,412,549     | 62,368,939     |                       |                  |                         | 19,831,105            | 4,557,094                | 86,757,138      |
| Securities lending income  |                 |                       |                  |                         |                       |                          | 6,819,503       | 5,088,787      |                       |                  |                         | 166,975               |                          | 6,005,510       |
| Rental income  | 5,973,086       |                       |                  |                         |                       |                          | 3,908,257       |                |                       |                  |                         |                       |                          | 3,426,578       |
| Coal severance tax   |                 |                       |                  |                         |                       |                          | 1,923,207       | 3,256,701      |                       |                  |                         |                       |                          | 3,256,701       |
| Uniform property collections   |                 |                       |                  |                         |                       |                          | 2,464,314       |                |                       | \$1,431,711      |                         |                       |                          | 1,431,711       |
| Fees   | 9,280,218       |                       |                  |                         |                       |                          | 9,280,218       | 8,336,839      |                       |                  |                         |                       |                          | 14,317,111      |
| Tobacco settlement   | 28,351,274      |                       |                  |                         |                       |                          | 28,351,274      | 17,686,968     |                       |                  |                         |                       |                          | 8,336,638       |
| Oil extraction tax   | 418,277,319     | 5,171,217             | 2,464,314        | 8,000,000               | 117,395,601           | 26,228,134               | 577,495,985     | (25,305,196)   | 4,671,922             | 1,431,711        | (2,746,553)             | 20,700,636            | (2,635,936)              | 17,686,968      |
| <b>Total Revenues</b>  |                 |                       |                  |                         |                       |                          |                 |                |                       |                  |                         |                       |                          | (1,136,863)     |
| <b>Expenditures:</b>   |                 |                       |                  |                         |                       |                          |                 |                |                       |                  |                         |                       |                          |                 |
| Current:   |                 |                       |                  |                         |                       |                          |                 |                |                       |                  |                         |                       |                          |                 |
| General government   |                 |                       |                  |                         | 605,492               | 24,116                   | 679,612         |                | 56,613                |                  |                         | 307,473               | 17,680                   | 381,766         |
| Intergovernmental  |                 |                       |                  | 3,045,334               | 1,785                 | 3,047,119                | 3,047,119       |                |                       |                  | 2,746,553               |                       | 1,907                    | 2,748,460       |
| Education  | 4,904,604       | 50,004                | 2,663,547        | 3,045,334               | 605,492               | 370,525                  | 7,938,576       | 3,913,103      |                       | 1,986,880        |                         |                       | 288,697                  | 6,198,690       |
| <b>Total Expenditures</b>  | 4,904,604       | 50,004                | 2,663,547        | 3,045,334               | 605,492               | 370,525                  | 11,666,467      | 3,913,103      | 56,613                | 1,986,880        | 2,746,553               | 307,473               | 318,284                  | 9,328,916       |
| Excess of revenue over expenditures  | 413,372,715     | 5,121,213             | (199,233)        | 4,954,666               | 116,749,509           | 25,831,708               | 565,830,578     | (29,218,299)   | 4,615,309             | (555,179)        | (2,746,553)             | 20,393,163            | (2,954,220)              | (10,465,779)    |
| <b>Other Financing Sources (Uses):</b>   |                 |                       |                  |                         |                       |                          |                 |                |                       |                  |                         |                       |                          |                 |
| Transfer to Public Instruction   | (38,588,000)    |                       |                  |                         |                       |                          | (38,588,000)    |                |                       |                  |                         |                       |                          | (38,588,000)    |
| Transfer to Educational Institutions   |                 |                       |                  |                         |                       | (2,544,000)              | (2,544,000)     |                |                       |                  |                         |                       |                          | (2,544,000)     |
| Transfer to Light Rail Research Fund   |                 |                       |                  |                         |                       |                          | (2,314,380)     |                |                       |                  |                         |                       |                          | (2,314,380)     |
| Transfer to State General Fund   |                 |                       |                  |                         | (489,835)             | (5,000)                  | (2,005,007)     |                |                       |                  |                         |                       |                          | (2,494,842)     |
| Transfer to Facilities Management  |                 |                       |                  |                         |                       |                          | (5,000)         |                |                       |                  |                         |                       |                          | (5,000)         |
| Proceeds from sale of capital asset (land)   | 404,000         |                       |                  |                         |                       |                          | 404,000         | 3,700          |                       |                  |                         |                       |                          | 407,700         |
| <b>Total Other Financing Sources (Uses)</b>  | (38,185,000)    | (3,819,552)           |                  |                         | (489,835)             | (2,549,000)              | (45,053,387)    | (33,396,300)   | (3,994,446)           |                  |                         | (15,911,000)          | 8,100                    | (56,780,593)    |
| <b>Net Change in Fund Balance</b>  | 375,187,715     | 1,301,661             | (199,233)        | 4,954,666               | 116,249,674           | 23,282,708               | 520,777,191     | (62,614,599)   | 620,665               | (555,179)        | (2,746,553)             | 4,482,163             | (5,433,072)              | (66,246,377)    |
| <b>Fund Balance - beginning</b>  | 846,314,086     | 61,147,532            | 229,206          | 4,923,244               | 32,589,643            | 55,699,484               | 1,000,699,205   | 908,928,665    | 60,526,669            | 783,385          | 7,669,797               | 28,104,450            | 61,131,656               | 1,067,144,592   |
| <b>Fund Balance - ending</b>   | \$1,221,501,801 | \$62,449,193          | \$29,973         | \$9,877,910             | \$148,839,317         | \$79,981,202             | \$1,521,678,396 | \$946,314,066  | \$61,147,532          | \$229,206        | \$4,923,244             | \$32,589,643          | \$59,698,484             | \$1,000,898,205 |
| <b>Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities</b> |                 |                       |                  |                         |                       |                          |                 |                |                       |                  |                         |                       |                          |                 |
| Net change in fund balance   |                 |                       |                  |                         |                       |                          | \$520,777,191   |                |                       |                  |                         |                       |                          | (\$66,246,377)  |
| Net value of capital asset - land transaction  |                 |                       |                  |                         |                       |                          | (850,327)       |                |                       |                  |                         |                       |                          | (\$80,327)      |
| Net value of capital asset - acquired land   |                 |                       |                  |                         |                       |                          | 182             |                |                       |                  |                         |                       |                          | 182             |
| Depreciation expense on equipment  |                 |                       |                  |                         |                       |                          | (1,762)         |                |                       |                  |                         |                       |                          | (1,762)         |
| Other equipment additions  |                 |                       |                  |                         |                       |                          | 6,416           |                |                       |                  |                         |                       |                          | 6,416           |
| Decrease in compensated absences liability   |                 |                       |                  |                         |                       |                          |                 |                |                       |                  |                         |                       |                          |                 |
| Net Assets of governmental activities  |                 |                       |                  |                         |                       |                          | \$520,731,700   |                |                       |                  |                         |                       |                          | (\$66,271,857)  |

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, 2010**

|  | Original<br>Appropriation | Final Adjusted<br>Appropriation | First Year<br>2010 Expenditures | Second Year<br>2011 Expenditures | Unexpended<br>Appropriation<br>on 6/30/10 |
|--|---------------------------|---------------------------------|---------------------------------|----------------------------------|---|
| <b>State Lands Maintenance Fund:</b>     |                           |                                 |                                 |                                  |   |
| Salaries and Wages                       | \$3,214,850               | \$3,214,850                     | \$1,395,163                     | \$0                              | \$1,819,687                               |
| Operating Expenses                       | 739,952                   | 739,952                         | 374,140                         | -                                | 365,812                                   |
| Capital Assets                           | 10,000                    | 10,000                          |                                 |                                  | 10,000                                    |
| Contingencies                            | 50,000                    | 50,000                          |                                 |                                  | 50,000                                    |
|  | <u>\$4,014,802</u>        | <u>\$4,014,802</u>              | <u>\$1,769,303</u>              | <u>\$0</u>                       | <u>\$2,245,499</u>                        |
| <b>Energy Development Impact Office:</b> |                           |                                 |                                 |                                  |   |
| Grants                                   | \$9,777,759               | \$9,777,759                     | \$15,068                        | \$0                              | \$9,762,691                               |
| <b>Lands and Minerals Trust:</b>         |                           |                                 |                                 |                                  |   |
| North Dakota General Fund                | \$35,000,000              | \$35,000,000                    | \$0                             | \$0                              | \$35,000,000                              |
| Heritage Center                          | 499,836                   | 499,836                         | 499,836                         |                                  |   |
| Oil & Gas Division                       | 319,041                   | 319,041                         |                                 |                                  | 319,041                                   |
| Geological Survey Division               | 196,166                   | 196,166                         |                                 |                                  | 196,166                                   |

**Permanent Educational Trusts:**

For the years ending on June 30, 2010 and June 30, 2009, the permanent educational trusts managed by the Board distributed \$41,133,000 and \$35,600,000 respectively in accordance with N.D.C.C. 15-03-05.2. For the same periods, the trusts paid administrative expenses of \$5,275,129 and \$4,211,797, respectively in accordance with N.D.C.C. 15-03-16.

**Reconciliation of Administrative Expenses to Appropriated Expenditures**

|   | Fiscal Year<br>2009 | Fiscal Year<br>2010 |
|---|---------------------|---------------------|
| Biennial Legislative Appropriation Expenditures         | \$1,525,242         | \$1,769,303         |
| Continuing Appropriation Authority Expenditures         | 7,803,674           | 9,896,104           |
| Total Expenses as reflected                             |                     |                     |
| Total Expenses as reflected in the Financial Statements | <u>\$9,328,916</u>  | <u>\$11,665,407</u> |

See Note 19 for information on the Board's continuing appropriation authority of funding.

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

**BOARD OF UNIVERSITY AND SCHOOL LANDS**  
**Bismarck, North Dakota**  
**Notes to the Financial Statements**  
**June 30, 2010 and 2009**

**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, Youth Correctional Center, State School of Science, Veterans Home, and the University of North Dakota. Income from the assets held by the Ellendale Trust are allocated equally among Dickinson State University, Minot State University, Dakota College at Bottineau, School for the Blind, Veterans Home, State Hospital, and State College of Science. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota.

**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 Common Schools Trust fund, Coal Development Trust fund, State Lands Maintenance fund, Energy Development Impact fund, and Lands and Minerals 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 land valued at historical cost or fair value; and equipment valued at historical cost or at estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date of donation.

All other capital assets with an original cost of \$5,000 or more per unit and an estimated useful life in excess of one year are capitalized and reported in the applicable government activities columns in the government-wide financial statements in accordance with N.D.C.C. 54-27-21.

Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Capital assets in Governmental Funds are recorded as expenditures in the funds used to acquire or construct them in the governmental fund financial statements. Capital assets, along with equipment accumulated depreciation and depreciation expense, are reported in the applicable governmental activities columns in the government-wide financial statements.

Land is not depreciated. Other capital assets are depreciated using the straight-line method over 3 to 10 years for all furniture and equipment.

#### **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.



## 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, 2010 and 2009.

## 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 and Northern Trust as of June 30, 2010 and 2009 were \$85,506,168 and \$9,817,827 respectively and the bank balances were \$72,368,095 and \$14,030,889. 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.

The following tables show the investments by type, amount, and duration and assumes the call dates as the maturity dates.

Fiscal Year 2010

| <u>Investment Type</u>                  | <u>Maturity Amount</u> | <u>Weighted Average Maturity (years)</u> |
|---|------------------------|--|
| Asset Backed Securities                 | \$6,461,528            | 0.296732                                 |
| Commercial Mortgage-Backed              | 3,182,143              | 0.254494                                 |
| Corporate Bonds                         | 200,362,909            | 3.225143                                 |
| TIPS Fund                               | 109,681,718            | 1.423408                                 |
| Corporate Convertible Bonds             | 99,566,530             | 2.625593                                 |
| Government Agencies                     | 26,008,483             | 0.445570                                 |
| GNMA Fund                               | 51,893,683             | 0.399521                                 |
| Short Bond Fund                         | 91,380,787             | 0.327191                                 |
| Government Bonds                        | 38,860,966             | 0.679690                                 |
| Government Mortgage Backed Securities   | 49,848,855             | 2.723747                                 |
| Gov't-issued Commercial Mortgage-Backed | 791,760                | 0.047133                                 |
| Guaranteed Fixed Income                 | 2,826,695              | 0.166801                                 |
| Index Linked Government Bonds           | 1,651,857              | 0.059579                                 |
| Municipal/Provincial Bonds              | 1,349,972              | 0.011586                                 |
| Non-Government Backed CMOs              | 16,003,626             | 0.904831                                 |
| Other Fixed Income                      | 28,227                 | 0.000000                                 |
| Short Term Bills and Notes              | 4,815,462              | 0.007951                                 |
| Short Term Investment Funds             | 31,134,643             | 0.000000                                 |
| Total                                   | <u>\$735,849,844</u>   | <u>13.598971</u>                         |

Fiscal Year 2009

| <u>Investment Type</u>                  | <u>Maturity Amount</u> | <u>Weighted Average Maturity (years)</u> |
|---|------------------------|--|
| Asset Backed Securities                 | \$4,443,771            | 0.259955                                 |
| Commercial Mortgage-Backed              | 3,901,000              | 0.399111                                 |
| Corporate Bonds                         | 148,076,463            | 2.948175                                 |
| TIPS Fund                               | 85,420,019             | 1.506237                                 |
| Corporate Convertible Bonds             | 63,994,160             | 2.587824                                 |
| Government Agencies                     | 12,934,186             | 0.321998                                 |
| GNMA Fund                               | 41,086,905             | 0.382396                                 |
| Short Bond Fund                         | 55,251,975             | 0.318738                                 |
| Government Bonds                        | 27,938,107             | 0.669638                                 |
| Government Mortgage Backed Securities   | 60,747,859             | 4.499713                                 |
| Gov't-issued Commercial Mortgage-Backed | 1,314,438              | 0.107913                                 |
| Guaranteed Fixed Income                 | 1,271,663              | 0.150210                                 |
| Index Linked Government Bonds           | 1,677,341              | 0.058342                                 |
| Municipal/Provincial Bonds              | 1,110,339              | 0.017857                                 |
| Non-Government Backed CMOs              | 8,126,675              | 0.650056                                 |
| Other Fixed Income                      | 23,061                 | 0.000000                                 |
| Short Term Bills and Notes              | 4,647,927              | 0.010273                                 |
| Short Term Investment Funds             | 19,734,948             | 0.000000                                 |
| Total                                   | <u>\$541,700,836</u>   | <u>14.888436</u>                         |

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

Other investments included above, such as variable rate collateralized mortgage obligations (CMOs), have a high degree of sensitivity to interest rate changes. As of June 30, 2010 and 2009, respectively, the Board held \$11,682,450 and \$5,485,465 in variable rate CMOs.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The Board does not have a formal policy regarding credit risk. The following table presents the Board's ratings as of June 30, 2010 and 2009, respectively.

**Credit Risk Ratings**

| Fiscal Year 2010                        | AAA           | AA          | A            | BBB          | BB           | B            | CCC         | CC          | C   | D   | Not Rated     | US Government |
|---|---------------|-------------|--------------|--------------|--------------|--------------|-------------|-------------|-----|-----|---------------|---------------|
| Asset Backed Securities                 | \$2,914,624   |             |              |              |              | \$1,178,836  |             |             |     |     | \$2,368,068   |               |
| Commercial Mortgage-Backed              | 1,059,126     | \$1,065,655 |              |              |              |              |             |             |     |     | 1,057,362     |               |
| Corporate Bonds                         | 4,720,092     | 5,962,684   | \$29,422,411 | \$51,096,247 | \$57,795,821 | 44,559,257   | \$5,423,500 |             |     |     | 186,647       |               |
| TIPS Fund                               |               |             |              |              |              |              |             |             |     |     | 109,881,718   |               |
| Corporate Convertible Bonds             | 2,335,900     |             | 15,255,515   | 21,463,651   | 17,245,548   | 8,238,788    |             |             |     |     | 34,488,378    |               |
| Government Agencies                     | 24,866,836    |             |              |              |              | 136,638      |             |             |     |     | 1,005,009     |               |
| GNMA Fund                               |               |             |              |              |              |              |             |             |     |     | 51,893,683    |               |
| Short Bond Fund                         |               |             |              |              |              |              |             |             |     |     | 91,380,787    |               |
| Government Bonds                        | 24,960,501    | 417,642     | 3,088,837    | 1,737,408    |              |              |             |             |     |     | 5,569,340     | \$3,087,238   |
| Government Mortgage Backed Securities   |               |             |              |              |              |              |             |             |     |     |               | 49,848,855    |
| Gov't-issued Commercial Mortgage-Backed |               |             |              |              |              |              |             |             |     |     |               | 791,760       |
| Guaranteed Fixed Income                 | 2,826,695     |             |              |              |              |              |             |             |     |     | 1,651,857     |               |
| Index Linked Government Bond            |               |             |              |              |              |              |             |             |     |     |               |               |
| Municipal/Provincial Bonds              |               | 1,349,972   |              |              |              |              |             |             |     |     |               |               |
| Non-Government Backed                   | 5,980,223     | 140,288     |              |              | 1,636,874    | 229,777      | 3,945,470   | 1,107,090   |     |     | 2,953,904     |               |
| Other Fixed Income                      |               |             |              |              |              |              |             |             |     |     | 28,227        |               |
| Short Term Bills and Notes              |               |             |              |              |              |              |             |             |     |     |               | 4,815,462     |
| Short Term Investment Funds             | 31,134,643    |             |              |              |              |              |             |             |     |     |               |               |
|   | \$100,798,840 | \$8,936,241 | \$47,766,763 | \$74,297,306 | \$76,678,243 | \$54,343,296 | \$9,368,970 | \$1,107,090 | \$0 | \$0 | \$302,274,980 | \$58,543,315  |

| Fiscal Year 2009                        | AAA          | AA          | A            | BBB          | BB           | B            | CCC         | CC        | C         | D   | Not Rated     | US Government |
|---|--------------|-------------|--------------|--------------|--------------|--------------|-------------|-----------|-----------|-----|---------------|---------------|
| Asset Backed Securities                 | \$1,434,666  |             |              | \$819,100    |              |              |             |           |           |     | \$2,190,005   |               |
| Commercial Mortgage-Backed              | 3,901,000    |             |              |              |              |              |             |           |           |     |               |               |
| Corporate Bonds                         | 104,924      | \$5,158,154 | \$27,174,067 | 44,250,083   | \$41,928,433 | \$23,734,375 | \$5,077,209 | \$182,000 | \$111,250 |     | 355,968       |               |
| TIPS Fund                               |              |             |              |              |              |              |             |           |           |     | 85,420,019    |               |
| Corporate Convertible Bonds             | 1,256,564    |             | 10,674,365   | 15,989,627   | 10,103,156   | 7,485,850    | 1,047,158   |           |           |     | 17,437,440    |               |
| Government Agencies                     | 10,963,954   |             |              | 720,156      |              |              |             |           |           |     | 1,250,076     |               |
| GNMA Fund                               |              |             |              |              |              |              |             |           |           |     | 41,086,905    |               |
| Short Bond Fund                         |              |             |              |              |              |              |             |           |           |     | 55,251,975    |               |
| Government Bonds                        | 18,822,568   |             | 1,127,354    | 1,209,600    |              |              |             |           |           |     | 3,784,805     | 2,993,780     |
| Government Mortgage Backed Securities   |              |             |              |              |              |              |             |           |           |     |               | 60,747,859    |
| Gov't-issued Commercial Mortgage-Backed |              |             |              |              |              |              |             |           |           |     |               | 1,314,438     |
| Guaranteed Fixed Income                 | 831,613      |             |              |              |              |              |             |           |           |     | 440,050       |               |
| Index Linked Government Bond            | 1,677,341    |             |              |              |              |              |             |           |           |     |               |               |
| Municipal/Provincial Bonds              |              | \$1,110,339 |              | 1,988,318    |              | 237,820      | 1,444,676   |           |           |     | 1,475,050     |               |
| Non-Government Backed                   | 2,980,810    |             |              |              |              |              |             |           |           |     | 23,061        |               |
| Other Fixed Income                      |              |             |              |              |              |              |             |           |           |     |               | 4,647,927     |
| Short Term Bills and Notes              |              |             |              |              |              |              |             |           |           |     |               |               |
| Short Term Investment Funds             | 19,734,948   |             |              |              |              |              |             |           |           |     |               |               |
|   | \$61,708,388 | \$6,268,493 | \$38,975,766 | \$64,976,884 | \$52,031,589 | \$31,458,045 | \$7,569,043 | \$182,000 | \$111,250 | \$0 | \$208,715,354 | \$69,704,004  |

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board treats currency exposure in two different ways, depending on the type of investment. For the Board's international equity portfolio, the currency exposure is not hedged as currency exposure is one of the things that add diversity to the overall portfolio. In the case of foreign bonds, the Board fully hedges the currency exposure as the purpose of this portfolio is to generate income to distribute to trust beneficiaries. The Board does not have a formal policy regarding foreign currency risk. The Board's exposure to foreign currency risk is presented in the following tables:

#### Fiscal Year 2010

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

#### Fiscal Year 2009

| Currency               | Debt               | Equity              | Total               |
|------------------------|--------------------|---------------------|---------------------|
| Australian dollar      | \$(15,575)         | \$5,894,177         | \$5,878,602         |
| British pound sterling | (15,439)           | 16,810,227          | 16,794,788          |
| Canadian dollar        | (42,105)           | -                   | (42,105)            |
| Danish krone           | 78,240             | 1,491,887           | 1,570,127           |
| Euro                   | (328,406)          | 27,375,723          | 27,047,317          |
| Hong Kong dollar       | -                  | 2,078,859           | 2,078,859           |
| New Zealand dollar     | 11,635             | 97,829              | 109,464             |
| Norwegian krone        | (3,200)            | 301,638             | 298,438             |
| Mexican peso           | (12,390)           | -                   | (12,390)            |
| Swedish krona          | -                  | 1,589,716           | 1,589,716           |
| Japanese yen           | -                  | 19,745,087          | 19,745,087          |
| Singapore dollar       | -                  | 1,116,877           | 1,116,877           |
| Swiss franc            | -                  | 4,736,538           | 4,736,538           |
|                        | <u>\$(327,240)</u> | <u>\$81,238,558</u> | <u>\$80,911,318</u> |

### Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. The investment policies of the Board allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statement of Net Assets. At June 30, 2010 and 2009, the Board had one type of derivative security: currency forwards.

### Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets and totaled \$6,132,762 for fiscal year 2010 and \$4,787,102 for fiscal year 2009. At June 30, 2010 and 2009, the Board's investment portfolio included the currency forwards balances shown below.

| Currency                                | Cost          | Purchases  | Sales         | Fair Value       |                  |
|---|---------------|------------|---------------|------------------|------------------|
|   |               |            |               | June 30,<br>2010 | June 30,<br>2009 |
| Australian dollar                       | (\$6,411,575) | \$0        | (\$6,018,073) | (\$6,018,073)    | (\$2,074,764)    |
| British pound<br>sterling               | (4,425,997)   | -          | (4,428,348)   | (4,428,348)      | (3,927,584)      |
| Canadian dollar                         | (4,753,793)   | -          | (4,675,213)   | (4,675,213)      | (2,187,762)      |
| Danish krone                            | (4,927,269)   | -          | (4,881,308)   | (4,881,308)      | (2,069,133)      |
| Euro                                    | (31,596,528)  | 3,914,487  | (34,625,233)  | (30,710,746)     | (27,989,679)     |
| Hungarian forint                        | (2,043,973)   | -          | (1,804,696)   | (1,804,696)      | -                |
| Mexican peso                            | (1,593,547)   | -          | (1,557,389)   | (1,557,389)      | 1,189,611)       |
| New Zealand<br>dollar                   | (2,862,178)   | -          | (2,762,482)   | (2,762,482)      | (2,095,436)      |
| Norwegian krone                         | (3,045,433)   | -          | (2,845,621)   | (2,845,621)      | (2,097,102)      |
| Polish zloty                            | (1,650,320)   | -          | (1,544,672)   | (1,544,672)      | -                |
| Swedish krona                           | (93,777)      | 2,955,518  | (2,955,518)   | -                | -                |
| United States<br>dollar                 | 63,404,389    | 70,259,637 | (6,855,248)   | 63,404,389       | 41,220,071       |
| Total forwards subject to currency risk |               |            |               | \$2,175,840      | (\$2,411,000)    |

### Securities Lending

GASB Statement No. 28 "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

Securities are loaned versus collateral that may include cash, US government securities and irrevocable letters of credit. US securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. In all cases the borrower provides more collateral than the value of securities lent. Therefore, there is no credit risk related to security lending transactions. Non-US securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of North Dakota Board of University & School Lands loans was approximately 73 days as of June 30, 2010.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 24 days as of this statement date.

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

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

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

The following represents the Board's balances related to securities lending activity:

Fiscal Year 2010

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

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

Fiscal Year 2009

| 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            | 4,231,504                              | 4,332,105           |   |                     |
| US Corporate Fixed     | 41,313,852                             | 42,385,173          |   |                     |
| US Equities            | 18,399,510                             | 18,924,445          |   |                     |
| US Government Fixed    | 6,556,630                              | 6,715,123           |   |                     |
|                        | <u>\$70,501,496</u>                    | <u>\$72,356,846</u> | <u>\$0</u>  | <u>\$0</u>          |

|  |              |
|--|--------------|
| Fair Value of Securities on Loan against Cash Collateral     | \$70,501,496 |
| Fair Value of Securities on Loan against Non Cash Collateral | \$0          |
| Total Fair Value of Securities on Loan                       | \$70,501,496 |

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

**NOTE 6 – FARM LOAN POOL**

N.D.C.C. 15-03 authorizes the Board to invest in first mortgage farm loans. All purchased loans are credited to the pool and the investments, repayments, interest and income are credited to the various trusts in proportion to their participation. The pool is administered by the BND in accordance with standard banking practices, including executing all instruments on behalf of the Board and handling foreclosures. As of June 30, 2010 the non-current and current portions of the loans were \$40,967,938 and \$2,869,563 respectively. The same amounts as of June 30, 2009 were \$35,577,679 and \$2,756,737 respectively.

As of June 30, 2010 and 2009, the pool had net assets of \$48,294,201 and \$42,378,806 respectively. For the same period, the pool earned net income of \$2,915,394 and \$2,608,677.



#### NOTE 7 - 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, 2010 the non-current and current portions of the loans were \$4,398,518 and \$353,870 respectively. The same amounts as of June 30, 2009 were \$4,769,428 and \$337,552 respectively.

#### NOTE 8 - 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 9 - 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, 2010 the non-current and current portions of the loans were \$26,376,220 and \$2,728,314 respectively. The same amounts as of June 30, 2009 were \$30,683,257 and \$2,872,083 respectively.

**NOTE 10 - CAPITAL ASSETS**

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

| Governmental Activities:       | Balance 7/01/08 | Additions | Retirements | Balance 6/30/09 |
|--------------------------------|-----------------|-----------|-------------|-----------------|
| Land                           | \$7,836,550     | \$0       | (\$2,232)   | \$7,834,318     |
| Equipment                      | \$15,158        |           |             | \$15,158        |
| Less accumulated depreciation: |                 |           |             |                 |
| Equipment                      | (5,714)         | (2,872)   |             | (8,586)         |
| Net capital assets             | \$7,845,994     | (\$2,872) | (\$2,232)   | \$7,840,890     |

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 2010, 18.24 acres were acquired and 471.83 acres were sold. In fiscal year 2009, no acres were acquired or sold.

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

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

A total of \$1,762 and \$2,872 in equipment depreciation for fiscal years ending June 30, 2010 and 2009 was charged to the education function.

**NOTE 11 – GENERAL LONG TERM DEBT**

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

| Governmental Activities:     | Balance 7/1/08 | Additions | Reductions | Amounts Due Within One Year | Amounts Due Thereafter | Balance 6/30/09 |
|------------------------------|----------------|-----------|------------|-----------------------------|------------------------|-----------------|
| Other long-term liabilities: |                |           |            |                             |                        |                 |

|                      |           |          |          |         |           |           |
|----------------------|-----------|----------|----------|---------|-----------|-----------|
| Compensated absences | \$113,200 | \$81,848 | \$61,472 | \$7,133 | \$126,443 | \$133,576 |
|----------------------|-----------|----------|----------|---------|-----------|-----------|

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

**NOTE 12 - 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, 2010, 2009, and 2008 were \$90,023, \$81,576, and \$77,026 respectively.

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

**NOTE 13 - 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. The retired employee is provided a credit toward their monthly health insurance premium under the state health plan based upon their years of

credited service. In accordance with NDCC 54-52.1-03.2, the Land Dept. reimburses the Retiree Health Benefits Fund monthly for credit received by members of the retirement plan.

The benefits, fully paid by the Agency, are equal to \$4.50 for each of the employee's or decreased employee's years of credited service not to exceed the premium in effect for selected coverage. For this pay-as-you-go plan, total agency expenditures for the periods ending June 30, 2010 and 2009 were \$6,947 and \$6,813.

#### NOTE 14 - 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 15 - DUE TO / DUE FROM

| Fund                      | 2010                 |                    | 2009                 |                    |
|---------------------------|----------------------|--------------------|----------------------|--------------------|
|                           | Due from other funds | Due to other funds | Due from other funds | Due to other funds |
| Maintenance Fund          |                      | \$3,796,195        |                      | \$1,038,553        |
| Land and Minerals Trust   | \$1,176,885          | 171,896            | \$184,910            |                    |
| Non major permanent funds | 476,790              |                    | 106,677              | 261                |
| Common Schools            | 2,311,422            |                    | 750,887              | 4,254              |
| Capitol Trust             | 2,994                |                    | 1,329                |                    |
| Coal Development Trust    |                      |                    |                      | 735                |
|                           | <u>\$3,968,091</u>   | <u>\$3,968,091</u> | <u>\$1,043,803</u>   | <u>\$1,043,803</u> |

As stated in Note 1 of these financial statements, the Board of University and School Lands is a state agency of North Dakota; as such, the other state agencies of the state and political subdivisions are related parties.

| Fund                     | Due from other state agencies | Due to other state agencies | Due from other state agencies | Due to other state agencies |
|--------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| Land and Minerals Trust: |                               |                             |                               |                             |
| Bank of North Dakota     | \$24,386                      |                             | \$43,774                      |                             |
|                          | <u>24,386</u>                 |                             | <u>43,774</u>                 |                             |
| Coal Development Trust:  |                               |                             |                               |                             |
| State Treasurer          | 516,008                       | \$361,206                   | 530,060                       | \$371,042                   |
|                          | <u>516,008</u>                | <u>361,206</u>              | <u>530,060</u>                | <u>371,042</u>              |
| Maintenance Fund:        |                               |                             |                               |                             |
| Attorney General         |                               | 6,877                       |                               | 2,730                       |
| Dept. of Transportation  |                               | 1,777                       |                               | 3,676                       |
| Information Technology   |                               |                             |                               |                             |
| Department               |                               | 5,106                       |                               | 5,398                       |
| Central Services         |                               | 482                         |                               |                             |
|                          |                               | <u>14,242</u>               |                               | <u>11,804</u>               |
| Permanent Funds:         |                               |                             |                               |                             |
| State Treasurer          | 5,599,284                     |                             | 3,286,703                     |                             |
| Developmentally Disabled |                               |                             |                               |                             |
| Facility Loan No. 3      | 916,391                       |                             | 1,186,002                     |                             |
| Bank of North Dakota     |                               | 97,641                      |                               | 79,894                      |
|                          | <u>6,515,675</u>              | <u>97,641</u>               | <u>4,472,705</u>              | <u>79,894</u>               |
| Total Due To/Due From    | <u>\$7,056,069</u>            | <u>\$473,089</u>            | <u>\$5,046,539</u>            | <u>\$462,740</u>            |

NOTE 16 – TRANSFERS IN AND OUT

| Fund                             | 2010                          |                             | 2009                          |                             |
|----------------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
|                                  | Transfers from other agencies | Transfers to other agencies | Transfers from other agencies | Transfers to other agencies |
| Permanent Funds:                 |                               |                             |                               |                             |
| Department of Public Instruction |                               | \$38,589,000                |                               | \$33,400,00                 |
| N.D.S.U.                         |                               | 619,000                     |                               | 535,000                     |
| School for the Blind             |                               | 103,000                     |                               | 88,000                      |
| School for the Deaf              |                               | 180,000                     |                               | 155,000                     |
| State Hospital                   |                               | 228,000                     |                               | 195,000                     |
| Ellendale                        |                               | 98,000                      |                               | 84,000                      |
| Valley City State University     |                               | 130,000                     |                               | 113,000                     |
| Mayville State University        |                               | 89,000                      |                               | 78,000                      |
| Industrial School                |                               | 219,000                     |                               | 189,000                     |
| School of Science                |                               | 194,000                     |                               | 169,000                     |
| School of Mines                  |                               | 214,000                     |                               | 185,000                     |
| Veterans Home                    |                               | 124,000                     |                               | 107,000                     |
| U.N.D.                           |                               | 346,000                     |                               | 302,000                     |
|                                  |                               | <u>41,133,000</u>           |                               | <u>35,600,000</u>           |
| Coal Development Trust:          |                               |                             |                               |                             |
| Lignite Research Fund            |                               | 2,314,380                   |                               | 2,398,605                   |
| General Fund of North Dakota     |                               | 1,505,172                   |                               | 1,595,841                   |
|                                  |                               | <u>3,819,552</u>            |                               | <u>3,994,446</u>            |
| Land and Minerals:               |                               |                             |                               |                             |
| General Fund of North Dakota     |                               | 499,835                     |                               | 15,911,000                  |
|                                  |                               | <u>499,835</u>              |                               | <u>15,911,000</u>           |
| Capitol Building Trust:          |                               |                             |                               |                             |
| Facilities Management            |                               | 5,000                       |                               | 286,952                     |
|                                  |                               | <u>5,000</u>                |                               | <u>286,952</u>              |
| Total Transfers                  |                               | <u>\$45,457,387</u>         |                               | <u>\$55,792,398</u>         |

NOTE 17 - 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, 2010 and 2009 rent of \$11,889 and \$11,889 was paid by the non-Common Schools Trusts and the book value of the building was \$676,990 and \$717,474 respectively. The book value of the building is included in the Investments line of the balance sheet.

NOTE 18 - PERMANENT FUND DISTRIBUTION POLICY

On June 30, 2009 Attorney General Stenehjem certified to Secretary of State Jaegar that recent amendments to two federal statutes, the 1889 Enabling Act and the 1862 Morrill Act, removed any inconsistencies between those federal laws and sections 1 and 2 of article IX of the North Dakota State Constitution. With that certification, the historic changes that were approved by North Dakota voters as Constitutional Measure No. 1 during the November 7, 2006 general election became effective on July 1, 2009. Effective July 1, 2009 biennial distributions from the perpetual trust funds will be ten percent of the five-year average value of trust assets, excluding the value of lands and

minerals. The average value of trust assets is determined by using the assets' ending value for the fiscal year that ends one year before the beginning of the biennium and the assets' ending value for the four preceding fiscal years. Equal amounts must be distributed during each year of the biennium.

#### NOTE 19 – CONTINUING APPROPRIATIONS

The following information discloses the Board's continuing appropriation authority.

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

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

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

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

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

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

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

NDCC 15-08.1-09 Lands and Minerals. To pay from the lands and minerals trust fund all principal and interest to the common schools trust fund on any loans made to the developmentally disable loan fund program nos. 2 and 3.

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

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

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

NOTE 20 – DESIGNATED FUND BALANCE

On September 30, 2010 the Board of University and School Lands classified \$21,026,092 of the Land and Minerals Trust Fund as a designated fund balance for fiscal year 2010 financial statement purposes. This designation was made by the Board to indicate that these funds should not be transferred out of the Lands and Minerals Trust Fund until potential title disputes related to certain riverbed leases have been resolved.

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



**BOARD OF UNIVERSITY AND SCHOOL LANDS**  
**Bismarck, North Dakota**  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2010

|  | Permanent 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        |             | Indian Cultural Education | Capitol Building | Total        |
| <b>Assets:</b>                             |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                           |                  |              |
| Cash                                       | \$77,553        | \$14,763             | \$28,305            | \$40,877       | \$12,855    | \$16,177             | \$11,220          | \$34,751          | \$38,453          | \$46,696        | \$16,566              | \$35,700    | \$372,036    | \$134,371   | \$4,103                   | \$138,474        | \$511,410    |
| Investments                                | 16,515,247      | 2,183,230            | 5,589,058           | 6,507,470      | 2,701,341   | 3,159,884            | 1,654,652         | 7,650,540         | 6,254,810         | 6,896,756       | 2,154,299             | 7,961,821   | 69,428,105   | 2,775,000   | 557,700                   | 3,332,700        | 72,761,805   |
| Interest receivable                        | 156,727         | 21,462               | 41,462              | 51,894         | 25,717      | 32,872               | 72,743            | 61,348            | 48,518            | 50,187          | 28,221                | 73,056      | 623,587      | 18,020      | 1,183                     | 19,203           | 642,800      |
| Accounts receivable                        | 82,375          | 2,764                | 292,098             | 50,832         | 68,743      | 24,526               | 74,753            | 66,549            | 69,069            | 65,982          | 2,028                 | 323,417     | 1,174,116    | 7,841       |                           | 7,841            | 1,181,957    |
| Invested securities lending collateral     | 1,453,285       | 195,023              | 496,910             | 579,834        | 236,698     | 279,756              | 140,344           | 674,766           | 551,274           | 607,350         | 194,820               | 704,485     | 6,128,645    |             | 48,575                    | 48,575           | 6,177,220    |
| <b>Loans</b>                               |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                           |                  |              |
| Farm loans                                 | 870,858         | 186,103              | 238,694             | 244,370        | 156,747     | 198,401              | 142,905           | 337,960           | 248,867           | 251,147         | 196,954               | 368,607     | 3,454,713    |             |                           | 2,894            | 3,454,713    |
| Due from other funds                       | 42,728          | 3,671                | 158,770             | 6,032          | 52,393      | 18,696               | 505               | 21,606            | 15,575            | 12,152          | 145,596               | 476,790     | 476,790      |             |                           | 2,894            | 479,784      |
| <b>Total Assets</b>                        | \$19,204,773    | \$2,994,926          | \$8,956,297         | \$7,561,609    | \$3,275,494 | \$3,730,409          | \$2,055,022       | \$8,867,520       | \$7,216,556       | \$7,950,250     | \$2,603,354           | \$9,640,692 | \$81,659,902 | \$2,938,226 | \$611,561                 | \$3,549,787      | \$85,208,689 |
| <b>Liabilities:</b>                        |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                           |                  |              |
| Accounts payable                           | \$10,294        | \$1,378              | \$3,505             | \$4,091        | \$1,670     | \$1,973              | \$1,046           | \$4,760           | \$3,888           | \$4,284         | \$1,374               | \$4,970     | \$43,232     |             | \$342                     | \$42             | \$43,574     |
| Securities lending collateral              | 1,489,285       | 195,023              | 496,910             | 579,834        | 236,698     | 279,756              | 140,344           | 674,766           | 551,274           | 607,360         | 194,820               | 704,485     | 6,128,645    |             | 48,575                    | 48,575           | 6,177,220    |
| Due to other state agencies                | 1,939           | 375                  | 531                 | 544            | 348         | 442                  | 318               | 753               | 554               | 559             | 439                   | 890         | 7,693        |             |                           |                  | 7,893        |
| Due to other funds                         |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                           |                  |              |
| <b>Total Liabilities</b>                   | 1,471,518       | 196,774              | 500,946             | 584,569        | 238,717     | 292,171              | 149,708           | 680,278           | 555,717           | 612,193         | 196,633               | 710,345     | 6,179,570    |             | 48,917                    | 48,917           | 6,228,487    |
| <b>Equity:</b>                             |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                           |                  |              |
| Fund Balance:                              |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                           |                  |              |
| Reserved                                   | 17,576,528      | 2,370,700            | 6,410,889           | 6,925,146      | 3,011,060   | 3,415,266            | 1,662,571         | 6,125,693         | 6,612,331         | 7,287,870       | 2,378,200             | 8,860,281   | 74,665,735   |             |                           | 3,500,870        | 74,665,735   |
| Unreserved                                 | 156,727         | 27,452               | 44,462              | 51,894         | 25,717      | 32,872               | 22,743            | 61,348            | 48,518            | 50,487          | 28,521                | 73,056      | 623,587      | 2,938,226   | 562,644                   | 562,644          | 4,124,467    |
| <b>Total Fund Balance</b>                  | 17,733,255      | 2,398,152            | 6,455,351           | 6,977,040      | 3,036,777   | 3,448,138            | 1,905,314         | 6,187,041         | 6,660,849         | 7,338,357       | 2,406,721             | 8,933,337   | 75,480,322   | 2,938,226   | 562,644                   | 3,500,870        | 76,981,202   |
| <b>Total Liabilities and Fund Balances</b> | \$19,204,773    | \$2,994,926          | \$8,956,297         | \$7,561,609    | \$3,275,494 | \$3,730,409          | \$2,055,022       | \$8,867,520       | \$7,216,556       | \$7,950,250     | \$2,603,354           | \$9,640,692 | \$81,659,902 | \$2,938,226 | \$611,561                 | \$3,549,787      | \$85,208,689 |

BOARD OF UNIVERSITY AND SCHOOL LANDS  
 Bismarck, North Dakota  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2009

| Assets:                                | Permanent 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        |
| Cash                                   | \$80,772        | \$12,612             | \$17,396            | \$18,679       | \$12,295    | \$15,700             | \$11,039          | \$24,257          | \$18,478          | \$18,686        | \$15,164              | \$29,306    | \$254,386    | \$1,465          | \$1,465   | \$255,851                 |              |
| Investments                            | 11,916,441      | 1,706,740            | 3,943,129           | 5,313,394      | 1,794,288   | 2,253,187            | 1,462,745         | 3,798,506         | 4,297,243         | 5,369,934       | 1,665,289             | 5,903,760   | 49,724,626   | 484,749          | 1,814,256 | 51,538,882                |              |
| Interest receivable                    | 122,956         | 22,591               | 33,508              | 39,124         | 20,247      | 26,311               | 19,109            | 45,981            | 35,839            | 36,606          | 23,741                | 57,157      | 483,170      | 14               | 218       | 483,388                   |              |
| Accounts receivable                    | 60,770          | 2,642                | 23,091              | 28,812         | 46,031      | 15,681               | 4,263             | 8,256             | 43,800            | 57,526          | 910                   | 39,933      | 331,715      | 2,452            | 2,452     | 334,167                   |              |
| Invested securities lending collateral | 860,100         | 123,164              | 284,753             | 385,715        | 130,180     | 165,013              | 105,451           | 274,060           | 312,062           | 387,842         | 141,581               | 425,573     | 3,593,474    | 35,097           | 35,097    | 3,628,571                 |              |
| Loans                                  |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                  |           |                           |              |
| Farm loans                             | 761,555         | 147,005              | 208,736             | 213,873        | 137,074     | 175,499              | 124,881           | 295,543           | 217,631           | 219,625         | 172,234               | 349,452     | 3,021,108    |                  |           | 3,021,108                 |              |
| Due from other state agencies          |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                  |           |                           |              |
| Due from other funds                   | 14,698          | 2,335                | 10,348              | 23,190         | 372         | 505                  | 248               | 2,013             | 21,248            | 29,371          | 345                   | 2,064       | 106,677      | 1,329            | 1,329     | 108,006                   |              |
| Total Assets                           | \$13,797,292    | \$2,017,089          | \$4,520,963         | \$6,022,757    | \$2,140,487 | \$2,847,896          | \$1,727,736       | \$4,448,616       | \$4,546,301       | \$6,118,590     | \$2,320,244           | \$6,807,185 | \$57,515,156 | \$1,333,302      | \$521,515 | \$1,854,817               | \$59,369,973 |
| Liabilities:                           |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                  |           |                           |              |
| Accounts payable                       | \$9,617         | \$1,233              | \$2,855             | \$3,884        | \$1,304     | \$1,633              | \$1,086           | \$2,745           | \$3,127           | \$3,885         | \$1,419               | \$4,264     | \$36,002     |                  | \$351     | \$36,353                  |              |
| Securities lending collateral          | 860,100         | 123,164              | 284,753             | 385,715        | 130,180     | 163,013              | 105,451           | 274,060           | 312,062           | 387,842         | 141,581               | 425,573     | 3,593,474    |                  | 35,097    | 3,628,571                 |              |
| Due to other state agencies            | 1,586           | 307                  | 435                 | 445            | 285         | 362                  | 260               | 616               | 453               | 459             | 359                   | 728         | 6,294        |                  |           | 6,294                     |              |
| Due to other funds                     |                 |                      | 66                  |                |             |                      |                   | 21                | 37                | 137             |                       |             | 261          |                  |           | 261                       |              |
| Total Liabilities                      | 870,303         | 124,704              | 288,109             | 390,024        | 131,769     | 165,008              | 106,767           | 277,442           | 315,679           | 392,322         | 143,339               | 430,565     | 3,636,031    |                  | 35,448    | 3,671,479                 |              |
| Equity:                                |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                  |           |                           |              |
| Fund Balance:                          |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                  |           |                           |              |
| Reserved                               | 12,604,033      | 1,889,794            | 4,198,346           | 5,593,606      | 1,988,471   | 2,456,577            | 1,601,860         | 4,125,193         | 4,594,783         | 5,689,662       | 2,153,164             | 6,319,463   | 53,395,955   |                  |           | 53,395,955                |              |
| Unreserved                             | 122,956         | 22,591               | 33,508              | 39,124         | 20,247      | 26,311               | 19,109            | 45,981            | 35,839            | 36,606          | 23,741                | 57,157      | 483,170      | 1,333,302        | 486,067   | 1,819,369                 | 2,302,539    |
| Total Fund Balance                     | 12,926,989      | 1,912,385            | 4,231,854           | 5,632,733      | 2,008,718   | 2,482,888            | 1,620,969         | 4,171,174         | 4,630,622         | 5,726,268       | 2,176,905             | 6,376,620   | 53,879,125   | 1,333,302        | 486,067   | 55,698,494                |              |
| Total Liabilities and Fund Balances    | \$13,797,292    | \$2,017,089          | \$4,520,963         | \$6,022,757    | \$2,140,487 | \$2,847,896          | \$1,727,736       | \$4,448,616       | \$4,546,301       | \$6,118,590     | \$2,320,244           | \$6,807,185 | \$57,515,156 | \$1,333,302      | \$521,515 | \$1,854,817               | \$59,369,973 |

BOARD OF UNIVERSITY AND SCHOOL LANDS  
 Blamont, North Dakota  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
 Nonmajor Governmental Funds  
 June 30, 2010

| Revenues:                                  | Permanent Funds |                      |                     |                |             |                      |                   |                   |                   |                 | Special Revenue Funds |             |              | Total Nonmajor Governmental Funds |                  |                              |
|--|-----------------|----------------------|---------------------|----------------|-------------|----------------------|-------------------|-------------------|-------------------|-----------------|-----------------------|-------------|--------------|-----------------------------------|------------------|------------------------------|
|  | 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.M.W.      | Total        |                                   | Capital Building | Infirmary Cultural Education |
| Investment income                          | \$507,553       | \$73,054             | \$170,430           | \$80,005       | \$80,005    | \$86,971             | \$57,999          | \$178,907         | \$100,958         | \$225,208       | \$76,532              | \$243,544   | \$2,115,948  | \$18,864                          | \$37,566         | \$2,153,514                  |
| Loan income                                | 81,672          | 11,905               | 16,904              | 17,320         | 11,101      | 14,050               | 10,113            | 23,933            | 17,624            | 17,785          | 13,948                | 28,299      | 244,854      |                                   |                  | 244,854                      |
| Firm loans                                 | 1,322,878       | 204,374              | 431,002             | 803,710        | 198,161     | 250,081              | 170,827           | 332,634           | 492,577           | 623,305         | 227,665               | 642,028     | 5,496,542    | 85,539                            | 56,539           | 5,555,081                    |
| Increase in fair value of investments      | 1,750           | 218                  | 606                 | 707            | 289         | 341                  | 181               | 823               | 672               | 741             | 238                   | 859         | 7,475        | 59                                | 59               | 7,534                        |
| Securities lending income                  | 3,445,333       | 297,659              | 1,756,388           | 734,476        | 803,208     | 702,124              | 113,649           | 3,871,879         | 1,506,258         | 950,445         | 25,024                | 1,920,041   | 15,826,483   | 1,510,638                         | 1,510,638        | 17,437,119                   |
| Royalties and bonuses                      | 174,616         | 37,234               | 56,090              | 23,062         | 56,539      | 56,539               | 35,756            | 53,652            | 43,768            | 37,714          | 25,856                | 114,444     | 721,630      | 104,702                           | 108,602          | 830,232                      |
| Rental income                              | 5,574,042       | 624,683              | 2,437,420           | 1,599,152      | 1,146,303   | 1,119,108            | 389,685           | 4,287,828         | 2,251,857         | 1,885,198       | 369,283               | 2,949,215   | 24,515,732   | 1,634,046                         | 1,712,302        | 26,228,134                   |
| <b>Total Revenues</b>                      |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                                   |                  |                              |
| Excess of revenue over expenditures        | 5,425,266       | 608,767              | 2,402,487           | 1,572,307      | 1,126,059   | 1,695,350            | 373,345           | 4,235,087         | 2,224,227         | 1,625,786       | 363,616               | 2,902,717   | 24,145,207   | 1,609,924                         | 1,686,501        | 25,831,708                   |
| <b>Other Financing Sources (Uses):</b>     |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                                   |                  |                              |
| Transfer to Educational Institutions       | (619,000)       | (103,000)            | (180,000)           | (228,000)      | (98,000)    | (130,000)            | (89,000)          | (218,000)         | (184,000)         | (214,000)       | (124,000)             | (346,000)   | (2,544,000)  | (5,000)                           | (5,000)          | (2,544,000)                  |
| Transfer to Facilities Management          | (619,000)       | (103,000)            | (180,000)           | (228,000)      | (98,000)    | (130,000)            | (89,000)          | (218,000)         | (184,000)         | (214,000)       | (124,000)             | (346,000)   | (2,544,000)  | (5,000)                           | (5,000)          | (2,544,000)                  |
| Proceeds from sale of capital asset (land) |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                                   |                  |                              |
| <b>Total Other Financing Uses</b>          |                 |                      |                     |                |             |                      |                   |                   |                   |                 |                       |             |              |                                   |                  |                              |
| <b>Net Change in Fund Balance</b>          | 4,806,266       | 505,767              | 2,222,487           | 1,344,307      | 1,028,059   | 965,350              | 284,346           | 4,016,087         | 2,030,227         | 1,411,786       | 239,616               | 2,556,717   | 21,601,207   | 1,604,924                         | 1,681,501        | 23,282,708                   |
| Fund Balance - beginning                   | 12,926,889      | 1,892,385            | 4,232,854           | 5,532,733      | 2,008,718   | 2,482,888            | 1,620,989         | 4,171,174         | 4,630,622         | 5,726,268       | 2,178,905             | 6,378,670   | 53,879,125   | 1,333,302                         | 486,067          | 55,689,494                   |
| <b>Fund Balance - ending</b>               | \$17,733,255    | \$2,398,152          | \$6,455,351         | \$6,877,040    | \$3,036,777 | \$3,448,238          | \$1,905,314       | \$8,187,241       | \$6,660,849       | \$7,336,057     | \$2,408,721           | \$8,933,337 | \$75,480,332 | \$2,938,228                       | \$3,172,568      | \$78,981,702                 |

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 Deaf | School for the Blind | State Hospital | Ellendale   | Valley City State U. | Mayville State U. | Industrial School | School of Science | School of Mines | Veterans Home         | U.N.D.      | Total        |             | Capitol Building | Indian Cultural Education | Nonmajor Governmental Funds |  |
| Investment income                          | \$504,568       | \$74,231            | \$162,847            | \$215,190      | \$71,304    | \$96,403             | \$53,860          | \$163,728         | \$176,022         | \$216,327       | \$86,540              | \$254,631   | \$2,086,471  | \$23,183    | \$20,332         | \$43,515                  | \$2,129,986                 |  |
| Loan income                                |                 |                     |                      |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                  |                           |                             |  |
| Farm loans                                 | 54,806          | 10,579              | 15,022               | 15,392         | 9,865       | 12,486               | 8,987             | 21,269            | 15,852            | 15,806          | 12,395                | 25,148      | 217,418      |             |                  |                           | 217,418                     |  |
| Increase in fair value of investments      | (2,480,594)     | (373,454)           | (773,353)            | (1,023,012)    | (342,239)   | (483,535)            | (323,533)         | (813,004)         | (848,311)         | (1,017,405)     | (440,428)             | (1,283,007) | (10,201,875) | (101,987)   | (101,987)        | (10,987)                  | (10,303,862)                |  |
| Securities lending income                  | 3,384           |                     |                      | 1,517          | 512         | 642                  | 415               | 1,080             | 1,228             | 1,528           | 559                   | 1,673       | 14,142       | 138         | 138              | 138                       | 14,280                      |  |
| Royalties and bonuses                      | 927,356         | 36,727              | 515,989              | 677,284        | 247,430     | 105,584              | 26,015            | 180,431           | 514,375           | 1,030,339       | 29,315                | 183,399     | 4,473,744    | 83,350      | 83,350           | 4,557,094                 |                             |  |
| Rental income                              | 150,688         | 32,011              | 46,985               | 23,856         | 47,025      | 49,255               | 33,966            | 49,760            | 39,143            | 36,731          | 22,092                | 110,248     | 643,183      | 103,965     | 3,900            | 106,965                   | 750,148                     |  |
| Total Revenues                             | (639,772)       | (219,421)           | (30,089)             | (89,963)       | 33,898      | (219,165)            | (130,690)         | (396,716)         | (1,013,719)       | 283,324         | (289,327)             | (707,917)   | (2,767,917)  | 208,258     | (77,617)         | (131,981)                 | (2,635,936)                 |  |
| Expenditures:                              |                 |                     |                      |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                  |                           |                             |  |
| Current:                                   |                 |                     |                      |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                  |                           |                             |  |
| General government                         |                 |                     |                      |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                  |                           |                             |  |
| Intergovernmental                          |                 |                     |                      |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                  |                           |                             |  |
| Education                                  | 72,918          | 12,536              | 21,908               | 21,646         | 15,028      | 19,127               | 12,642            | 25,474            | 21,794            | 23,802          | 13,337                | 38,485      | 298,697      | 1,907       | 1,907            | 298,687                   | 17,880                      |  |
| Total Expenditures                         | 72,918          | 12,536              | 21,908               | 21,646         | 15,028      | 19,127               | 12,642            | 25,474            | 21,794            | 23,802          | 13,337                | 38,485      | 298,697      | 1,907       | 1,907            | 298,687                   | 17,880                      |  |
| Excess of revenue over expenditures        | (912,690)       | (231,957)           | (51,997)             | (111,609)      | 18,870      | (238,282)            | (203,332)         | (422,190)         | (123,673)         | 259,522         | (302,864)             | (746,402)   | (3,096,514)  | 191,918     | (79,524)         | (112,384)                 | (2,954,220)                 |  |
| Other Financing Sources (Uses):            |                 |                     |                      |                |             |                      |                   |                   |                   |                 |                       |             |              |             |                  |                           |                             |  |
| Transfer to Educational Institutions       | (535,000)       | (88,000)            | (155,000)            | (195,000)      | (84,000)    | (113,000)            | (78,000)          | (188,000)         | (189,000)         | (185,000)       | (107,000)             | (302,000)   | (2,200,900)  | (286,952)   | (286,952)        | (2,000,000)               |                             |  |
| Transfer to Facilities Management          | 189             | 41                  | 65                   | 35             | 49          | 59                   | 32                | 56                | 7,343             | 57              | 47                    | 126         | 8,100        |             |                  | 8,100                     |                             |  |
| Proceeds from sale of capital asset (land) | (534,811)       | (87,969)            | (154,935)            | (194,964)      | (83,951)    | (112,941)            | (77,968)          | (188,944)         | (161,857)         | (184,943)       | (106,953)             | (301,874)   | (2,181,900)  | (289,952)   | (289,952)        | (2,478,852)               |                             |  |
| Total Other Financing Uses                 | (1,447,501)     | (319,916)           | (206,632)            | (306,573)      | (65,081)    | (351,233)            | (281,300)         | (611,134)         | (285,330)         | 74,579          | (409,817)             | (1,048,276) | (5,259,514)  | (95,034)    | (79,524)         | (174,558)                 | (5,433,072)                 |  |
| Net Change in Fund Balance                 | 14,374,480      | 2,212,301           | 4,439,785            | 5,939,306      | 2,073,799   | 2,834,121            | 1,902,269         | 4,782,308         | 4,915,852         | 6,651,889       | 2,596,722             | 7,424,896   | 59,137,639   | 1,428,336   | 665,591          | 1,995,927                 | 61,131,988                  |  |
| Fund Balance - beginning                   | \$1,852,985     | \$4,232,854         | \$1,632,733          | \$5,632,733    | \$2,008,718 | \$2,482,688          | \$1,602,669       | \$4,171,174       | \$4,630,622       | \$5,726,268     | \$2,176,905           | \$5,376,620 | \$53,879,125 | \$1,333,302 | \$466,067        | \$1,819,359               | \$56,698,494                |  |
| Fund Balance - ending                      | \$12,826,989    | \$1,852,985         | \$1,632,733          | \$5,632,733    | \$2,008,718 | \$2,482,688          | \$1,602,669       | \$4,171,174       | \$4,630,622       | \$5,726,268     | \$2,176,905           | \$5,376,620 | \$53,879,125 | \$1,333,302 | \$466,067        | \$1,819,359               | \$56,698,494                |  |



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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**

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The Governor of North Dakota  
Legislative Audit and Fiscal Review Committee

Board of University and School Lands  
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund of the Board of University and School Lands as of and for the year ended June 30, 2010 and have issued our report thereon dated November 8, 2010. 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, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 10-1 to be a material weakness.

*Compliance and Other Matters*

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

The Board of University and School Lands' 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

November 8, 2010  
Bismarck, North Dakota

**BOARD OF UNIVERSITY AND SCHOOL LANDS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2010**

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10-1 Royalty Revenue and Receivables

*Condition:* During the audit it was noted that there are no specific controls or internal audit function over royalty revenue to ensure that the income being received for this type of revenue is accurate. There are also no processes in place to ensure the royalty receivable report run for the year-end royalty receivable balance contains all of the adequate information.

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

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

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

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

*Response:* The Board concurs with the recommendation. Due to the dramatic increase in oil activity and resulting revenues the trusts are receiving, we recognize that processes need to be improved upon and continually monitored to ensure all revenues received are accurate including year-end receivables. We are currently preparing to recruit a revenue compliance manager that will assist in this process.



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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, 2010**

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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, 2010 audit of the Board of University and School Lands are as follows:

**Audit Report Communications:**

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

Unqualified

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

Yes.

**3. Was internal control adequate and functioning effectively?**

See findings identified on page 37.

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

No

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

Yes, improvements were made, but still findings noted in CY.

**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 40, however there were no additional findings or recommendations noted in this letter.



**Audit Committee Communications:**

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

In the current year, the Board changed the way they reported land. They no longer feel that land should be recorded as an investment due to the nature of the entity and they now are recording it as a capital asset in accordance with GASB 34.

2009

- 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 was material audit adjustments detected during the audit. The material audit adjustments are detailed in the management letter following page 40.

2009

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

None

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

None

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

None

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

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

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

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

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

Eide Bailly LLP

November 8, 2010  
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, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 8, 2010. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board of University and School Lands are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The audit found no such misstatements.

## **Disagreements with Management**

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

## **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 8, 2010.

## **Management Consultations with other Independent Accountants**

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

## **Other Audit Findings or Issues**

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

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

Eide Bailly LLP

Bismarck, North Dakota  
November 8, 2010



CPAs & BUSINESS ADVISORS

Governor Hoeven  
Legislative Audit and Fiscal Review Committee

Board of University and School Lands  
Bismarck, North Dakota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Board of University and School Lands as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered North Dakota Board of University and School Lands' internal control over financial reporting (internal control) 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 North Dakota Board of University and School Lands' internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Board of University and School Lands' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in North Dakota Board of University and School Lands' internal control to be material weaknesses:

During the audit it was noted that there are no specific controls or internal audit function over royalty revenue to ensure that the income being received for this type of revenue is accurate. There are also no processes in place to ensure the royalty receivable report run for the year-end royalty receivable balance contains all of the adequate information. The Board does not have a process in place to ensure the funds they are receiving from outside companies for royalties is accurate and that the reports run for royalties receivable contain all information to ensure only the amount received after year-end for production before year-end are included. Inadequate internal controls over these areas could result in a material misstatement of the financial statements. We recommend that a process be put in place to ensure that all revenues received are accurate and that the reports run for receivables contain only the information of those amounts still owed to the Board as of year-end.

This communication is intended solely for the information and use of management North Dakota Board of University and School Lands, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota  
November 8, 2010