



Financial Statements  
June 30, 2013 and 2012

**Board of University and School  
Lands**

Board of University and School Lands  
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June 30, 2013 and 2012

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## Independent Auditor's Report

Governor of North Dakota  
Legislative Audit and Fiscal Review Committee

North Dakota Board of University and School Lands  
Bismarck, North Dakota

### Report on the Financial Statements

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 year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Board of University and School Lands' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

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, 2013 and 2012, and the respective changes in financial position and the respective statement of appropriations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the North Dakota Board of University and School Lands are intended to present the financial position and the change in financial position of only that portion of the governmental activities and each major fund of the State of North Dakota that is attributable to the transactions of the North Dakota 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, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of University and School Lands' financial statements. The combining and individual nonmajor fund financial statements are presented for purpose of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013 on our consideration of the North Dakota 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, 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 internal control over financial reporting or on compliance. That reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Board of University and School Lands internal control over financial reporting and compliance.

*Eide Sallee LLP*

Bismarck, North Dakota  
October 23, 2013

**Board of University and School Lands**  
**Management's Discussion and Analysis**  
**June 30, 2013 and 2012**

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As management of the Board of University and School Lands (Board), our discussion and analysis of the Board's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2013, 2012 and 2011. Please read it in conjunction with the basic financial statements, which follow this discussion.

**Financial Highlights**

- The assets of the Board exceeded its liabilities as of June 30, 2013, 2012, and 2011 by \$3,687,541,471, \$2,611,026,612, and \$2,057,670,194, respectively.
- The Board's net position increased by \$1,076,514,859 for the year ending June 30, 2013, by \$553,356,418 for fiscal year 2012, and by \$528,332,975 for fiscal year 2011.
- Royalty revenues totaled \$275,822,135 in fiscal year 2013, an increase of \$72,030,756 over the amount earned in fiscal year 2012. Royalty revenues totaled \$203,791,379 during fiscal year 2012, an increase of \$77,859,162 over the \$125,932,217 earned in fiscal year 2011. These increases are due to the large number of new oil and gas wells placed into production over the past few years.
- Mineral lease bonus revenues totaled \$69,112,504 in fiscal year 2013, a decrease of \$56,354,042 when compared to fiscal year 2012. Bonus revenues totaled \$125,466,546 in fiscal year 2012, a decrease of \$48,117,886 from the \$173,584,432 received in fiscal year 2011. These decreases are due to the fact that most mineral acres in prime Bakken areas are already leased and much of the new acreage being nominated for lease auction is now outside prime Bakken areas.
- Oil extraction tax revenues received in fiscal year 2013 totaled \$484,145,875, an increase of \$402,196,038 over the \$81,949,837 received in fiscal year 2012. The oil extraction tax revenue of \$49,391,903 received in fiscal year 2011 was \$32,557,934 less than the amount received in fiscal year 2012.
  - Oil extraction tax revenues received by the Common School Trust fund totaled \$118,807,311 in fiscal year 2013, compared to \$81,949,837 in fiscal year 2012 and \$49,391,903 in fiscal year 2011. These changes are due to the substantial increase in oil production over the past three years.
  - Oil extraction tax revenues received by the Strategic Investment and Improvements fund totaled \$365,338,564 in fiscal year 2013. No oil extraction tax revenues were received the previous two years. This revenue source is the result of House Bill 1451 passed by the 62nd Legislative Assembly.
- Gross production tax revenues received in fiscal year 2013 totaled \$397,529,661, an increase of \$273,399,854 over the \$124,129,807 received in fiscal year 2012. No gross production tax revenues were received in fiscal year 2011.
  - Gross production tax revenues received by the Strategic Investment and Improvements fund totaled \$397,529,661 in fiscal year 2013, compared to \$24,129,807 in fiscal year 2011. No gross production tax revenues were received in fiscal year 2011. This revenue source is the result of House Bill 1451 passed by the 62nd Legislative Assembly.
  - No gross production tax revenues were received by the oil and gas impact grant fund in 2013, compared to \$100 million in fiscal year 2012 and none in fiscal year 2011. The revenue changes from year to year are a result of tax deposit timing and funding caps as directed by the legislature for the biennium. An additional \$30 million of general fund money was deposited in the oil and gas impact grant fund during fiscal year 2012 as a result of the special session of the 62nd Legislative Assembly held in November 2011.

Board of University and School Lands  
Management's Discussion and Analysis  
June 30, 2013 and 2012

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- Investment income totaled \$51,098,537 in fiscal year 2013, a decrease of \$2,195,636 over fiscal year 2012. Investment income totaled \$53,294,173 during fiscal year 2012, an increase of \$1,857,617 over the \$51,436,556 of investment income earned in fiscal year 2011. The relatively stable amount of investment income generated over the past three years is a result of a growing asset base being invested during a time of historic low interest rates that prevailed during most of the year.
- The change in fair value of investments, otherwise known as capital gains, totaled \$178,268,197 in fiscal year 2013, an increase of \$178,166,749 over the \$101,448 of gains earned in fiscal year 2012. Net capital gains totaled \$193,932,630 in 2011. Strong equity markets during fiscal year 2011 were the primary reason for the large amount of capital gains earned during that fiscal year. Losses posted by the equity portfolio during fiscal year 2012 essentially offset the gains posted by bonds that year. The almost 20% return earned by equities during fiscal year 2013 was the primary driver of the large increase in capital gains.

### Overview of the Financial Statements

This report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and a section that presents combining statements for non-major government funds. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-Wide Financial Statements.** The *government-wide financial statements* provide broad information about the Board's financial condition.

The *statement of net position* presents information on all assets and liabilities managed by the Board with the difference between the two reported as *net position*. Changes in net position 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 position managed by the Board changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

**Fund Financial Statements.** A *fund* is a grouping of related accounts used to maintain control of resources that have been segregated for specific objectives. The Board uses fund accounting to provide a relevant financial statement format for users and to demonstrate compliance with constitutional and legislative requirements. All of the funds of the Board are governmental funds.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Common Schools Trust fund, Coal Development Trust fund, Department of Trust Lands General fund, Oil and Gas Impact Grant fund, and the Strategic Investment and Improvements 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 Department of Trust Lands General fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

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

Board of University and School Lands  
Management's Discussion and Analysis  
June 30, 2013 and 2012

**Government-Wide Financial Analysis**

As noted earlier, changes in net position may, at times, serve as a useful indicator of the Board's financial position. As of June 30, 2013, the Board's total net position was \$3,687,541,471. As of June 30, 2012 and 2011, the Board's total net position was \$2,611,026,612 and \$2,057,670,194, respectively. The largest portion of the Board's net position is represented by investments in financial securities. The Board uses these net position to provide distributions to educational entities and general government.

The following is a comparative statement of net position:

	2013	2012	2011
Current and other assets	\$3,938,822,392	\$2,751,826,459	\$2,226,878,272
Capital assets	7,774,693	7,744,562	7,787,398
Total assets	3,946,597,085	2,759,571,021	2,234,665,670
Long-term liabilities	173,371	165,734	144,585
Other liabilities	258,882,243	148,378,675	176,850,891
Total liabilities	259,055,614	148,544,409	176,995,476
Net Position:			
Net position invested in capital assets	7,774,693	7,744,562	7,787,398
Restricted net position			
Nonexpendable	65,183,169	64,342,175	63,224,476
Expendable	2,573,518,788	2,045,608,392	1,731,436,064
Unrestricted net position	1,041,064,821	493,331,483	255,222,256
Total net position	3,687,541,471	2,611,026,612	2,057,670,194
Total liabilities and net position	\$3,946,597,085	\$2,759,571,021	\$2,234,665,670

During fiscal year 2013, the Board's net position increased by \$1,076,514,859. This change relates to an increase in the amount of investment assets held by the Board, reflected as an increase of \$1,186,995,933 in current and other assets. Another major factor in the change in net position during fiscal year 2013 is the \$109,515,271 increase in securities lending collateral, reflected as an increase in other liabilities.

During fiscal year 2012, the Board's net position increased by \$553,356,418. This change relates to an increase in the amount of investment assets held by the Land Board, reflected as an increase of \$524,948,187 in current and other assets. Another major factor in the change in net position during fiscal year 2012 is the \$25,962,994 decrease in securities lending collateral, reflected as a decrease in other liabilities.



Board of University and School Lands  
Management's Discussion and Analysis  
June 30, 2013 and 2012

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

	2013	2012	2011
<b>Changes in Net Position</b>			
<b>Revenues</b>			
<b>General Revenues:</b>			
Interest on investments	\$1,408,009	\$1,419,298	\$1,903,697
Change in fair value of investments	95,953	119,827	136,620
Royalties	82,394,783	56,854,403	33,094,055
Bonuses	49,426,254	57,524,446	101,726,307
Rents	243,114	446,937	482,565
Interest on loans	611,680	536,561	575,622
Contributions to perpetual funds	13,722,930	12,469,733	12,622,771
Taxes	884,743,461	209,242,308	52,550,227
Gain on Sale of Capital Asset - Land	404,906	123,925	26,427
Total General Revenue	1,033,051,090	338,737,438	203,118,291
<b>Program Revenues:</b>			
Interest on loans	1,733,773	2,810,702	3,128,440
Interest on investments	47,345,075	48,527,612	45,828,797
Change in fair value of investments	178,172,244	(18,379)	193,796,010
Royalties	193,427,352	146,936,976	92,838,162
Bonuses	19,686,250	67,942,100	71,858,125
Rents	11,142,489	9,310,009	7,945,334
Fees to Maintenance fund	3,660,639	5,196,627	4,089,594
Total Program Revenue	455,167,822	280,705,647	419,484,462
Total Revenues	1,488,218,912	619,443,085	622,602,753
<b>Expenses</b>			
<b>Governmental Activities:</b>			
General government	824,087	793,906	702,196
Intergovernmental	64,607,709	30,196,538	3,881,148
Education	10,592,761	11,901,997	9,926,667
Total Expenses	76,024,557	42,892,441	14,510,010
Excess before transfer	1,412,194,355	576,550,644	608,092,743
Transfers	(335,679,496)	(23,194,226)	(79,759,768)
Increase(decrease) in net position	1,076,514,859	553,356,418	528,332,975
Net position - beginning	2,611,026,612	2,057,670,194	1,529,337,219
Net position - ending	\$3,687,541,471	\$2,611,026,612	\$2,057,670,194

Board of University and School Lands  
Management's Discussion and Analysis  
June 30, 2013 and 2012

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During the fiscal year ending June 30, 2013, the Board's revenues increased by a total of \$868,775,827. Mineral lease bonus revenue declined by \$56,354,042 as a result of there being fewer minerals available for lease, while royalty revenues increased by \$72,030,756 as leased minerals were placed into production. Oil extraction and gross production tax revenues increased by \$402,196,038 and \$273,399,854, respectively, due to both increased oil production in the state and legislative changes to the gross production and oil extraction tax distribution formulas. The change in fair value of investments increased by \$178,166,749 from the previous year as capital markets produced strong gains during fiscal year 2013.

During the fiscal year ending June 30, 2012, the Board's revenues decreased by a total of \$3,159,668. Mineral lease bonus revenue declined by \$48,117,886 as a result of there being fewer minerals available for lease, while royalty revenues increased by \$77,859,162 as leased minerals were placed into production. Oil extraction tax revenues increased by \$32,557,934 due to increased oil production in the state, while gross production tax revenues increased by \$124,129,807 as a result of legislative changes that went in to effect during the 2011-13 biennium. The increase in the fair value of investments declined by \$193,831,182 from the previous year as equity markets did not produce the double-digit gains earned during the previous fiscal year.

### **Financial Analysis of the Government's Funds**

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

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

### **Capital Asset**

The Board's capital assets for its governmental funds as of June 30, 2013, 2012, and 2011, are \$7,774,693, \$7,744,562, and \$7,787,398 (net of accumulated depreciation for equipment) respectively. These capital assets include land and equipment. For additional details reference Note 12 – Capital Assets.

### **Economic Factors**

The trust growth that occurred during fiscal year 2013 was driven primarily by oil and gas royalty and bonus payments, and oil and gas tax revenue received as a result of the current oil plays in North Dakota. During fiscal year 2013, the trusts experienced stronger investment returns as compared to the prior fiscal year.

### **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 Department of Trust Lands, 1707 N 9th St., PO Box 5523, Bismarck, ND, 58506-5523.

# Board of University and School Lands

## Statement of Net Position

June 30, 2013 and 2012

	2013 Governmental Activities	2012 Governmental Activities
<b>Assets:</b>		
Cash	\$79,604,406	\$124,858,720
Investments	3,391,058,580	2,331,833,750
Interest receivable	10,894,651	9,849,988
Accounts receivable	48,566,644	36,660,429
Invested securities lending collateral	251,795,861	142,270,590
Loans		
Farm loans	18,265,624	33,770,169
Energy construction loans	1,466,935	2,263,188
School loans	32,162,448	21,438,158
Energy impact loans	7,983,253	8,437,740
Farm and other real estate	-	26,730
Capital asset – land	7,741,181	7,743,275
Due from other state agencies	96,918,944	40,416,997
Due from state general fund	105,046	-
Equipment (net of accumulated depreciation)	33,512	1,287
<b>Total Assets</b>	3,946,597,085	2,759,571,021
<b>Liabilities:</b>		
Accrued payroll	187,511	167,590
Accounts payable	1,494,104	1,058,342
Securities lending collateral	251,795,861	142,270,590
Due to other state agencies	352,894	444,207
Claimant liability	5,042,092	4,428,596
Long-term liabilities		
Compensated absences due within one year	9,781	9,350
Compensated absences due in more than one year	173,371	165,734
<b>Total Liabilities</b>	259,055,614	148,544,409
<b>Net Position:</b>		
Net investment in capital assets	7,744,693	7,744,562
Restricted net position		
Nonexpendable	65,183,169	64,342,175
Expendable	2,573,518,788	2,045,608,392
Unrestricted net position	1,041,064,821	493,331,483
<b>Total Net Position</b>	\$3,687,541,471	\$2,611,026,612

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

## Board of University and School Lands

Statement of Activities

June 30, 2013

2013				
Functions/Programs Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$824,087			(\$824,087)
Intergovernmental	64,607,709			(64,607,709)
Education	10,592,761	\$3,660,639	\$451,507,183	444,575,061
<b>Total</b>	<b>\$76,024,557</b>			<b>\$379,143,265</b>
<b>Net (expense) revenue</b>				<b>\$379,143,265</b>
<b>General revenues:</b>				
Taxes:				
Coal severance				3,067,925
Oil extraction				484,145,875
Gross production				397,529,661
Contributions to special revenue fund				13,722,930
Unrestricted investment earnings				1,408,009
Net increase (decrease) in the fair value of investments				95,953
Royalties				82,394,783
Bonuses				49,426,254
Rents				243,114
Loan income				611,680
Gain on sale of capital asset – land				404,906
<b>Transfers:</b>				
To/from other state agencies				(316,560,544)
Educational institutions				(49,223,998)
Transfer in general fund				30,000,000
To/from general fund				105,046
<b>Total general revenues and transfers</b>				<b>697,371,594</b>
<b>Total change in net position</b>				<b>1,076,514,859</b>
Net position – beginning				\$2,611,026,612
Net position – ending				<b>\$3,687,541,471</b>

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

## Board of University and School Lands

Statement of Activities

June 30, 2012

2012				
Functions/Programs Governmental activities:	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
General government	\$793,906			(\$793,906)
Intergovernmental	30,196,538			(30,196,538)
Education	11,901,997	\$5,196,627	\$275,509,020	268,803,650
<b>Total</b>	<b>\$42,892,441</b>			<b>\$237,813,206</b>
<b>Net (expense) revenue</b>				<b>\$237,813,206</b>
<b>General revenues:</b>				
Taxes:				
Coal severance				3,162,664
Oil extraction				81,949,837
Gross production				124,129,807
Contributions to special revenue fund				12,469,733
Unrestricted investment earnings				1,419,298
Net increase (decrease) in the fair value of investments				119,827
Royalties				56,854,403
Bonuses				57,524,446
Rents				446,937
Loan income				536,561
Gain on sale of capital asset – land				123,925
<b>Transfers:</b>				
To/from other state agencies				(3,970,221)
Educational institutions				(49,224,005)
To/from general fund				30,000,000
<b>Total general revenues and transfers</b>				<b>315,543,212</b>
<b>Total change in net position</b>				<b>553,356,418</b>
Net position – beginning				\$2,057,670,194
Net position – ending				<b>\$2,611,026,612</b>

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

**Board of University and School Lands**  
**Balance Sheet**  
**Governmental Funds**  
**Fiscal Year Ended June 30, 2013**

<b>Assets:</b>	<b>General Fund</b>	<b>Common Schools Trust Fund</b>	<b>Coal Development Trust Fund</b>	<b>Oil and Gas &amp; Flood Impact Grant Funds</b>	<b>Strategic Investment &amp; Improvements Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Cash	\$4,201,978	\$979,191	\$1,103	\$71,644,278	\$1,607,322	\$1,170,534	\$79,604,406
Investments		2,338,374,549	24,808,026		877,471,528	150,404,477	3,391,058,580
Interest receivable		9,514,232	132,665		600,075	647,679	10,894,651
Accounts receivable		32,051,586			14,104,342	2,410,716	48,566,644
Invested securities lending collateral		224,799,645	12,548,484			14,447,732	251,795,861
Loans							
Farm loans		16,825,796				1,439,828	18,265,624
Energy construction loans		1,466,935					1,466,935
School loans			32,162,448				32,162,448
Energy impact loans			7,983,253				7,983,253
Due from other state agencies		21,836,712	405,329		74,676,903		96,918,944
Due from state general fund			105,046				105,046
Due from other funds		2,302,541			1,460,117	143,549	3,906,207
<b>Total Assets</b>	<b>\$4,201,978</b>	<b>\$2,648,151,187</b>	<b>\$78,146,354</b>	<b>\$71,644,278</b>	<b>\$969,920,287</b>	<b>\$170,664,515</b>	<b>\$3,942,728,599</b>
<b>Liabilities:</b>							
Accrued payroll	\$187,511						\$187,511
Accounts payable	80,629	\$897,598	\$14,002	444,086	\$125	\$57,664	1,494,104
Securities lending collateral		224,799,645	12,548,484			14,447,732	251,795,861
Due to other state agencies	16,981	48,070	283,730			4,113	352,894
Due to other funds	3,906,207						3,906,207
Claimant liability		5,042,092					5,042,092
<b>Total Liabilities</b>	<b>\$4,191,328</b>	<b>\$230,787,405</b>	<b>\$12,846,216</b>	<b>\$444,086</b>	<b>\$125</b>	<b>\$14,509,509</b>	<b>\$262,778,669</b>
<b>Equity:</b>							
Fund Balance:							
Permanent funds							
Nonspendable			\$65,183,169				\$65,183,169
Committed			116,969				116,969
Special revenue funds							
Restricted		\$2,417,363,782				\$156,155,006	2,573,518,788
Committed				\$71,200,192	\$835,934,840		907,135,032
Assigned					133,985,322		133,985,322
Unassigned	\$10,650						10,650
<b>Total Fund Balance</b>	<b>10,650</b>	<b>2,417,363,782</b>	<b>65,300,138</b>	<b>71,200,192</b>	<b>969,920,162</b>	<b>156,155,006</b>	<b>3,679,949,930</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$4,201,978</b>	<b>\$2,648,151,187</b>	<b>\$78,146,354</b>	<b>\$71,644,278</b>	<b>\$969,920,287</b>	<b>\$170,664,515</b>	<b>\$3,942,728,599</b>

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

Total fund balances - governmental funds	\$3,679,949,930
Capital Asset - Land	7,741,181
Net book value of office equipment	33,512
Liability for compensated absences	(183,152)
Net position of governmental activities	<u>\$3,687,541,471</u>

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

**Board of University and School Lands**  
**Balance Sheet**  
**Governmental Funds**  
**Fiscal Year Ended June 30, 2012**

<b>Assets:</b>	<b>General Fund</b>	<b>Common Schools Trust Fund</b>	<b>Coal Development Trust Fund</b>	<b>Oil and Gas &amp; Flood Impact Grant Funds</b>	<b>Strategic Investment &amp; Improvements Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Cash	\$196,800	\$8,400,165	\$131,938	\$105,805,983	\$9,848,538	\$475,296	\$124,858,720
Investments		1,830,838,694	34,048,679		\$343,892,995	123,053,382	2,331,833,750
Interest receivable		8,650,844	168,254		425,962	604,928	9,849,988
Accounts receivable		25,499,513			9,416,027	1,744,889	36,660,429
Invested securities lending collateral Loans		123,794,394	10,301,052			8,175,144	142,270,590
Farm loans		31,108,694				2,661,475	33,770,169
Energy construction loans		2,263,188					2,263,188
School loans			21,438,158				21,438,158
Energy impact loans			8,437,740				8,437,740
Farm and other real estate		24,634				2,096	26,730
Due from other state agencies		15,798,657	488,533		24,129,807		40,416,997
Due from other funds							
<b>Total Assets</b>	<b>\$196,800</b>	<b>\$2,046,378,783</b>	<b>\$75,014,354</b>	<b>\$105,805,983</b>	<b>\$387,713,329</b>	<b>\$136,717,210</b>	<b>\$2,751,826,459</b>
<b>Liabilities:</b>							
Accrued payroll	\$167,590						\$167,590
Accounts payable	41,994	\$942,898	\$11,074		\$125	\$62,251	1,058,342
Securities lending collateral		123,794,394	10,301,052			8,175,144	142,270,590
Due to other state agencies	17,916	77,675	341,973			6,643	444,207
Due to other funds							
Claimant liability		4,428,596					4,428,596
<b>Total Liabilities</b>	<b>\$227,500</b>	<b>\$129,243,563</b>	<b>\$10,654,099</b>	<b>\$0</b>	<b>\$125</b>	<b>\$8,244,038</b>	<b>\$148,369,325</b>
<b>Equity:</b>							
<b>Fund Balance:</b>							
Permanent funds							
Nonspendable			\$64,342,175				\$64,342,175
Committed			18,080				18,080
Special revenue funds							
Restricted		\$1,917,135,220				\$128,473,172	2,045,608,392
Committed				\$105,805,983	\$291,913,872		397,719,855
Assigned					95,799,332		95,799,332
Unassigned	(\$30,700)						(30,700)
<b>Total Fund Balance</b>	<b>(30,700)</b>	<b>1,917,135,220</b>	<b>64,360,255</b>	<b>105,805,983</b>	<b>387,713,204</b>	<b>128,473,172</b>	<b>2,603,457,134</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$196,800</b>	<b>\$2,046,378,783</b>	<b>\$75,014,354</b>	<b>\$105,805,983</b>	<b>\$387,713,329</b>	<b>\$136,717,210</b>	<b>\$2,751,826,459</b>

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

Total fund balances - governmental funds	\$2,603,457,134
Capital Asset - Land	7,743,275
Net book value of office equipment	1,287
Liability for compensated absences	(175,084)
Net position of governmental activities	<u>\$2,611,026,612</u>

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

**Board of University and School Lands**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**Fiscal Year Ended June 30, 2013**

Revenues:	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Funds	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Investment income		\$44,020,163	\$289,368		\$1,087,045	\$2,895,174	\$48,291,750
Loan income							
Farm loans		1,493,646				127,754	1,621,400
Energy construction loans		112,373					112,373
School loans			611,680				611,680
Net increase (decrease) in the fair value of investments		167,264,562	36,395			10,967,240	178,268,197
Securities lending income		423,874	10,219			27,241	461,334
Royalties		178,311,885			81,784,775	15,725,475	275,822,135
Bonuses		18,171,033			49,426,254	1,515,217	69,112,504
Rental income		10,292,829			154,163	938,611	11,385,603
Coal severance tax			3,067,925				3,067,925
Gross production tax					397,529,661		397,529,661
Oil extraction tax		118,807,311			365,338,564		484,145,875
Unclaimed property collections		4,711,078					4,711,078
Indirect recovery costs	\$3,660,639						3,660,639
Tobacco settlement		9,011,852					9,011,852
<b>Total Revenues</b>	<b>3,660,639</b>	<b>552,620,606</b>	<b>4,015,587</b>	<b>-</b>	<b>895,320,462</b>	<b>32,196,712</b>	<b>1,487,814,006</b>
<b>Expenditures:</b>							
Current							
General government			65,123		756,587	26,534	848,244
Intergovernmental				64,605,791		1,918	64,607,709
Education	3,619,289	6,444,044				529,428	10,592,761
<b>Total Expenditures</b>	<b>3,619,289</b>	<b>6,444,044</b>	<b>65,123</b>	<b>64,605,791</b>	<b>756,587</b>	<b>557,880</b>	<b>76,048,714</b>
Excess of revenue over expenditures	41,350	546,176,562	3,950,464	(64,605,791)	894,563,875	31,638,832	1,411,765,292
<b>Other Financing Sources (Uses):</b>							
Transfer to Public Instruction		(46,257,000)					(46,257,000)
Transfer to Educational Institutions						(2,966,998)	(2,966,998)
Transfer to Lignite Research Fund			(2,147,547)				(2,147,547)
Transfer to State General Fund			(968,080)		(305,000,000)		(305,968,080)
Transfer to Legacy Fund					(7,356,917)		(7,356,917)
Transfer to Facilities Management						(1,088,000)	(1,088,000)
Transfer in State General Fund				30,000,000			30,000,000
Transfer from State General Fund			105,046				105,046
Proceeds from sale of capital asset (land)		309,000				98,000	407,000
Total Other Financing Sources (Uses)	-	(45,948,000)	(3,010,581)	30,000,000	(312,356,917)	(3,956,998)	(335,272,496)
<b>Net Change in Fund Balance</b>	<b>41,350</b>	<b>500,228,562</b>	<b>939,883</b>	<b>(34,605,791)</b>	<b>582,206,958</b>	<b>27,681,834</b>	<b>1,076,492,796</b>
Fund Balance - beginning	(30,700)	1,917,135,220	64,360,255	105,805,983	387,713,204	128,473,172	2,603,457,134
Fund Balance - ending	10,650	\$2,417,363,782	\$65,300,138	71,200,192	\$969,920,162	\$156,155,006	\$3,679,949,930

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

Net change in fund balance	\$1,076,492,796
Net value of capital asset - land transaction	(2,094)
Net value of capital asset - acquired land	-
Depreciation expense on equipment	(2,461)
Office equipment additions	34,686
Increase in compensated absences liability	(8,068)
Net position of governmental activities	<u>\$1,076,514,859</u>



**Board of University and School Lands**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**Fiscal Year Ended June 30, 2012**

<b>Revenues:</b>	<b>General Fund</b>	<b>Common Schools Trust Fund</b>	<b>Coal Development Trust Fund</b>	<b>Oil and Gas &amp; Flood Impact Grant Funds</b>	<b>Strategic Investment &amp; Improvements Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Investment income		\$45,171,405	\$394,271		\$978,628	\$3,003,887	\$49,548,191
Loan income							
Farm loans		2,486,932				212,714	2,699,646
Energy construction loans		111,056					111,056
School loans			536,561				536,561
Net increase (decrease) in the fair value of investments		(16,376)	121,046			(3,222)	101,448
Securities lending income		362,249	12,549			23,921	398,719
Royalties		135,269,628			56,508,407	12,013,344	203,791,379
Bonuses		60,607,273			57,495,907	7,363,366	125,466,546
Rental income		8,515,338			205,342	1,036,266	9,756,946
Coal severance tax			3,162,664				3,162,664
Gross production tax				100,000,000	24,129,807		124,129,807
Oil extraction tax		81,949,837					81,949,837
Unclaimed property collections		3,457,166					3,457,166
Indirect recovery costs	\$5,196,627						5,196,627
Tobacco settlement		9,012,567					9,012,567
<b>Total Revenues</b>	<b>5,196,627</b>	<b>346,927,075</b>	<b>4,227,091</b>	<b>100,000,000</b>	<b>139,318,091</b>	<b>23,650,276</b>	<b>619,319,160</b>
<b>Expenditures:</b>							
Current							
General government			67,182		679,318	23,303	769,803
Intergovernmental				30,193,639		2,899	30,196,538
Education	5,303,181	6,112,839				485,977	11,901,997
<b>Total Expenditures</b>	<b>5,303,181</b>	<b>6,112,839</b>	<b>67,182</b>	<b>30,193,639</b>	<b>679,318</b>	<b>512,179</b>	<b>42,868,338</b>
Excess of revenue over expenditures	(106,554)	340,814,236	4,159,909	69,806,361	138,638,773	23,138,097	576,450,822
<b>Other Financing Sources (Uses):</b>							
Transfer to Public Instruction		(46,257,000)					(46,257,000)
Transfer to Educational Institutions						(2,967,005)	(2,967,005)
Transfer to Lignite Research Fund			(2,213,865)				(2,213,865)
Transfer to State General Fund			(1,035,356)				(1,035,356)
Transfer to Facilities Management						(721,000)	(721,000)
Transfer from State General Fund				30,000,000			30,000,000
Proceeds from sale of capital asset (land)		165,000					165,000
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(46,092,000)</b>	<b>(3,249,221)</b>	<b>30,000,000</b>	<b>-</b>	<b>(3,688,005)</b>	<b>(23,029,226)</b>
<b>Net Change in Fund Balance</b>	<b>(106,554)</b>	<b>294,722,236</b>	<b>910,688</b>	<b>99,806,361</b>	<b>138,638,773</b>	<b>19,450,092</b>	<b>553,421,596</b>
Fund Balance - beginning	75,854	1,622,412,984	63,449,567	5,999,622	249,074,431	109,023,080	2,050,035,538
Fund Balance - ending	(\$30,700)	\$1,917,135,220	\$64,360,255	\$105,805,983	\$387,713,204	\$128,473,172	\$2,603,457,134

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

Net change in fund balance	\$553,421,596
Net value of capital asset - land transaction	(\$41,489)
Net value of capital asset - acquired land	414
Depreciation expense on equipment	(1,761)
Office equipment additions	-
Decrease in compensated absences liability	(22,342)
Net position of governmental activities	<u>\$553,356,418</u>

Board of University and School Lands  
Statement of Appropriations  
June 30, 2013

	Original Appropriation	Final Adjusted Appropriation	First Year 2012 Expenditures	Second Year 2013 Expenditures	Unexpended Appropriation on 06/30/13
<b>General Fund:</b>					
Salaries and Wages	\$4,145,824	\$4,296,546	\$1,805,190	\$2,068,227	\$423,129
Operating Expenses	1,431,096	1,431,096	418,151	\$365,653	647,292
Capital Assets	10,000	50,000	-	\$39,095	10,905
Contingencies	100,000	60,000	-	-	60,000
	<u>\$5,686,920</u>	<u>\$5,837,642</u>	<u>\$2,223,341</u>	<u>\$2,472,975</u>	<u>\$1,141,326</u>

**Oil and Gas Impact Grant Fund:**

Energy Infrastructure and Impact Grants	\$99,778,269	\$134,645,269	\$10,008,830	\$56,492,854	\$68,143,585
Flood Infrastructure Development Grants	-	30,000,000	28,633	3,816,604	26,154,763
	<u>\$99,778,269</u>	<u>\$164,645,269</u>	<u>\$10,037,463</u>	<u>\$60,309,458</u>	<u>\$94,298,348</u>

**Strategic Investment and Improvements Fund:**

ND General Fund	\$305,000,000	\$305,000,000		\$305,000,000	\$0
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**Perpetual Education Trusts:**

For the years ending on June 30, 2013 and June 30, 2012, the perpetual education trusts managed by the Board distributed \$49,223,998 and \$49,224,005, respectively, in accordance with Article IX, Section 2 of the North Dakota State Constitution. During the same periods, the trusts paid administrative expenses of \$6,973,472 and \$6,598,816, respectively, in accordance with N.D.C.C. 15-03-16.

**Reconciliation of Administrative Expenses to Appropriated Expenditures**

	Fiscal Year 2013	Fiscal Year 2012
Biennial Legislative Appropriation Expenditures	\$ 2,472,975	\$ 2,223,341
Continuing Appropriation Authority Expenditures	73,575,739	40,644,997
Total expenses as reflected on the financial statements	<u>\$76,048,714</u>	<u>\$42,868,338</u>

Reference Financial Statement Note 18 for information on the Board's continuing appropriation authority of funding.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Financial Statements and Reporting Entity*

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

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

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

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

*Fund Accounting Structure*

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate constitutional and legislative compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund balance is classified on a hierarchy that shows, from the highest to the lowest, the level or form of constraints on fund balance and accordingly, the extent to which the Board is bound to honor them: nonspendable, restricted, committed and assigned.

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

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

The Department of Trust Lands maintenance fund is used to pay operating expenses of the department. The Department of Trust Lands maintenance fund is the general fund.

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

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Permanent Fund – report resources that are constitutionally committed for distribution purposes as described in Article X of the State Constitution and N.D.C.C. 57-61.

The Coal Development Trust fund receives a portion of the coal severance tax. The Trust transfers a portion of the coal severance tax to the lignite research fund for lignite research and clean coal projects as enacted by the legislative assembly for future distribution. As described in N.D.C.C. 15.1-36 and 57-62, the Trust also makes loans to coal development impacted counties, cities and school districts and low interest loans to school districts for new construction. Interest earned on moneys from the Trust is distributed to the State general fund.

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

The Perpetual Education Trust funds account for all assets and proceeds as described in Section 11 through 19 of the Enabling Act of 1889, Article IX of the State Constitution and N.D.C.C. 15-01-02. The beneficiaries of the Common Schools Trust are publicly funded schools, grades K-12. Other beneficiaries of the Educational Trust funds are the North Dakota State University, School for the Blind, School for the Deaf, State Hospital, Valley City State University, Mayville State University, Youth Correctional Center, State School of Science, Veterans Home, and the University of North Dakota. Income from the assets held by the Ellendale Trust are allocated equally among Dickinson State University, Minot State University, Dakota College at Bottineau, School for the Blind, Veterans Home, State Hospital, and State College of Science. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota. The Trusts own assets in the form of rangeland, producing and non-producing mineral interests, investment securities and an office building. The Common Schools Trust fund is also used to account for unclaimed property collected under the authority of N.D.C.C 57-62-05.

The Strategic Investment and Improvements fund (SIIF) accounts for producing and non-producing mineral interests formerly owned by the Bank of North Dakota (BND) and State Treasurer, and acres located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state. The Trust receives revenues from mineral bonuses, mineral royalties and, with the passage of House Bill 1451 by the 2011 Legislature, a portion of the State's share of gross production and oil extraction taxes once certain thresholds are met. In accordance with NDCC 15-08.1-08, the SIIF may be expended as the legislature may provide for one-time expenditures relating to improving state infrastructure or for initiatives to improve the efficiency and effectiveness of state government.

The Energy Infrastructure and Impact Office provides grant assistance to counties, cities, school districts and other political subdivisions impacted by oil or gas development through the oil and gas impact grant fund. The program is funded with a percentage of the oil and gas gross production tax as enacted by the legislative assembly. In addition, the Energy Infrastructure and Impact Office administers the Flood-Impacted Political Subdivision Infrastructure Development Grants program by providing infrastructure development grants to flood-impacted political subdivisions. The program is funded with one-time State general fund moneys and expires June 30, 2013.

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

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

The Board reports the Common Schools Trust fund, Coal Development Trust fund, Department of Trust Lands General fund, Oil and Gas Impact Grant fund, and Strategic Investment and Improvements Trust fund as major governmental funds.

# Board of University and School Lands

## Notes to Financial Statements

June 30, 2013 and 2012

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### *Basis for Accounting*

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

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

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

### *Budgetary Policies and Procedures*

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

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

### *Cash Deposits and Investments*

Cash includes all funds deposited with the BND as well as certain funds deposited in The Northern Trust (TNT) Cash Pool at Northern Trust.

Investments are reported at fair value. All investment income, including changes in the fair value, is recognized in the statements of revenues, expenditures and changes in fund balance.

Cash for all funds is pooled and invested to the extent possible. Income earned from pooled investments is allocated to each of the funds based on the fund's total contribution to the pool.

### *Accounts Receivable*

Accounts receivable represents accrued amounts on royalty revenue and interest on investments not available on June 30, 2013 for funding of current operations. All receivables are considered collectible. A majority of the accrued royalty revenue is expected to be collected within the first 90 days following June 30, 2013. Interest is expected to be collected prior to June 30, 2014 when investments mature.

*Claimant Liability*

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

*Capital Assets*

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

All other capital assets with an original cost of \$5,000 or more per unit and an estimated useful life in excess of one year are capitalized and reported in the applicable government activities columns in the government-wide financial statements in accordance with N.D.C.C. 54-27-21. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

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

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

*Compensated Absences Payable*

N.D.C.C. 54-06-14 allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at the rate of one day per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the State is liable for ten percent of the employee's accumulated unused sick leave.

Assets of the maintenance fund are used to pay off these liabilities.

**NOTE 2 - ORGANIZATION AND RELATED PARTY TRANSACTIONS**

As stated in Note 1, the Board is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

**NOTE 3 – CASH**

*Custodial Credit Risk*

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

# Board of University and School Lands

## Notes to Financial Statements

June 30, 2013 and 2012

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The carrying amount of deposits with the Bank of North Dakota were \$79,503,421 and \$108,349,318 while Northern Trust were \$110,985 and \$16,509,402, as of June 30, 2013 and 2012, respectively, and the bank balances were \$7,569,498 and \$18,755,833. These differences result from timing differences of deposits processed by the Bank at year-end. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through N.D.C.C. Section 6-09-10. The Board does not have a formal policy regarding deposits

### **NOTE 4 – FUND BALANCE CLASSIFICATION**

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

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

The Coal Development Trust fund was established by Article X of the State Constitution. This fund is held in trust and administered by the Board for loans to coal impacted counties, cities and school districts and for loans to other school districts. The Coal Development Trust fund balance includes the corpus (or principal) of this fund and the long-term portion of loans receivable, therefore is not in spendable form.

*Restricted:* this classification includes amounts for which constraints have been placed on the use of the resources either (a) imposed by the beneficiary of the assets or (b) imposed by law through constitutional provisions or enabling legislation.

The Common School and other Perpetual Education funds were created under the State Constitution to support school and public institutions. All revenue resources are restricted for the purpose of distributions to the beneficiaries.

The Capitol Building Trust fund was created under the State Constitution for the construction and maintenance of public buildings at the capital. The entire balance of the trust is subject to legislative appropriation each biennium.

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

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

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

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

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

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The Flood-Impacted Political Subdivision Infrastructure Development Grant program is administered by the Energy Infrastructure and Impact Office and allocates funds appropriated by the state legislature to provide infrastructure development grants to flood-impacted political subdivisions. This funding is considered a one-time funding item from the State general fund and expires June 30, 2013. Any changes to the fund balance commitment would require appropriation bill action of the legislative assembly.

The Strategic Investment and Improvements fund was established by legislation and consists of mineral acres formerly owned by the Bank of North Dakota and State Treasurer, minerals located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state, and various financial assets. The balance of this fund is subject to appropriation by the legislature with the exception of any balance the Board identifies as assigned. Any changes to the fund balance commitment would require action of the legislative assembly to change the North Dakota century code or action by the Board to establish a different assigned fund balance.

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

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

The Strategic Investment and Improvements fund assigned fund balance was initially established by Board action in September 2010 when the Board voted to classify certain funds as a designated fund balance that should not be transferred out of the Strategic Investment and Improvements fund until potential title disputes related to certain riverbed mineral leases have been resolved. The legislature affirmed the Board action with the passage of House Bill 1451 in 2011. Any change to the assigned fund balance would require a vote of the Board or action of the legislative assembly.



**Board of University and School Lands**  
**Notes to Financial Statements**  
**Fund Balance Classifications**

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

**Fiscal Year Ended June 30, 2013**

<u>Fund Balances</u>	<u>General Fund</u>	<u>Common Schools Trust Fund</u>	<u>Coal Development Trust Fund</u>	<u>Oil and Gas &amp; Flood Impact Grant Fund</u>	<u>Strategic Investment &amp; Improvements Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Permanent Funds:</b>							
<i>Nonspendable</i>							
Permanent fund principal			\$65,183,169				\$65,183,169
<i>Committed</i>							
Designated for transfer to State general fund			118,969				118,969
<b>Special Revenue Funds:</b>							
<i>Restricted</i>							
Distribution to educational beneficiaries		\$2,417,363,782				\$152,554,912	2,569,918,694
Capitol building maintenance						2,841,003	2,841,003
Indian cultural education						759,091	759,091
<i>Committed</i>							
Grants				\$71,200,192			71,200,192
Designated for transfer to State general fund					\$835,934,840		835,934,840
<i>Assigned</i>							
Potential mineral title disputes					133,985,322		133,985,322
<i>Unassigned</i>							
Operating Expenses	\$10,650						10,650
<b>Total Fund Balances:</b>	<u>\$10,650</u>	<u>\$2,417,363,782</u>	<u>\$65,300,138</u>	<u>\$71,200,192</u>	<u>\$969,920,162</u>	<u>\$156,155,006</u>	<u>\$3,679,949,930</u>

**Fiscal Year Ended June 30, 2012**

<u>Fund Balances</u>	<u>General Fund</u>	<u>Common Schools Trust Fund</u>	<u>Coal Development Trust Fund</u>	<u>Oil and Gas &amp; Flood Impact Grant Fund</u>	<u>Strategic Investment &amp; Improvements Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Permanent Funds:</b>							
<i>Nonspendable</i>							
Permanent fund principal			\$64,342,175				\$64,342,175
<i>Committed</i>							
Designated for transfer to State general fund			18,080				18,080
<b>Special Revenue Funds:</b>							
<i>Restricted</i>							
Distribution to educational beneficiaries		\$1,917,135,220				\$124,536,520	2,041,671,740
Capitol building maintenance						3,252,822	3,252,822
Indian cultural education						683,830	683,830
<i>Committed</i>							
Grants				\$105,805,983			105,805,983
Designated for transfer to State general fund					\$291,913,872		291,913,872
<i>Assigned</i>							
Potential mineral title disputes					95,799,332		95,799,332
<i>Unassigned</i>							
Operating Expenses	(\$30,700)						(30,700)
<b>Total Fund Balances:</b>	<u>(\$30,700)</u>	<u>\$1,917,135,220</u>	<u>\$64,360,255</u>	<u>\$105,805,983</u>	<u>\$387,713,204</u>	<u>\$128,473,172</u>	<u>\$2,603,457,134</u>

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

## 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 stable distributions to current beneficiaries. This is accomplished by investing in a widely diversified portfolio.

N.D.C.C. 15-03-04 requires that the Board apply the prudent investor rule in investing the funds under its control. Application of the prudent investor rule dictates that investments of the Board should be made using the same judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it.

### *Investments*

The following investments are reported at fair value, which represents stated market prices. Actual gains and losses realized by the Board will be determined at the time of the sale and will be based on market conditions at that date. Funds held by Northern Trust as of June 30, 2013 and 2012 are classified as investments in the accompanying financial statements as follows:

	<u>2013</u>	<u>2012</u>
Equity Securities:		
Common stock	\$ 1,288,726,197	\$ 827,198,208
Preferred stock	100	3,152,840
Convertible equity	26	29,783,636
Equity exchange traded fund	-	87
Corporate convertible bonds	-	140,334,988
Fixed Income	1,184,440,755	953,107,215
Cash and Cash Equivalents	37,882,837	30,825,073
	<u>\$ 2,511,049,915</u>	<u>\$ 1,984,402,047</u>

The Board holds other investments with a minimal risk since they are guaranteed by either the Federal government or the State of North Dakota. As of June 30, 2013, these investments included \$879,072,831 in U.S. Treasury Bills and Notes. As of June 30, 2012, these investments included \$323,147,808 in U.S. Treasury Bills and \$23,475,000 in Bank of North Dakota certificate of deposits that matured in less than one year.

In addition, the Board holds unclaimed mutual funds and other securities for owners. Actual gains and losses realized will be determined at the time of the sale and will be based on market conditions at that date. As of June 30, 2013 and 2012, respectively, the Board held \$265,187 and \$99,482 in unclaimed mutual funds and other securities.

Common Schools Trust Fund owns the building occupied by the Department of Trust Lands. For the periods ending June 30, 2013 and 2012, the book value of the building was \$670,647 and \$709,413, respectively. The book value of the building is included in the investments line of the balance sheet.

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

## *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Board manages its exposure by maintaining a diversified portfolio that contains a wide variety of maturity dates and credit ratings for the debt securities held. The Board has adopted an asset allocation schedule and approves the hiring of all managers within the various asset classes. The Board does not have a formal policy regarding the maturities of its investments.

The following tables show the investments by investment type and maturity at June 30, 2013 and 2012. The investments are shown by type, amount, and duration; and assume the call dates as the maturity dates.

### Fiscal Year 2013

Investment Type	Maturity Amount	Weighted Average Maturity (years)
Asset Backed Securities	\$ 10,549,587	0.074506
Commercial Mortgage-Backed	6,235,388	0.155716
Commerical Paper	-	-
Corporate Bonds	425,310,900	2.279318
TIPS Fund	167,213,152	-
Corporate Convertible Bonds	-	-
Government Agencies	14,295,783	0.057162
GNMA Fund	-	-
Low Duration Fund	134,690,039	-
Government Bonds	185,804,039	0.960572
Government Mortgage Backed Securities	97,399,876	1.754054
Govt-issued Commercial Mortgage-Backed	1,973,700	0.013411
Index Linked Government Bonds	2,122,289	0.019692
Municipal/Provincial Bonds	3,391,694	0.012226
Non-Government Backed CMOs	14,812,837	0.282489
Other Fixed Income	120,641,471	-
Short Term Bills and Notes	14,972,634	0.003605
Short Term Investment Funds	50,754,506	-
Total	<u>\$ 1,250,167,895</u>	<u>5.612751</u>

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

## Fiscal Year 2012

Investment Type	Maturity Amount	Weighted Average Maturity (years)
Asset Backed Securities	\$ 4,545,430	0.067490
Commercial Mortgage-Backed	6,448,405	0.184513
Commercial Paper	1,729,905	0.000046
Corporate Bonds	296,949,500	1.622400
TIPS Fund	152,075,044	-
Corporate Convertible Bonds	140,334,988	1.105748
Government Agencies	22,989,036	0.079782
GNMA Fund	108,145,517	-
Low Duration Fund	178,261,351	-
Government Bonds	100,337,107	0.652602
Government Mortgage Backed Securities	42,597,453	0.825670
Govt-issued Commercial Mortgage-Backed	2,281,345	0.021589
Guaranteed Fixed Income	-	-
Index Linked Government Bonds	6,169,733	0.059888
Municipal/Provincial Bonds	1,373,530	0.003191
Non-Government Backed CMOs	15,977,316	0.332889
Other Fixed Income	14,956,448	-
Short Term Bills and Notes	8,181,814	0.001998
Short Term Investment Funds	22,343,698	-
Total	<u>\$ 1,125,697,620</u>	<u>4.957806</u>

The tables above include the fair value of 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, 2013 and 2012, respectively, the Board held \$20,287,304 and \$10,234,684 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 fixed income securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The Board does not have a formal policy regarding credit risk. The following table presents the Board's ratings as of June 30, 2013 and 2012, respectively.

**Board of University and School Lands**  
**Notes to Financial Statements**  
**Credit Risk Ratings**

**Fiscal Year 2013**

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$4,118,317	\$957,520				\$1,777,540					\$3,696,210	
Commercial Mortgage-Backed	2,209,082										4,026,306	
Corporate Bonds	1,764,733	15,243,492	\$77,946,732	\$92,226,853	\$111,813,752	114,001,847	\$4,059,008				8,254,483	
TIPS											167,213,152	
Government Agencies	9,279,662	5,016,121										
GNMA Fund												
Low Duration Fund											134,690,039	
Government Bonds	18,804,312	4,217,977	11,098,607	8,166,796	3,029,971						33,090,645	\$107,395,731
Government Mortgage Backed Securities		9,882,859									619,608	86,897,409
Gov't-issued Commercial Mortgage-Backed												1,973,700
Index Linked Government Bond											2,122,289	
Municipal/Provincial Bonds		2,385,444	1,006,250									
Non-Government Backed C.M.O.s	3,768,640	26,515	2,105,423	1,729,824	823,751		1,840,838	491,049		2,073,557	1,953,240	
Other Fixed Income											120,641,471	
Short Term Bills and Notes												14,972,634
Short Term Investment Funds											50,754,506	
	<b>\$39,944,746</b>	<b>\$37,729,928</b>	<b>\$92,157,012</b>	<b>\$102,123,473</b>	<b>\$115,667,474</b>	<b>\$115,779,387</b>	<b>\$5,899,846</b>	<b>\$491,049</b>	<b>\$0</b>	<b>\$2,073,557</b>	<b>\$527,061,949</b>	<b>\$211,239,474</b>

**Fiscal Year 2012**

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$408,344					\$1,836,032					\$2,301,054	
Commercial Mortgage-Backed	1,140,072	\$1,141,165									4,167,168	
Commercial Paper											1,729,905	
Corporate Bonds	2,559,627	9,802,626	\$41,396,855	\$53,002,444	\$91,569,148	93,141,436	\$2,561,638				2,915,726	
TIPS											152,075,044	
Corporate Convertible Bonds	4,134,419		24,615,726	42,470,063	29,078,516	18,961,450					21,074,814	
Government Agencies	13,753,851	9,076,109			159,076							
GNMA Fund											108,145,517	
Low Duration Fund											178,261,351	
Government Bonds	10,429,891	6,569,534	6,085,716	4,191,594	2,679,979						25,668,410	\$44,711,983
Government Mortgage Backed Securities		45,915										42,551,538
Gov't-issued Commercial Mortgage-Backed												2,281,345
Index Linked Government Bond											5,025,101	1,144,632
Municipal/Provincial Bonds		1,279,952									93,578	
Non-Government Backed C.M.O.s	5,459,161	123,947	185,833		875,301	237,858	2,141,857	847,256		2,367,083	3,739,020	
Other Fixed Income											14,956,448	
Short Term Bills and Notes												8,181,814
Short Term Investment Funds											22,343,698	
	<b>\$37,885,365</b>	<b>\$28,039,248</b>	<b>\$72,284,130</b>	<b>\$99,664,101</b>	<b>\$124,362,020</b>	<b>\$114,176,776</b>	<b>\$4,703,495</b>	<b>\$847,256</b>	<b>\$0</b>	<b>\$2,367,083</b>	<b>\$542,496,834</b>	<b>\$98,871,312</b>

# Board of University and School Lands

## Notes to Financial Statements

June 30, 2013 and 2012

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board treats currency exposure in two different ways, depending on the type of investment. For the Board's international equity portfolio, the currency exposure is not hedged as currency exposure is one of the things that adds diversity to the overall portfolio. In the case of foreign bonds, the Board fully hedges the currency exposure as the purpose of this portfolio is to generate more consistent returns. 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 2013

Currency	Debt	Equity	Total
Australian dollar	\$ (238,298)	\$ 19,934,889	\$ 19,696,591
Brazilian real	(81,724)	-	(81,724)
British pound sterling	(49,257)	58,120,727	58,071,470
Canadian dollar	(106,538)	-	(106,538)
Danish krone	-	3,268,827	3,268,827
Euro	(500,610)	68,843,468	68,342,858
Hong Kong dollar	-	6,884,347	6,884,347
Hungarian forint	(195,203)	-	(195,203)
Japanese yen	-	53,564,181	53,564,181
Mexican peso	(3,048)	-	(3,048)
New Zealand dollar	(169,110)	49,528	(119,582)
Norwegian krone	(206,034)	841,970	635,936
Polish zloty	(495,925)	-	(495,925)
Singapore dollar	-	4,655,601	4,655,601
South African rand	106,372	-	106,372
Swedish krona	(509,617)	5,547,100	5,037,483
Swiss franc	-	25,927,738	25,927,738
Thai baht	30,915	-	30,915
	<u>\$ (2,418,077)</u>	<u>\$ 247,638,376</u>	<u>\$ 245,220,299</u>

# Board of University and School Lands

## Notes to Financial Statements

June 30, 2013 and 2012

### Fiscal Year 2012

Currency	Debt	Equity	Total
Australian dollar	\$ (40,005)	\$ 17,749,930	\$ 17,709,925
British pound sterling	(5,124)	46,740,816	46,735,692
Canadian dollar	29,386	-	29,386
Czech koruna	64,780	-	64,780
Danish krone	-	5,311,003	5,311,003
Euro	(320,430)	55,126,609	54,806,179
Hong Kong dollar	-	5,291,036	5,291,036
Hungarian forint	82,461	-	82,461
Japanese yen	(133,671)	43,705,957	43,572,286
Mexican peso	101,299	-	101,299
New Zealand dollar	60,336	279,526	339,862
Norwegian krone	9,969	1,657,193	1,667,162
Polish zloty	(1,302)	-	(1,302)
Singapore dollar	-	3,933,336	3,933,336
South African rand	95,064	-	95,064
Swedish krona	-	4,312,694	4,312,694
Swiss franc	-	14,116,086	14,116,086
Other	-	1,437,565	1,437,565
	<u>\$ (57,237)</u>	<u>\$ 199,661,751</u>	<u>\$ 199,604,514</u>

### *Derivative Securities*

Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. The investment policies of the Board allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statement of Net Position. At June 30, 2013 and 2012, 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 Position with gains of \$3,277,390 for fiscal year 2013 and \$8,500,011 for fiscal year 2012. At June 30, 2013 and 2012, the Board's investment portfolio included the currency forwards balances shown below.

# Board of University and School Lands

## Notes to Financial Statements

June 30, 2013 and 2012

Currency	Cost	Purchases	Sales	Fair Value	
				June 30, 2013	June 30, 2012
Australian dollar	\$ (11,239,119)	\$ -	\$ (10,726,373)	\$ (10,726,373)	\$ (10,381,187)
Brazilian real	(3,114,599)	-	(3,117,317)	(3,117,317)	-
Canadian dollar	(10,889,047)	-	(10,694,782)	(10,694,782)	(10,823,974)
Czech koruna	-	-	-	-	(2,907,168)
Euro members	(50,172,134)	-	(49,423,189)	(49,423,189)	(38,844,939)
Hungary forint	(3,440,246)	-	(3,427,212)	(3,427,212)	(2,597,518)
Japanese yen	115,071	3,594,289	(3,594,289)	-	(14,171,853)
Mexican peso	(6,035,322)	-	(5,912,242)	(5,912,242)	(2,995,150)
New Zealand dollar	(5,499,305)	-	(5,454,956)	(5,454,956)	(4,639,146)
Norwegian krone	(5,904,702)	-	(5,681,938)	(5,681,938)	(4,953,749)
Polish zloty	(5,817,514)	-	(5,685,338)	(5,685,338)	(2,990,569)
South Africa rand	(3,486,916)	-	(3,239,948)	(3,239,948)	(1,648,733)
Swedish krona	(8,325,721)	-	(8,052,650)	(8,052,650)	-
Thai baht	(3,381,525)	-	(3,215,083)	(3,215,083)	-
United Kingdom pound	(1,314,788)	-	(1,319,024)	(1,319,024)	(752,743)
United States dollar	118,505,867	122,105,292	(3,599,425)	118,505,867	96,594,386
Total forwards subject to currency risk				<u>\$ 2,555,815</u>	<u>\$ (1,112,343)</u>

### NOTE 6 – SECURITIES LENDING

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

Securities are loaned versus collateral that may include cash, 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 102 days as of June 30, 2013.

Cash open collateral is invested in a short-term investment pool, the Core USA fund, which had an interest sensitivity of 43 days as of this statement date.



# Board of University and School Lands

## Notes to Financial Statements

June 30, 2013 and 2012

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

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

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

The following represents the Board's balances related to securities lending transactions at June 30, 2013 and 2012. Securities lending collateral is invested in investment pools and is not exposed to custodial credit risk.

### Fiscal Year 2013

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$ 1,027,236	\$ 1,042,280	\$ -	\$ -
US Agencies	148,868	152,623	-	-
US Corporate Fixed	81,489,675	83,416,816	-	-
US Equities	67,049,402	68,719,527	-	-
US Government Fixed	96,629,814	98,464,616	-	-
	<u>\$ 246,344,995</u>	<u>\$ 251,795,861</u>	<u>\$ -</u>	<u>\$ -</u>

Market Value of Securities on Loan against Cash Collateral	\$ 246,344,995
Market Value of Securities on Loan against Non Cash Collateral	-
Total market Value of Securities on Loan	<u>\$ 246,344,995</u>

### Fiscal Year 2012

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$ 5,694,850	\$ 5,819,675	\$ -	\$ -
US Agencies	295,874	299,523	-	-
US Corporate Fixed	95,344,317	96,462,095	-	-
US Equities	30,723,032	30,987,719	-	-
US Government Fixed	8,578,751	8,701,578	-	-
	<u>\$ 140,636,824</u>	<u>\$ 142,270,590</u>	<u>\$ -</u>	<u>\$ -</u>

Market Value of Securities on Loan against Cash Collateral	\$ 140,636,824
Market Value of Securities on Loan against Non Cash Collateral	-
Total market Value of Securities on Loan	<u>\$ 140,636,824</u>

**NOTE 7 – FARM LOAN POOL AND FARM REAL ESTATE**

N.D.C.C. 15-03 authorizes the Board to invest in first mortgage farm loans. All purchased loans are credited to the pool and the investments, repayments, interest and income are credited to the various trusts in proportion to their participation. The pool is administered by the BND in accordance with standard banking practices, including executing all instruments on behalf of the Board and handling foreclosures. As of June 30, 2013, the non-current and current portions of the loans were \$16,590,903 and \$1,674,721, respectively. The same amounts as of June 30, 2012 were \$31,104,025 and \$2,666,144, respectively.

As of June 30, 2013 and 2012, the pool had net position of \$19,072,368 and \$34,713,291, respectively. For the same period, the pool earned net income of \$1,499,078 and \$2,522,053.

The Board assumes ownership of all of the foreclosed properties pending disposition of the real estate. The foreclosed property is recorded in an account titled "farm real estate" at the lower of cost or estimated market. The Board foreclosed on one farm loan during fiscal year 2012, which was sold through auction during the same period.

**NOTE 8 – ENERGY CONSTRUCTION LOAN PROGRAM**

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

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

As of June 30, 2013, the non-current and current portions of the loans were \$1,434,100 and \$32,835 respectively. The same amounts as of June 30, 2012 were \$2,232,219 and \$30,969, respectively.

As of June 30, 2013 and 2012 the program had net position of \$1,507,108 and \$2,389,734, respectively. For the same period, the program earned net income of \$112,373 and \$112,341, respectively.

**NOTE 9 - COAL WARRANTS**

The Board is authorized to make loans to coal development impacted counties, cities and school districts 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 three and three-fourths percent annually, depending on the loan date. The coal warrants are payable only from the borrowing entities share of coal severance tax payments and do not constitute a general obligation of the entity. No losses are anticipated on the warrants and an allowance has not been provided. As of June 30, 2013, the non-current and current portions of the loans were \$7,427,853 and \$555,400, respectively. The same amounts as of June 30, 2012 were \$7,908,185 and \$529,555, respectively.

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

## NOTE 10 - SCHOOL CONSTRUCTION LOANS

N.D.C.C. 15-60-10 was enacted in 1993 authorizing the Board to fund low interest school construction loans from the Coal Development Trust fund. The outstanding principal balance of loans made from this fund may not exceed fifty 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 determines the loan amount, the term of the loan, and the interest rate to be paid. To be eligible for a loan, the school district must have an existing indebtedness equal to at least fifteen percent of the school district's taxable valuation.

The interest rate discount on a loan must be at least one percent but cannot exceed two and one-half percent of the interest rate charged on comparable tax-exempt bond rates.

The Bank of North Dakota (BND) processes and services all loans. BND 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, 2013, the non-current and current portions of the loans were \$29,186,442 and \$2,976,006, respectively. The same amounts as of June 30, 2012, were \$19,005,489 and \$2,432,669, respectively.

## NOTE 11 - OFFICE LEASE COMMITMENT

The Board's administrative agent, the Office of Commissioner of University and School Lands (Department of Trust Lands) rents office space owned by the Common Schools Trust Fund. The Department of Trust Lands' 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, 2013 and 2012, rent of \$50,507 and \$46,537 was paid by the non-Common Schools Trusts funds.

## NOTE 12 - CAPITAL ASSETS

Governmental Activities:	Balance 7/1/12	Additions	Retirements	Balance 6/30/13
Land	\$7,743,275		(\$2,094)	\$7,741,181
Equipment	8,808	\$34,686		43,494
Less accumulated depreciation:				
Equipment	(7,521)	(2,461)		(9,982)
Net capital assets	<u>\$7,744,562</u>	<u>\$32,225</u>	<u>(\$2,094)</u>	<u>\$7,774,693</u>
Governmental Activities:	Balance 7/01/11	Additions	Retirements	Balance 6/30/12
Land	\$7,784,350	\$414	(\$41,489)	\$7,743,275
Equipment	8,808			8,808
Less accumulated depreciation:				
Equipment	(5,760)	(1,761)		(7,521)
Net capital assets	<u>\$7,787,398</u>	<u>(\$1,347)</u>	<u>(\$41,489)</u>	<u>\$7,744,562</u>

# Board of University and School Lands

## Notes to Financial Statements

June 30, 2013 and 2012

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 2013, no acres were acquired and 209.4 acres were sold. In fiscal year 2012, 41.36 acres were acquired and 78 acres were sold.

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

A total of \$2,461 and \$1,761 in equipment depreciation for fiscal years ending June 30, 2013 and 2012 was charged to the education fund.

### NOTE 13 - DUE FROM (TO) OTHERS

The following is a detail of the amounts that are due from and to other trust funds managed by the Department of Trust Lands at June 30, 2013 and 2012:

Fund	2013		2012	
	Due from other funds	Due to other funds	Due from other funds	Due to other funds
General fund		\$3,906,207		
Strategic Investment and Improvements fund	\$1,460,117			
Non-major perpetual funds	143,549			
Common Schools Trust fund	2,302,541			
	<u>\$3,906,207</u>	<u>\$3,906,207</u>	<u>-</u>	<u>-</u>

As stated in Note 1 of these financial statements, the Board of University and School Lands is a state agency of North Dakota; as such, the other state agencies of the state and political subdivisions are related parties. The following is detail of amounts due from and to other State agencies as June 30, 2013 and 2012.

Fund	2013		2012	
	Due from other state agencies	Due to other state agencies	Due from other state agencies	Due to other state agencies
Strategic Investment and Improvements fund:				
State Treasurer	\$74,676,903		\$24,129,807	
	<u>74,676,903</u>	<u>-</u>	<u>24,129,807</u>	<u>-</u>
Coal Development Trust fund:				
State Treasurer	405,329	\$283,730	488,533	\$341,973
	<u>405,329</u>	<u>283,730</u>	<u>488,533</u>	<u>341,973</u>

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

General fund:			
Attorney General		4,785	6,294
Dept. of Transportation		6,145	6,035
Information Technology Department		5,067	5,072
Central Services		266	515
Office of Management and Budget		718	
	-	16,981	17,916
Perpetual funds:			
State Treasurer	21,836,712		15,798,657
Bank of North Dakota		52,183	84,318
	21,836,712	52,183	15,798,657
			84,318
Total Due To/Due From	\$96,918,944	\$352,894	\$40,416,997
			\$444,207

**NOTE 14 – PERPETUAL FUND DISTRIBUTION POLICY**

According to Section 2 of Article IX of the North Dakota State Constitution, biennial distributions from the perpetual trust funds must be ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. The average value of trust assets is determined by using the 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 15 – TRANSFERS FROM (TO) OTHER STATE AGENCIES**

The following detail represents amounts transferred to beneficiaries and other State agencies as of June 30, 2013 and 2012.

Fund	2013		2012	
	Transfers from other agencies	Transfers to other agencies	Transfers from other agencies	Transfers to other agencies
<b>Perpetual Funds:</b>				
Department of Public Instruction		\$46,257,000		\$46,257,000
N.D.S.U.		712,000		712,000
School for the Blind		108,000		108,000
School for the Deaf		227,000		227,000
State Hospital		286,000		286,000
Ellendale		109,998		110,005
Valley City State University		143,000		143,000
Mayville State University		92,000		92,000
Industrial School		264,000		264,000
School of Science		246,000		246,000
School of Mines		280,000		280,000
Veterans Home		124,000		124,000
U.N.D.		375,000		375,000
	-	49,223,998	-	49,224,005

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

**Coal Development Trust:**

Lignite Research Fund	2,147,547		2,213,865
General Fund of North Dakota	\$105,046	968,080	1,035,356
	<u>105,046</u>	<u>3,115,627</u>	<u>-</u>
			<u>3,249,221</u>

**Strategic Investment and Improvements :**

General Fund of North Dakota	305,000,000		
North Dakota Legacy Fund	7,356,917		
	<u>312,356,917</u>		<u>-</u>
			<u>-</u>

**Capitol Building Trust:**

Facilities Management	1,088,000		721,000
	<u>1,088,000</u>		<u>721,000</u>

**Oil and Gas Impact Fund:**

General Fund of North Dakota		30,000,000	
		<u>30,000,000</u>	

**Flood-Impacted Political Subdivision  
Infrastructure Development Grants:**

General Fund of North Dakota	30,000,000	-	
	<u>30,000,000</u>		
Total Transfers	<u>\$30,105,046</u>	<u>\$365,784,542</u>	<u>\$30,000,000</u> <u>\$53,194,266</u>

**NOTE 16 – ASSIGNED FUND BALANCE**

On August 29, 2013 the Board of University and School Lands classified \$133,985,322 of the Strategic Investment and Improvements fund as an assigned fund balance for fiscal year 2013 financial statement purposes. This commitment was made by the Board to indicate that these funds should not be transferred out of this fund until potential title disputes related to certain riverbed leases have been resolved.

**NOTE 17 – LITIGATION**

The State is currently involved in litigation relating to mineral title ownership between the ordinary high watermark and ordinary low watermark, an area known as shore zone, along the Missouri River by Williston, North Dakota. Riparian landowners claim they own down to the ordinary low watermark; however, the State asserts that it is entitled to the bed of navigable rivers, like the Missouri, up to the ordinary high watermark. Resolving the dispute turns on the proper interpretation of state statute.

The State is also currently involved in litigation relating to ownership of minerals under the railroad right-of-way in six sections of land in Mountrail County. At issue are rights-of-way that the railroad acquired by condemnation and through rights-of-way deeds.

# Board of University and School Lands

Notes to Financial Statements

June 30, 2013 and 2012

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## Brigham Oil & Gas v. State of North Dakota

On June 9, 2011, Brigham Oil & Gas filed a suit seeking resolution of a title question and asking the court to require those asserting title to the minerals in the spacing unit southeast of Williston, to set forth and prove their claims. Brigham Oil & Gas named 83 defendants in its complaint, including the Board and the United States of America. On November 23, 2011, the United States was granted a dismissal on sovereign immunity grounds. On March 5, 2012, defendant Kerry Hoffman filed an answer and cross-claim against the Board asserting claims of an unconstitutional taking of private property without just compensation.

## Reep et. al. v. State of North Dakota

On March 9, 2012, six plaintiffs filed a suit in State court requesting the court certify the matter as a class action asserting an unconstitutional taking of private property without just compensation. In an order dated July 16, 2012, the court denied the State's motion to dismiss; however, the court agreed that the issue of ownership of shore zone should be resolved before the case moves forward.

Pursuant to a stipulation between attorneys for Stanford Reep, Kerry Hoffman, and the State, the court issued an order on August 16, 2012, consolidating the Brigham Oil & Gas case with the Reep et. al. case for the purpose of determining rights to the shore zone minerals. Cross motions for summary judgment were filed and briefed. The District Court entered an order on March 22, 2013, finding that the State's title to the riverbed extends up to the high water mark. The District Court judgment was appealed to the North Dakota Supreme Court and oral arguments are scheduled for September 3, 2013.

## Wilkinson Family v. State of North Dakota

On January 10, 2012, the Wilkinson family filed a suit in state court asserting that they own shore zone minerals in about 200 acres west of Williston. While this case addresses a similar issue to that of the Reep et al. and Brigham Oil & Gas cases, the Wilkinson family did not want this case consolidated with the other two cases. The Court has scheduled a prehearing conference for December 2, 2013 to set discovery deadlines and a trial date.

## EOG Resources, Inc. v. Soo Line Railroad Co., et. al.

This case concerns ownership of the minerals underlying a railroad in six sections of land in Mountrail County. The railroad's lessee, G-4, Inc., filed a cross-claim against the State and a number of other parties that claim ownership of the minerals adverse to the claims of the railroad. Cross motions for summary judgment were filed in January 2013. The Court scheduled oral arguments for November 4, 2013.

## **NOTE 18 – CONTINUING APPROPRIATIONS**

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

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

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

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

# Board of University and School Lands

## Notes to Financial Statements

June 30, 2013 and 2012

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

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

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

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

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

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

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

### NOTE 19 – LONG TERM LIABILITIES

#### *Compensated Absences Payable*

Department of Trust Lands employees can earn annual leave at a variable rate based on years of service. The amount of annual leave earned ranges from one to two days per month, and accrued annual leave cannot exceed 30 days as of April 30<sup>th</sup> of each year. Department of Trust Lands employees earn sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. At 10 years of continuous service, the State is liable for 10 percent of the employee's accumulated unused sick leave.

The reported liabilities for compensated absences were \$183,152 and \$175,084 at June 30, 2013 and 2012, respectively. This balance includes the employer's share of FICA taxes.

	<u>Balance</u> <u>7/1/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>	<u>Amounts</u> <u>Due</u> <u>Thereafter</u>	<u>Balance</u> <u>6/30/13</u>
Governmental Activities- Other long-term liabilities:						
Compensated absences	\$175,084	\$4,317	\$3,751	\$9,781	\$173,371	\$183,152
Governmental Activities- Other long-term liabilities:						
Compensated absences	\$152,742	\$117,415	\$95,073	\$9,350	\$165,734	\$175,084



**NOTE 21 – PENSION PLAN**

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

*Defined Benefit Pension Plan:*

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Board. 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, 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 2.0% 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 6% 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 has implemented a salary reduction agreement and is currently contributing the employees' share. The Board is required to contribute 6.12% of each participant's salary as the employer's share. In addition to the 6.12% employer contribution the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. 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's required and actual contributions to NDPERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$164,730, \$120,464, and \$89,822, 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 22 - POSTRETIREMENT BENEFITS**

Former employees receiving retirement benefits under the Retirement Plan of Board 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 Board reimburses the Retiree Health Benefits Fund monthly for credit received by members of the retirement plan.

The benefits, fully paid by the department, are equal to \$5.00 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 department expenditures for the periods ending June 30, 2013, 2012 and 2011 were \$16,867, \$14,995, and \$12,611, respectively.

**NOTE 23 - 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 (FTF) to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the FTF. The FTF 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; it is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**Board of University and School Lands**

**SUPPLEMENTARY INFORMATION**

**Combining Balance Sheet**

**Non-major Governmental Funds**

June 30, 2013

	Special Revenue Funds												Special Revenue Funds		Total Non-major Govern- mental 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.N.D.	Total	Capitol Building		Indian Cultural Education
<b>Assets:</b>																
Cash	\$8,788	\$3,017	\$3,603	\$3,454	\$2,478	\$2,886	\$2,501	\$4,118	\$3,252	\$3,278	\$2,780	\$6,222	\$46,377	\$1,121,224	\$2,933	\$1,170,534
Investments	39,508,597	5,476,327	13,668,178	10,912,161	6,375,151	6,432,625	4,530,480	15,932,610	10,860,253	12,458,439	3,895,165	17,998,296	148,048,282	1,601,304	754,891	150,404,477
Interest receivable	164,084	27,544	47,795	53,704	26,541	32,622	22,830	63,383	49,581	52,740	27,112	76,488	644,424	1,696	1,559	647,679
Accounts receivable	770,088	60,742	222,144	48,136	60,533	129,582	130,667	160,324	152,274	180,662	21,704	357,081	2,293,937	116,779		2,410,716
Invested securities lending collateral	3,836,771	529,523	1,326,089	1,066,643	619,207	623,672	437,764	1,326,259	1,054,332	1,211,432	381,091	1,742,797	14,374,580		73,152	14,447,732
Loans																
Farm loans	362,949	70,061	99,481	101,930	65,328	82,688	59,517	140,852	103,721	104,671	82,085	166,545	1,439,828			1,439,828
Due from other funds	51,602	7,363	-	9,786	642	-	11,443	47,191	1,365	-	9,355	4,802	143,549	-		143,549
<b>Total Assets</b>	<b>\$44,702,879</b>	<b>\$6,174,577</b>	<b>\$15,367,290</b>	<b>\$12,195,814</b>	<b>\$7,149,880</b>	<b>\$7,304,075</b>	<b>\$5,195,202</b>	<b>\$17,893,737</b>	<b>\$12,224,778</b>	<b>\$14,011,222</b>	<b>\$4,419,292</b>	<b>\$20,352,231</b>	<b>\$166,990,977</b>	<b>\$2,841,003</b>	<b>\$832,535</b>	<b>\$170,664,515</b>
<b>Liabilities:</b>																
Accounts payable	\$15,314	\$2,113	\$5,293	\$4,257	\$2,471	\$2,489	\$1,747	\$6,168	\$4,208	\$4,835	\$1,521	\$6,956	\$57,372		\$292	\$57,664
Securities lending collateral	3,836,771	529,523	1,326,089	1,066,643	619,207	623,672	437,764	1,545,259	1,054,332	1,211,432	381,091	1,742,797	14,374,580		73,152	14,447,732
Due to other state agencies	1,036	200	284	291	186	237	170	402	296	299	235	477	4,113			4,113
<b>Total Liabilities</b>	<b>\$3,853,121</b>	<b>\$531,836</b>	<b>\$1,331,666</b>	<b>\$1,071,191</b>	<b>\$621,864</b>	<b>\$626,398</b>	<b>\$439,681</b>	<b>\$1,551,829</b>	<b>\$1,058,836</b>	<b>\$1,216,566</b>	<b>\$382,847</b>	<b>\$1,750,230</b>	<b>\$14,436,065</b>	<b>-</b>	<b>\$73,444</b>	<b>\$14,509,509</b>
<b>Equity:</b>																
<b>Fund Balance:</b>																
Special revenue funds																
Restricted	\$40,849,758	\$5,642,741	\$14,035,624	\$11,124,623	\$6,528,016	\$6,677,677	\$4,755,521	\$16,341,908	\$11,165,942	\$12,794,656	\$4,036,445	\$18,602,001	\$152,554,912	\$2,841,003	\$759,091	\$156,155,006
<b>Total Fund Balance</b>	<b>40,849,758</b>	<b>5,642,741</b>	<b>14,035,624</b>	<b>11,124,623</b>	<b>6,528,016</b>	<b>6,677,677</b>	<b>4,755,521</b>	<b>16,341,908</b>	<b>11,165,942</b>	<b>12,794,656</b>	<b>4,036,445</b>	<b>18,602,001</b>	<b>152,554,912</b>	<b>2,841,003</b>	<b>759,091</b>	<b>156,155,006</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$44,702,879</b>	<b>\$6,174,577</b>	<b>\$15,367,290</b>	<b>\$12,195,814</b>	<b>\$7,149,880</b>	<b>\$7,304,075</b>	<b>\$5,195,202</b>	<b>\$17,893,737</b>	<b>\$12,224,778</b>	<b>\$14,011,222</b>	<b>\$4,419,292</b>	<b>\$20,352,231</b>	<b>\$166,990,977</b>	<b>\$2,841,003</b>	<b>\$832,535</b>	<b>\$170,664,515</b>

**Board of University and School Lands**  
**Combining Balance Sheet**  
**SUPPLEMENTARY INFORMATION**  
**Non-major Governmental Funds**  
**June 30, 2012**

	Special Revenue 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	Non-major Governmental Funds
<b>Assets:</b>																
Cash	\$2,724	\$1,414	\$2,473	\$1,653	\$1,672	\$1,411	\$1,295	\$1,680	\$1,779	\$1,629	\$1,575	\$2,054	\$21,359	\$452,730	\$1,207	\$475,296
Investments	30,682,934	4,317,663	11,103,295	9,572,770	5,342,763	5,134,275	3,274,972	12,512,025	9,021,950	10,552,652	3,430,963	14,695,445	119,641,707	2,729,813	681,862	123,053,382
Interest receivable	151,180	26,293	42,634	49,885	24,550	31,115	21,872	58,095	46,046	48,248	26,905	70,595	597,418	6,396	1,114	604,928
Accounts receivable	520,782	35,242	235,275	45,490	68,938	105,861	99,671	149,988	66,188	108,811	3,852	240,908	1,681,006	63,883		1,744,889
Invested securities lending collateral	2,083,827	293,145	752,188	652,866	362,565	349,986	222,963	845,922	614,124	717,747	234,763	998,731	8,128,827		46,317	8,175,144
Loans																
Farm loans	670,900	129,505	183,888	188,414	120,757	152,846	110,015	260,361	191,724	193,481	151,731	307,853	2,661,475			2,661,475
Farm and other real estate	475	153	210	117	59	158	24	218	116	194	108	264	2,096			2,096
<b>Total Assets</b>	<b>\$34,112,822</b>	<b>\$4,803,415</b>	<b>\$12,319,963</b>	<b>\$10,511,195</b>	<b>\$5,921,304</b>	<b>\$5,775,652</b>	<b>\$3,730,812</b>	<b>\$13,828,289</b>	<b>\$9,941,927</b>	<b>\$11,622,762</b>	<b>\$3,849,897</b>	<b>\$16,315,850</b>	<b>\$132,733,888</b>	<b>\$3,252,822</b>	<b>\$730,500</b>	<b>\$136,717,210</b>
<b>Liabilities:</b>																
Accounts payable	\$15,868	\$2,232	\$5,728	\$4,971	\$2,761	\$2,665	\$1,698	\$6,441	\$4,676	\$5,465	\$1,788	\$7,605	\$61,898		\$353	\$62,251
Securities lending collateral	2,083,827	293,145	752,188	652,866	362,565	349,986	222,963	845,922	614,124	717,747	234,763	998,731	8,128,827		46,317	8,175,144
Due to other state agencies	1,674	324	459	470	301	382	274	650	478	483	379	769	6,643			6,643
<b>Total Liabilities</b>	<b>\$2,101,369</b>	<b>\$295,701</b>	<b>\$758,375</b>	<b>\$658,307</b>	<b>\$365,627</b>	<b>\$353,033</b>	<b>\$224,935</b>	<b>\$853,013</b>	<b>\$619,278</b>	<b>\$723,695</b>	<b>\$236,930</b>	<b>\$1,007,105</b>	<b>\$8,197,368</b>	<b>-</b>	<b>\$46,670</b>	<b>\$8,244,038</b>
<b>Equity:</b>																
Fund Balance:																
Special revenue funds																
Restricted	\$32,011,453	\$4,507,714	\$11,561,588	\$9,852,888	\$5,555,677	\$5,422,619	\$3,505,877	\$12,975,276	\$9,322,649	\$10,899,067	\$3,612,967	\$15,308,745	\$124,536,520	\$3,252,822	\$683,830	\$128,473,172
<b>Total Fund Balance</b>	<b>32,011,453</b>	<b>4,507,714</b>	<b>11,561,588</b>	<b>9,852,888</b>	<b>5,555,677</b>	<b>5,422,619</b>	<b>3,505,877</b>	<b>12,975,276</b>	<b>9,322,649</b>	<b>10,899,067</b>	<b>3,612,967</b>	<b>15,308,745</b>	<b>124,536,520</b>	<b>3,252,822</b>	<b>683,830</b>	<b>128,473,172</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$34,112,822</b>	<b>\$4,803,415</b>	<b>\$12,319,963</b>	<b>\$10,511,195</b>	<b>\$5,921,304</b>	<b>\$5,775,652</b>	<b>\$3,730,812</b>	<b>\$13,828,289</b>	<b>\$9,941,927</b>	<b>\$11,622,762</b>	<b>\$3,849,897</b>	<b>\$16,315,850</b>	<b>\$132,733,888</b>	<b>\$3,252,822</b>	<b>\$730,500</b>	<b>\$136,717,210</b>

**Board of University and School Lands**

**SUPPLEMENTARY INFORMATION**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**

**Non-major Governmental Funds**

**June 30, 2013**

Revenues:	Special Revenue Funds												Special Revenue Funds		Total Non-major Govern- mental 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.N.D.	Total	Capitol Building		Indian Cultural Education
Investment income	\$755,798	\$103,622	\$266,060	\$220,444	\$125,642	\$123,830	\$83,661	\$308,479	\$211,550	\$246,376	\$79,032	\$349,441	\$2,873,935	\$5,756	\$15,483	\$2,895,174
Loan income																
Farm loans	32,204	6,216	8,827	9,044	5,797	7,337	5,281	12,498	9,203	9,287	7,283	14,777	127,754			127,754
Net increase (decrease) in the fair value of investments	2,843,383	391,308	1,011,979	850,591	481,553	470,771	314,378	1,166,257	804,535	944,316	302,979	1,325,632	10,907,682		59,558	10,967,240
Securities lending income	7,234	998	2,500	2,011	1,168	1,176	825	2,914	1,988	2,284	719	3,286	27,103		138	27,241
Royalties	5,007,844	719,626	1,318,423	455,215	433,200	760,719	805,554	1,672,958	1,038,369	964,905	141,932	1,796,722	15,115,467	610,008		15,725,475
Bonuses	836,707	3,680	50,926	28,880	3,200	1,750	110,762	461,525	-	2,730	-	15,057	1,515,217	-		1,515,217
Rental income	203,934	39,509	87,892	24,550	57,366	61,383	42,081	63,573	58,602	44,598	31,811	134,361	849,660	86,951	2,000	938,611
<b>Total Revenues</b>	<b>9,687,104</b>	<b>1,264,959</b>	<b>2,746,607</b>	<b>1,590,735</b>	<b>1,107,926</b>	<b>1,426,966</b>	<b>1,362,542</b>	<b>2,688,204</b>	<b>2,124,247</b>	<b>2,214,496</b>	<b>563,756</b>	<b>3,639,276</b>	<b>31,416,818</b>	<b>702,715</b>	<b>77,179</b>	<b>32,196,712</b>
<b>Expenditures:</b>																
Current																
General government														26,534		26,534
Intergovernmental															1,918	1,918
Education	136,799	21,932	45,571	33,000	25,589	28,908	20,898	57,572	34,954	38,907	16,278	69,020	529,428			529,428
<b>Total Expenditures</b>	<b>136,799</b>	<b>21,932</b>	<b>45,571</b>	<b>33,000</b>	<b>25,589</b>	<b>28,908</b>	<b>20,898</b>	<b>57,572</b>	<b>34,954</b>	<b>38,907</b>	<b>16,278</b>	<b>69,020</b>	<b>529,428</b>	<b>26,534</b>	<b>1,918</b>	<b>557,880</b>
Excess of revenue over expenditures	9,550,305	1,243,027	2,701,036	1,557,735	1,082,337	1,398,058	1,341,644	3,630,632	2,089,293	2,175,589	547,478	3,570,256	30,887,390	676,181	75,261	31,638,832
<b>Other Financing Uses:</b>																
Transfer to Educational Institutions	(712,000)	(108,000)	(227,000)	(286,000)	(109,998)	(143,000)	(92,000)	(264,000)	(246,000)	(280,000)	(124,000)	(375,000)	(2,966,998)			(2,966,998)
Transfer to Facilities Management														(1,088,000)		(1,088,000)
Proceeds from sale of capital asset (land)												98,000	98,000			98,000
<b>Total Other Financing Uses</b>	<b>(712,000)</b>	<b>(108,000)</b>	<b>(227,000)</b>	<b>(286,000)</b>	<b>(109,998)</b>	<b>(143,000)</b>	<b>(92,000)</b>	<b>(264,000)</b>	<b>(246,000)</b>	<b>(280,000)</b>	<b>(124,000)</b>	<b>(277,000)</b>	<b>(2,868,998)</b>	<b>(1,088,000)</b>	<b>-</b>	<b>(3,956,998)</b>
<b>Net Change in Fund Balance</b>	<b>8,838,305</b>	<b>1,135,027</b>	<b>2,474,036</b>	<b>1,271,735</b>	<b>972,339</b>	<b>1,255,058</b>	<b>1,249,644</b>	<b>3,366,632</b>	<b>1,843,293</b>	<b>1,895,589</b>	<b>423,478</b>	<b>3,293,256</b>	<b>28,018,392</b>	<b>(411,819)</b>	<b>75,261</b>	<b>27,681,834</b>
Fund Balance - beginning	32,011,453	4,507,714	11,581,588	9,852,888	5,555,677	5,422,619	3,505,877	12,975,276	9,322,649	10,899,067	3,612,967	15,308,745	124,536,520	3,252,822	683,830	128,473,172
<b>Fund Balance - ending</b>	<b>\$40,849,758</b>	<b>\$5,642,741</b>	<b>\$14,055,624</b>	<b>\$11,124,623</b>	<b>\$6,528,016</b>	<b>\$6,677,677</b>	<b>\$4,755,521</b>	<b>\$16,341,908</b>	<b>\$11,165,942</b>	<b>\$12,794,656</b>	<b>\$4,036,445</b>	<b>\$18,602,001</b>	<b>\$152,554,912</b>	<b>\$2,841,003</b>	<b>\$759,091</b>	<b>\$156,155,006</b>

**BOARD OF UNIVERSITY AND SCHOOL LANDS**  
**SUPPLEMENTARY INFORMATION**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Non-major Governmental Funds**  
**June 30, 2012**

Revenues:	Special Revenue Funds													Special Revenue Funds		Total Non-major Govern- mental 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.N.D.	Total	Capitol Building	Indian Cultural Education	
Investment income	\$748,890	\$94,402	\$267,250	\$251,722	\$130,466	\$121,436	\$81,727	\$302,648	\$233,990	\$276,295	\$82,058	\$379,289	\$2,970,173	\$15,493	\$18,221	\$3,003,887
Loan income																
Farm loans	53,620	10,350	14,697	15,059	9,651	12,216	8,793	20,809	15,323	15,464	12,127	24,605	212,714			212,714
Net increase (decrease) in the fair value of investments	1,865	3,717	8,116	(16,226)	3,318	(3,771)	8,217	3,301	(4,967)	(8,289)	(585)	3,301	(2,003)		(1,219)	(3,222)
Securities lending income	6,098	858	2,201	1,910	1,061	1,024	652	2,475	1,797	2,100	687	2,922	23,785		136	23,921
Royalties	3,400,437	539,876	1,416,818	368,900	502,318	359,580	451,353	1,687,669	644,515	729,112	59,273	1,507,497	11,667,348	345,996		12,013,344
Bonuses	2,230,692	812,889	704,601	220,525	395,307	586,080	170,480	826,868	70,344	22,738	533,782	760,521	7,334,827	28,539		7,363,366
Rental income	191,587	42,988	63,886	29,165	55,693	61,120	39,449	58,113	49,030	46,550	30,426	126,664	794,671	239,595	2,000	1,036,266
<b>Total Revenues</b>	<b>6,633,189</b>	<b>1,505,080</b>	<b>2,477,569</b>	<b>871,055</b>	<b>1,097,814</b>	<b>1,137,685</b>	<b>760,671</b>	<b>2,901,883</b>	<b>1,010,032</b>	<b>1,083,970</b>	<b>717,768</b>	<b>2,804,799</b>	<b>23,001,515</b>	<b>629,623</b>	<b>19,138</b>	<b>23,650,276</b>
<b>Expenditures:</b>																
Current																
General government														23,303		23,303
Intergovernmental															2,899	2,899
Education	121,402	19,736	41,856	32,580	24,691	25,989	17,673	50,101	34,901	37,116	16,196	63,736	485,977			485,977
<b>Total Expenditures</b>	<b>121,402</b>	<b>19,736</b>	<b>41,856</b>	<b>32,580</b>	<b>24,691</b>	<b>25,989</b>	<b>17,673</b>	<b>50,101</b>	<b>34,901</b>	<b>37,116</b>	<b>16,196</b>	<b>63,736</b>	<b>485,977</b>	<b>23,303</b>	<b>2,899</b>	<b>512,179</b>
Excess of revenue over expenditures	6,511,787	1,485,344	2,435,713	838,475	1,073,123	1,111,696	742,998	2,851,782	975,131	1,046,854	701,572	2,741,063	22,515,538	606,320	16,239	23,138,097
<b>Other Financing Uses:</b>																
Transfer to Educational Institutions	(712,000)	(108,000)	(227,000)	(286,000)	(110,005)	(143,000)	(92,000)	(264,000)	(246,000)	(280,000)	(124,000)	(375,000)	(2,967,005)			(2,967,005)
Transfer to Facilities Management	-	-	-	-	-	-	-	-	-	-	-	-	-	(721,000)		(721,000)
<b>Total Other Financing Uses</b>	<b>(712,000)</b>	<b>(108,000)</b>	<b>(227,000)</b>	<b>(286,000)</b>	<b>(110,005)</b>	<b>(143,000)</b>	<b>(92,000)</b>	<b>(264,000)</b>	<b>(246,000)</b>	<b>(280,000)</b>	<b>(124,000)</b>	<b>(375,000)</b>	<b>(2,967,005)</b>	<b>(721,000)</b>	<b>-</b>	<b>(3,688,005)</b>
<b>Net Change in Fund Balance</b>	<b>5,799,787</b>	<b>1,377,344</b>	<b>2,208,713</b>	<b>552,475</b>	<b>963,118</b>	<b>968,696</b>	<b>650,998</b>	<b>2,587,782</b>	<b>729,131</b>	<b>766,854</b>	<b>577,572</b>	<b>2,366,063</b>	<b>19,548,533</b>	<b>(114,680)</b>	<b>16,239</b>	<b>19,450,092</b>
Fund Balance - beginning	26,211,666	3,130,370	9,352,875	9,300,413	4,592,559	4,453,923	2,854,879	10,387,494	8,593,518	10,132,213	3,035,395	12,942,682	104,987,987	3,367,502	667,591	109,023,080
<b>Fund Balance - ending</b>	<b>\$32,011,453</b>	<b>\$4,507,714</b>	<b>\$11,561,588</b>	<b>\$9,852,888</b>	<b>\$5,555,677</b>	<b>\$5,422,619</b>	<b>\$3,505,877</b>	<b>\$12,975,276</b>	<b>\$9,322,649</b>	<b>\$10,899,067</b>	<b>\$3,612,967</b>	<b>\$15,308,745</b>	<b>\$124,536,520</b>	<b>\$3,252,822</b>	<b>\$683,830</b>	<b>\$128,473,172</b>



**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***

Governor of North Dakota  
Legislative Audit and Fiscal Review Committee

North Dakota Board of University and School Lands  
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Dakota Board of University and School Lands as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise North Dakota Board of University and School Lands basic financial statements, and have issued our report thereon dated October 23, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Dakota Board of University and School Lands' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Board of University and School Lands' internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Board of University and School Lands' internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting as finding 13-1.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Dakota Board of University and School Lands' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 *Government Auditing Standards*.

### **North Dakota Board of University and School Lands' Response to Findings**

North Dakota Board of University and School Lands' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. North Dakota Board of University and School Lands' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



Bismarck, North Dakota  
October 23, 2013



### 13-1 Unclaimed Property Penalties

Condition: While the Board utilizes third-party contract auditors to address compliance issues out-of-state, currently there is no audit function in place in the Unclaimed Property Division to ensure North Dakota businesses are appropriately submitting unclaimed property and that penalties are appropriately assessed for noncompliance. The Board has compliance and audit policies and procedures in place; however they have no employee to currently fill this role internally.

Criteria: North Dakota Century Code 47-30.1-34 requires that penalties should be assessed and collected on entities that willfully fail to report or deliver property to the Department in accordance with the Uniform Unclaimed Property Chapter. As administrator of this fund, the North Dakota Board of University of School Lands is responsible for this compliance requirement.

Cause: Due to the limitations of the appropriated budget, the Board does not have an employee in place to perform audits and encourage North Dakota businesses to comply with North Dakota unclaimed property laws. The Board uses contracted auditors for out of state businesses but per North Dakota Century Code 47-30.1-30, the Board is not allowed to utilize outside auditors for this function with North Dakota entities. This position is necessary to ensure the Board is collecting all unclaimed property within the guidelines listed in the North Dakota Century Code, which is critical for the Department to properly assess and enforce penalties for willful failure to comply.

Effect: Inadequate staffing over these areas could result in underreporting of property due citizens, a misstatement of the financial statements and the loss of penalty income the Board would be eligible to receive.

Recommendation: We recommend that the Board find a way to implement this audit function with North Dakota entities to ensure that all unclaimed property is received and penalties properly assessed and collected for those businesses not in compliance.

Management's Response: The Board understands the recommendation and will continue to work towards implementing a more effective and efficient unclaimed property audit and compliance program to assist North Dakota businesses in complying with unclaimed property statutes. To that end, the Commissioner requested authorization from the 2013 Legislature for a full-time equivalent for an unclaimed property auditor. That request was not approved. The Commissioner also introduced legislation to allow third-party auditors to conduct in-state unclaimed property audits, that change was adopted by the 63<sup>rd</sup> Legislative Assembly with an August 1, 2013 effective date.



**Independent Auditor's Specific Comments Requested by the  
North Dakota Legislative Audit and Fiscal Review Committee  
Year Ended June 30, 2013**

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, 2013 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?

Unmodified

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

See finding identified on page 47.

3. Was internal control adequate and functioning effectively?

See finding identified on page 47.

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?

Action was taken to try and correct prior year finding; however not enough was done to fully correct the finding. See repeat finding in current year.

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

Yes, a separate management letter has been issued and is attached following page 50. The management letter identifies the passed audit adjustments that were identified during the audit. There were no additional findings or recommendations noted in this letter.

**Audit Committee Communications**

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

None

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

None

3. Identify any significant audit adjustments.

There were no material audit adjustments detected during the audit. The passed (immaterial) audit adjustments are detailed in the management letter following page 50.

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 Sallee LLP*

Bismarck, North Dakota  
October 23, 2013



CPAs & BUSINESS ADVISORS

To Governor Dalrymple  
Legislative Audit and Fiscal Review Committee  
North Dakota 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 North Dakota Board of University and School Lands for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 15, 2013. 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 North Dakota 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 2013. 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. The most sensitive estimates affecting the financial statements was:

Management's estimate of the fair value of investments is based on quoted market prices, estimates of fair value from investment managers, cash flow analysis, and yields currently available on comparable securities. We evaluated the key factors and assumptions used to develop the fair value estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

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

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

### **Corrected and Uncorrected Misstatements**

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

	<u>Debit</u>	<u>Credit</u>
<u>Common Schools Fund</u>		
Fund Balance	\$709,423	
Expenditures		\$ 38,776
Investments		670,647
To remove capital asset that is recorded as an investment.		

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is 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 October 23, 2013.

### **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.

## Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Governor, the Legislative Audit and Fiscal Review Committee and management of North Dakota 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  
October 23, 2013