



Financial Statements
June 30, 2012 and 2011

Board of University and School Lands

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Governor of North Dakota
Legislative Audit and Fiscal Review Committee

Board of University and School Lands
Bismarck, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of University and School Lands, a department of the State of North Dakota, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Board of University and School Lands' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of University and School Lands' management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Board of University and School Lands, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the Board of University and School Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2012 and 2011, and the changes in its financial position, where applicable, and the appropriations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of University and School Lands as of June 30, 2012 and 2011, and the respective changes in financial position and the respective statement of appropriations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Subsequent to the issuance of the North Dakota Board of University and School Lands 2012 financial statements and our report dated October 31, 2012, material modifications were made to the financial statements. The modification and the reason for the re-issuance are stated in Note 24. In our original report we expressed an unqualified opinion on the 2012 financial statements, and our opinion on those financial statements, as expressed herein, remains unqualified.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the Board of University and School Lands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America required that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Eide Bailly LLP

Bismarck, North Dakota
October 31, 2012, except for the items detailed in Note 24 of the financial statements which is dated December 13, 2012.

Board of University and School Lands
Management's Discussion and Analysis
June 30, 2012 and 2011

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, 2012, 2011 and 2010. 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, 2012, 2011, and 2010 by \$2,611,026,612, \$2,057,670,194, and \$1,529,337,219, respectively.
- The Board's net assets increased by \$553,356,418 for the year ending June 30, 2012, by \$528,332,975 for fiscal year 2011, and by \$520,731,700 for fiscal year 2010.
- Royalty revenues totaled \$125,932,217 during fiscal year 2011, an increase of \$38,530,159 over the \$87,402,058 earned in fiscal 2010. Royalty revenues totaled \$203,791,379 in fiscal year 2012, an increase of \$77,859,162 over the amount 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.
- Bonus revenues totaled \$173,584,432 in fiscal year 2011, a decrease of \$120,462,103 from the \$294,046,535 received in fiscal year 2010. Bonus revenues totaled \$125,466,546 in fiscal year 2012, a decrease of \$48,117,886 when compared to 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 received by the Common School Trust fund totaled \$49,391,903 in fiscal year 2011, an increase of \$21,030,629 over the \$28,361,274 received in fiscal year 2010. Oil extraction tax received in fiscal year 2012 totaled \$81,949,837, an increase of \$32,557,934 over fiscal year 2011. These increases are due to the substantial increase in oil production over the past two years.
- No gross production tax revenues were received by the oil and gas impact grant fund in 2011, which is a decrease of \$8.0 million from the amount received in 2010. A total of \$100.0 million of gross production taxes were deposited into the oil and gas impact grant fund during 2012, up \$100.0 million from 2011. The reason for the 2011 decrease is that the oil and gas impact grant fund reached its biennial cap of \$8.0 million in 2010, so no further funds were deposited during 2011. The large increase in gross production tax revenues in 2012 is a result of the legislature raising the cap on funds to be deposited into the oil and gas impact grant fund to \$100.0 million for the 2011-13 biennium.
- Investment income totaled \$51,436,556 during fiscal year 2011, an increase of \$1,936,130 over the \$49,500,426 of investment income earned in fiscal year 2010. Investment income totaled \$53,294,173 in fiscal year 2012, an increase of \$1,857,617 over fiscal year 2011. This increase in investment income is the result of a steady growth of assets invested in fixed income securities over the past two years.
- The change in fair value of investments, otherwise known as capital gains, totaled \$193,932,630 in fiscal year 2011, an increase of \$100,504,793 over the \$93,427,837 of gains earned in fiscal year 2010. Net capital gains totaled \$101,448 in 2012, a decline of \$193,831,182 from fiscal year 2011. The primary reason for the fiscal year 2011 increase is that the Board's equity portfolio returned almost 30% in 2011, as compared to a return of 18.25% in 2010. A combination of negative equity

markets and positive bond markets resulted in very little change in the fair value of investments during fiscal year 2012.

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

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Common Schools 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.

Government-Wide Financial Analysis

As noted earlier, changes in net assets may at times serve as a useful indicator of the Board's financial position. As of June 30, 2012, the Board's total net assets were \$2,611,026,612. As of June 30, 2011

Board of University and School Lands
Management's Discussion and Analysis
June 30, 2012 and 2011

and 2010, the Board's total net assets were \$2,057,670,194 and \$1,529,337,219, respectively. The largest portion of the Board's net assets is represented by investments in financial securities. The Board uses these net assets to provide distributions to educational entities and general government.

The following is a comparative statement of net assets:

	2012	2011	2010
Current and other assets	\$2,751,826,459	\$2,226,878,272	\$1,645,740,527
Capital assets	7,744,562	7,787,398	7,788,983
Total assets	2,759,571,021	2,234,665,670	1,653,529,510
Long-term liabilities	165,734	144,585	120,369
Other liabilities	148,378,675	176,850,891	124,071,922
Total liabilities	148,544,409	176,995,476	124,192,291
Net Assets:			
Net assets invested in capital assets	7,744,562	7,787,398	7,788,983
Restricted net assets			
Nonexpendable	64,342,175	63,224,476	62,225,366
Expendable	2,045,608,392	1,731,436,064	1,300,483,003
Unrestricted net assets	493,331,483	255,222,256	158,839,867
Total net assets	2,611,026,612	2,057,670,194	1,529,337,219
Total liabilities and net assets	\$2,759,571,021	\$2,234,665,670	\$1,653,529,510

During fiscal year ending June 30, 2012, the Board's net assets increased by \$553,356,418. This increase was mainly due to a \$524,948,187 increase in current and other assets and a \$28,451,067 decrease in liabilities. The majority of the increase in net assets was due to changes in investments of \$415,083,730, accounts receivable of \$7,524,127, energy impact loans of \$4,035,885 and due from other state agencies of \$28,438,292.

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

Board of University and School Lands
Management's Discussion and Analysis
June 30, 2012 and 2011

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

	2012	2011	2010
Changes in Net Assets			
Revenues			
General Revenues:			
Interest on investments	\$1,419,298	\$1,903,697	\$1,410,598
Change in fair value of investments	119,827	136,620	575,953
Royalties	56,854,403	33,094,055	20,587,493
Bonuses	57,524,446	101,726,307	97,144,465
Rents	446,937	482,565	425,207
Interest on loans	536,561	575,622	8,788,647
Contributions to perpetual funds	12,469,733	12,622,771	11,203,425
Taxes	209,242,308	52,550,227	31,667,531
Gain on Sale of Capital Asset - Land	123,925	26,427	353,855
Total General Revenue	338,737,438	203,118,291	172,157,174
Program Revenues:			
Interest on loans	2,810,702	3,128,440	3,194,685
Interest on investments	48,527,612	45,828,797	36,106,496
Change in fair value of investments	(18,379)	193,796,010	92,851,884
Royalties	146,936,976	92,838,162	66,814,565
Bonuses	67,942,100	71,858,125	196,902,070
Rents	9,310,009	7,945,334	7,358,652
Fees to Maintenance fund	5,196,627	4,089,594	2,464,314
Total Program Revenue	280,705,647	419,484,462	405,692,666
Total Revenues	619,443,085	622,602,753	577,849,840
Expenses			
Governmental Activities:			
General government	793,906	702,196	674,958
Intergovernmental	30,196,538	3,881,148	3,047,119
Education	11,901,997	9,926,667	7,938,676
Total Expenses	42,892,441	14,510,010	11,660,753
Excess before transfer	576,550,644	608,092,743	566,189,087
Transfers	(23,194,226)	(79,759,768)	(45,457,387)
Increase(decrease) in net assets	553,356,418	528,332,975	520,731,700
Net assets - beginning	2,057,670,194	1,529,337,219	1,008,605,519
Net assets - ending	\$2,611,026,612	\$2,057,670,194	\$1,529,337,219

During the fiscal year ending June 30, 2012, the Board's revenues decreased by a total of \$3,159,668. Mineral lease 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 increase oil production in the state, while gross production tax revenues increased by \$124,129,807 as the cap for energy impact grants was increased over the previous biennium by \$100,000,000. The increase in the fair value of investments declined by \$193,831,182 from the previous year as capital markets did not produce the huge gains earned during the previous fiscal year.

During fiscal year ending June 30, 2011, the Board's total revenues increased by \$44,752,913 due to additional royalty revenues of \$38,530,159 while bonus revenues decreased by \$120,462,103 due to a decline of available minerals for lease; tax revenues increased by \$20,882,696 due to additional extraction tax collections; and investment earnings increased by \$102,440,923.

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, 2012, 2011, and 2010, are \$7,744,562, \$7,787,398, and \$7,788,983 (net of accumulated depreciation for equipment) respectively. These capital assets include land and equipment. For additional details reference Note 13 – Capital Assets.

Economic Factors

The trust growth that occurred during fiscal year 2012 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 2012, the trusts experienced low 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 Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
Assets:		
Cash	\$124,858,720	\$16,530,120
Investments	2,331,833,750	1,916,750,020
Interest receivable	9,849,988	12,514,132
Accounts receivable	36,660,429	29,136,302
Invested securities lending collateral	142,270,590	168,233,584
Loans		
Farm loans	33,770,169	39,939,180
Energy construction loans	2,263,188	973,464
School loans	21,438,158	26,420,910
Energy impact loans	8,437,740	4,401,855
Farm and other real estate	26,730	-
Capital asset – land	7,743,275	7,784,350
Due from other state agencies	40,416,997	11,978,705
Equipment (net of accumulated depreciation)	1,287	3,048
Total Assets	<u>2,759,571,021</u>	<u>2,234,665,670</u>
Liabilities:		
Accrued payroll	167,590	145,194
Accounts payable	1,058,342	3,312,824
Securities lending collateral	142,270,590	168,233,584
Due to other state agencies	444,207	449,366
Claimant liability	4,428,596	4,701,766
Long-term liabilities:		
Compensated absences due within one year	9,350	8,157
Compensated absences due in more than one year	165,734	144,585
Total Liabilities	<u>148,544,409</u>	<u>176,995,476</u>
Net Assets:		
Net assets invested in capital assets	7,744,562	7,787,398
Restricted net assets		
Nonexpendable	64,342,175	63,224,476
Expendable	2,045,608,392	1,731,436,064
Unrestricted net assets	493,331,483	255,222,256
Total Net Assets	<u>\$2,611,026,612</u>	<u>\$2,057,670,194</u>

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	Program Revenues			
Governmental activities:	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
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
Total	\$42,892,441			\$237,813,206
Net (expense) revenue				\$237,813,206
General revenues:				
<i>Taxes:</i>				
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
Change in 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
Transfers:				
To/from other state agencies				(3,970,221)
Educational institutions				(49,224,005)
To/from general fund				30,000,000
Total general revenues and transfers				315,543,212
Total change in net assets				553,356,418
Net assets – beginning				\$2,057,670,194
Net assets – ending				\$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, 2011

2011				
Functions/Programs	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$702,196			(\$702,196)
Intergovernmental	3,881,147			(3,881,147)
Education	9,926,667	\$4,089,594	\$415,394,868	409,557,795
Total	\$14,510,010			\$404,974,452
Net (expense) revenue				\$404,974,452
General revenues:				
<i>Taxes:</i>				
Coal severance				3,158,324
Oil extraction				49,391,903
Contributions to special revenue fund				12,622,771
Unrestricted investment earnings				1,903,697
Change in fair value of investments				136,620
Royalties				33,094,055
Bonuses				101,726,307
Rents				482,565
Loan income				575,622
Gain on sale of capital asset – land				26,427
Transfers:				
To/from other state agencies				(38,626,768)
Educational institutions				(41,133,000)
Total general revenues and transfers				123,358,523
Total change in net assets				528,332,975
Net assets – beginning				\$1,529,337,219
Net assets – ending				\$2,057,670,194

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

Assets:	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
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		123,794,394	10,301,052			8,175,144	142,270,590
Loans							
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							
Total Assets	\$196,800	\$2,046,378,783	\$75,014,354	\$105,805,983	\$387,713,329	\$136,717,210	\$2,751,826,459
Liabilities:							
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
Total Liabilities	\$227,500	\$129,243,563	\$10,654,099	\$0	\$125	\$8,244,038	\$148,369,325
Equity:							
Fund Balance:							
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)
Total Fund Balance	(30,700)	1,917,135,220	64,360,255	105,805,983	387,713,204	128,473,172	2,603,457,134
Total Liabilities and Fund Balances	\$196,800	\$2,046,378,783	\$75,014,354	\$105,805,983	\$387,713,329	\$136,717,210	\$2,751,826,459

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

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 Assets of governmental activities	\$2,611,026,612

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, 2011

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

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

Total fund balances - governmental funds	\$2,050,035,538
Capital Asset - Land	7,784,350
Net book value of office equipment	3,048
Liability for compensated absences	(152,742)
Net Assets of governmental activities	<u>\$2,057,670,194</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, 2012

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		\$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
Change in 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
Total Revenues	5,196,627	346,927,075	4,227,091	100,000,000	139,318,091	23,650,276	619,319,160
Expenditures:							
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
Total Expenditures	5,303,181	6,112,839	67,182	30,193,639	679,318	512,179	42,868,338
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
Other Financing Sources (Uses):							
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
Total Other Financing Sources (Uses)	-	(46,092,000)	(3,249,221)	30,000,000	-	(3,688,005)	(23,029,226)
Net Change in Fund Balance	(106,554)	294,722,236	910,688	99,806,361	138,638,773	19,450,092	553,421,596
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	-
Increase in compensated absences liability	(22,342)
Net Assets of governmental activities	<u>\$553,356,418</u>

Board of University and School Lands
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Fiscal Year Ended June 30, 2011

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

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

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

Board of University and School Lands
Statement of Appropriations
June 30, 2012

	Original Appropriation	Final Adjusted Appropriation	First Year 2012 Expenditures	Second Year 2013 Expenditures	Unexpended Appropriation on 06/30/12
General Fund:					
Salaries and Wages	\$4,145,824	\$4,153,822	\$1,805,190	-	\$2,348,632
Operating Expenses	1,431,096	1,431,096	418,151	-	1,012,945
Capital Assets	10,000	10,000	-	-	10,000
Contingencies	100,000	100,000	-	-	100,000
	\$5,686,920	\$5,694,918	\$2,223,341	-	\$3,471,577

Oil and Gas Impact Grant Fund:

Energy Infrastructure and Impact Grants	\$99,778,269	\$134,778,269	\$10,008,830	-	\$124,769,439
Flood Infrastructure Development Grants	-	30,000,000	28,633	-	29,971,367
	\$99,778,269	\$164,778,269	\$10,037,463	-	\$154,740,806

Strategic Investment and Improvements Fund:

North Dakota General Fund	\$305,000,000	\$305,000,000	-	-	\$305,000,000
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Perpetual Education Trusts:

For the years ending on June 30, 2012 and June 30, 2011, the perpetual education trusts managed by the Board distributed \$49,224,005 and \$41,133,000, respectively in accordance with Article IX, Section 2 of the North Dakota State Constitution. During the same periods, the trusts paid administrative expenses of \$6,598,816 and \$5,883,954, respectively in accordance with N.D.C.C. 15-03-16.

Reconciliation of Administrative Expenses to Appropriated Expenditures

	Fiscal Year 2012	Fiscal Year 2011
Biennial Legislative Appropriation Expenditures	\$ 2,223,341	\$ 1,979,989
Continuing Appropriation Authority Expenditures	40,644,997	12,502,677
Total expenses as reflected on the financial statements	\$42,868,338	\$14,482,666

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.

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.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

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 monies from the Trust is distributed to the State general fund.

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

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

The 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 (formally the Energy Development 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.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

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.

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, 2012 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, 2012. Interest is expected to be collected prior to June 30, 2013 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.

The carrying amount of deposits with the BND and Northern Trust as of June 30, 2012 and 2011 were \$124,858,720 and \$16,530,120 respectively and the bank balances were \$18,755,833 and \$7,418,074. 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.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

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

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

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

The 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.

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, 2012

Fund Balances	General Fund	Common Schools Trust Fund	Coal Development Trust Fund	Oil and Gas & Flood Impact Grant Fund	Strategic Investment & Improvements Fund	Other Governmental Funds	Total
Permanent Funds:							
<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
Special Revenue Funds:							
<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)
Total Fund Balances:	<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>

Fiscal Year Ended June 30, 2011

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

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011 are classified as investments in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Equity Securities:		
Common stock	\$827,198,208	\$699,775,032
Preferred stock	3,152,840	6,811,402
Convertible equity	29,783,636	8,376,303
Equity exchange traded fund	87	197
Corporate convertible bonds	140,334,988	125,689,340
Fixed Income	953,107,215	808,857,556
Cash and Cash Equivalents	30,825,073	22,995,123
	<u>\$1,984,402,047</u>	<u>\$1,672,504,953</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, 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 will mature in less than one year. As of June 30, 2011, these investments included \$219,872,221 in U.S. Treasury Bills and \$23,475,000 in Bank of North Dakota certificate of deposits that will mature in less than one year.

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, 2012 and 2011, respectively, the Board held \$99,482 and \$185,233 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, 2012 and 2011, the book value of the building was \$709,413 and \$712,613, 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, 2012 and 2011

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, 2012 and 2011. The investments are shown by type, amount, and duration; and assume the call dates as the maturity dates.

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	0.000000
Corporate Convertible Bonds	140,334,988	1.105748
Government Agencies	22,989,036	0.079782
GNMA Fund	108,145,517	0.000000
Low Duration Fund	178,261,351	0.000000
Government Bonds	100,337,107	0.652602
Government Mortgage Backed Securities	42,597,453	0.825670
Gov't-issued Commercial Mortgage- Backed	2,281,345	0.021589
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	0.000000
Short Term Bills and Notes	8,181,814	0.001998
Short Term Investment Funds	22,343,698	0.000000
Total	\$1,125,697,620	4.957806

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

Fiscal Year 2011

Investment Type	Maturity Amount	Weighted Average Maturity (years)
Asset Backed Securities	\$4,089,142	0.079112
Commercial Mortgage-Backed	3,288,001	0.112047
Commercial Paper	5,109,213	0.000465
Corporate Bonds	264,001,802	1.775082
TIPS Fund	135,979,773	0.000000
Corporate Convertible Bonds	125,689,340	1.180817
Government Agencies	24,140,099	0.114269
GNMA Fund	155,856,541	0.000000
Short Bond Fund	103,322,747	0.000000
Government Bonds	50,343,837	0.367031
Government Mortgage Backed Securities	43,199,286	1.007338
Gov't-issued Commercial Mortgage-Backed	366,359	0.009190
Guaranteed Fixed Income	2,286,350	0.000000
Index Linked Government Bonds	2,562,422	0.037895
Municipal/Provincial Bonds	1,559,185	0.005999
Non-Government Backed CMOs	17,862,013	0.446550
Short Term Bills and Notes	11,978,679	0.004808
Short Term Investment Funds	11,134,863	0.000000
Total	<u>\$962,769,652</u>	<u>5.140603</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, 2012 and 2011, respectively, the Board held \$10,234,684 and \$14,961,389 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, 2012 and 2011, respectively.

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

Fiscal Year 2012	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$406,344					\$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	\$3,141,436	\$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						108,146,517	
GNMA Fund											178,261,351	\$44,711,983
Low Duration Fund											25,668,410	42,551,538
Government Bonds	10,429,891	6,569,534	6,085,716	4,191,594	2,679,979							2,281,345
Government Mortgage Backed Securities		45,915										1,144,632
Gov't-issued Commercial Mortgage-Backed												
Index Linked Government Bond												
Municipal/Provincial Bonds	5,459,161	1,279,952	185,933	875,301	237,868	2,141,957	847,256			2,367,083	5,025,101	
Non-Government Backed C.M.O.s		123,947									93,578	
Other Fixed Income											3,739,020	
Short Term Bills and Notes											14,956,448	
Short Term Investment Funds											22,343,698	8,181,814
	\$37,885,365	\$28,039,248	\$72,284,130	\$98,664,101	\$124,362,020	\$114,176,776	\$4,703,495	\$847,256	\$0	\$2,367,083	\$542,496,834	\$98,871,312

Fiscal Year 2011	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$524,150					\$1,367,364					\$2,197,608	
Commercial Mortgage-Backed	1,106,678	\$1,109,852									1,071,471	
Commercial Paper											5,109,213	
Corporate Bonds		4,795,998	\$33,875,078	\$46,399,143	\$85,866,691	70,892,370	\$3,097,653				5,354,425	
TIPS Fund	11,618,244										135,979,773	
Corporate Convertible Bonds		2,822,100	16,452,615	32,146,649	31,620,023	15,499,826	2,024,825				20,785,501	
Government Agencies	4,337,801					171,735					155,856,541	
GNMA Fund	23,968,364										103,322,747	
Short Bond Fund											19,778,470	\$6,105,433
Government Bonds	14,427,036	440,546	7,211,861	2,380,491								43,132,013
Government Mortgage Backed Securities	67,273											366,359
Gov't-issued Commercial Mortgage-Backed												
Guaranteed Fixed Income	2,286,350										2,562,422	
Index Linked Government Bond											8,018	
Municipal/Provincial Bonds	6,009,038	1,551,167			1,729,126	230,663	2,915,234	1,284,971		379,773	3,182,436	
Non-Government Backed C.M.O.s		130,772										11,978,679
Short Term Bills and Notes												
Short Term Investment Funds											11,134,863	
	\$65,344,934	\$10,850,435	\$57,639,554	\$82,926,283	\$119,218,040	\$88,161,978	\$8,037,712	\$1,284,971	\$0	\$379,773	\$466,343,468	\$61,562,484

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

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board treats currency exposure in two different ways, depending on the type of investment. For the Board's international equity portfolio, the currency exposure is not hedged as currency exposure is one of the things that add diversity to the overall portfolio. In the case of foreign bonds, the Board fully hedges the currency exposure as the purpose of this portfolio is to generate 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 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
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
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)
Hungarian	82,461	-	82,461
Mexican peso	101,299	-	101,299
Swedish krona		4,312,694	4,312,694
Japanese yen	(133,671)	43,705,957	43,572,286
Singapore dollar	-	3,933,336	3,933,336
Swiss franc	-	14,116,086	14,116,086
Czech Koruna	64,780	-	64,780
South African rand	95,064	-	95,064
Other	-	1,437,565	1,437,565
	<u>\$(57,237)</u>	<u>\$199,661,750</u>	<u>\$199,604,514</u>

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

Fiscal Year 2011

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

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. The investment policies of the Board allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statement of Net Assets. At June 30, 2012 and 2011, the Board had one type of derivative security: currency forwards.

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets with a gain of \$8,500,011 for fiscal year 2012 and a loss of \$13,214,156 in fiscal year 2011. At June 30, 2012 and 2011, the Board's investment portfolio included the currency forwards balances shown below.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

Currency	Cost	Purchases	Sales	Fair Value	
				June 30, 2012	June 30, 2011
Australian dollar	(\$10,081,680)	\$0	(\$10,381,187)	(\$10,381,187)	(\$8,801,867)
Canada dollar	(10,711,761)	-	(10,823,974)	(10,823,974)	(4,297,379)
Czech Republic koruna	(2,980,064)		(2,907,168)	(2,907,168)	(2,397,305)
Denmark krone		-			(6,129,320)
Euro members	(38,681,404)	-	(38,844,939)	(38,844,939)	(44,551,552)
Hungary forint	(2,660,043)	-	(2,597,518)	(2,597,518)	(2,396,888)
Japanese yen	(14,070,477)	-	(14,171,853)	(14,171,853)	
Mexico peso	(2,870,943)	-	(2,995,150)	(2,995,150)	(2,603,790)
New Zealand dollar	(4,466,638)	-	(4,639,146)	(4,639,146)	(4,081,296)
Norway krone	(4,823,091)	-	(4,953,749)	(4,953,749)	(3,558,047)
Poland zloty	(2,893,162)	-	(2,990,569)	(2,990,569)	(2,193,924)
Sweden krona		-			(3,958,783)
United Kingdom pound	(751,462)	-	(752,743)	(752,743)	(497,251)
United States dollar	96,594,386	96,594,386		96,594,386	85,486,128
South Africa rand	(1,603,660)	-	(1,648,733)	(1,648,733)	(1,479,011)
Total forwards subject to currency risk				(\$1,112,342)	(\$1,460,285)

NOTE 6 – SECURITIES LENDING

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

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

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

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

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 98 days as of June 30, 2012.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 39 days as of this statement date.

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

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

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

The following represents the Board's balances related to securities lending transactions at June 30, 2012 and 2011. Securities lending collateral is invested in investment pools and is not exposed to custodial credit risk.

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		
	\$140,636,824	\$142,270,590	\$0	\$0

Fair Value of Securities on Loan against Cash Collateral	\$140,636,824
Fair Value of Securities on Loan against Non Cash Collateral	\$ -
Total Fair Value of Securities on Loan	\$140,636,824

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

Fiscal Year 2011

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

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

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, 2012 the non-current and current portions of the loans were \$31,104,025 and \$2,666,144 respectively. The same amounts as of June 30, 2011 were \$37,061,741 and \$2,877,439 respectively.

As of June 30, 2012 and 2011, the pool had net assets of \$34,713,291 and \$44,122,998 respectively. For the same period, the pool earned net income of \$2,522,053 and \$2,828,796.

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 estimate 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.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

As of June 30, 2012 the non-current and current portions of the loans were \$2,232,219 and \$30,969 respectively. The same amounts as of June 30, 2011 were \$885,864 and \$87,600 respectively.

As of June 30, 2012 and 2011 the program had net assets of \$2,389,734 and \$1,027,394 respectively. For the same period, the program earned net income of \$112,341 and \$37,757 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, 2012 the non-current and current portions of the loans were \$7,908,185 and \$529,555 respectively. The same amounts as of June 30, 2011 were \$4,041,989 and \$359,866 respectively.

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

The Sixty-second Legislative Assembly repealed chapter 6-09.6 of the North Dakota Century Code relating to the developmentally disabled facility loan program. Senate Bill No. 2121, which became effective July 1, 2012, provided for the sale of loans and the transfer of proceeds to the Common Schools Trust fund. The actual sale of loans occurred on August 1, 2012. The Common Schools Trust fund will no longer provide funding for developmentally disabled facility loans.

NOTE 11 - SCHOOL CONSTRUCTION LOANS

N.D.C.C. 15-60-10 was enacted in 1993 authorizing the Board to fund low interest school construction loans from the Coal Development Trust 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, 2012 the non-current and current portions of the loans were \$19,005,489 and \$2,432,669 respectively. The same amounts as of June 30, 2011 were \$23,682,648 and \$2,738,262 respectively.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 12 - 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, 2012 and 2011 rent of \$46,537 and \$11,889 was paid by the non-Common Schools Trusts funds.

NOTE 13 - CAPITAL ASSETS

Governmental Activities:	Balance 7/1/11	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	\$7,787,398	(\$1,347)	(\$41,489)	\$7,744,562

Governmental Activities:	Balance 7/01/10	Additions	Retirements	Balance 6/30/11
Land	\$7,784,173	\$700	(\$523)	\$7,784,350
Equipment	8,808			\$8,808
Less accumulated depreciation:				
Equipment	(3,998)	(1,762)		(5,760)
Net capital assets	\$7,788,983	(\$1,062)	(\$523)	\$7,787,398

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 2012, 41.36 acres were acquired and 78 acres were sold. In fiscal year 2011, 69.95 acres were acquired and 52.28 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 \$1,761 and \$1,762 in equipment depreciation for fiscal years ending June 30, 2012 and 2011 was charged to the education fund.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 14 - DUE FROM (TO) OTHERS

The following is a detail of the amounts that are due from and to other trust funds managed by the Department of Trust Lands at June 30, 2012 and 2011.

Fund	2012		2011	
	Due from other funds	Due to other funds	Due from other funds	Due to other funds
General fund			\$70,243	\$2,720,446
Strategic Investment and Improvements fund			672,411	
Non-major perpetual funds			152,202	
Common Schools Trust fund			1,895,833	70,243
			<u>\$2,790,689</u>	<u>\$2,790,689</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, 2012 and 2011.

Fund	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	\$24,129,807			
	<u>24,129,807</u>	<u>-</u>	<u>-</u>	<u>-</u>
Coal Development Trust fund:				
State Treasurer	488,533	\$341,973	\$459,481	\$321,636
	<u>488,533</u>	<u>341,973</u>	<u>459,481</u>	<u>321,636</u>
General fund:				
Attorney General		6,294		1,692
Dept. of Transportation		6,035		3,117
Information Technology Department		5,072		12,622
Central Services		515		819
Office of Management and Budget				15,541
	<u>-</u>	<u>17,916</u>	<u>-</u>	<u>33,791</u>
Perpetual funds:				
State Treasurer	15,798,657		10,254,510	
Developmentally Disabled Facility Loan No. 3			1,264,715	
Bank of North Dakota		84,318		93,939
	<u>15,798,657</u>	<u>84,318</u>	<u>11,519,224</u>	<u>93,939</u>
Total Due To/Due From	<u>\$40,416,997</u>	<u>\$444,207</u>	<u>\$11,978,705</u>	<u>\$449,366</u>

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 15 – 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 16 – TRANSFERS FROM (TO) OTHER STATE AGENCIES

The following detail represents amounts transferred to beneficiaries and other State agencies as of June 30, 2012 and 2011.

Fund	2012		2011	
	Transfers from other agencies	Transfers to other agencies	Transfers from other agencies	Transfers to other agencies
Perpetual Funds:				
Department of Public Instruction		\$46,257,000		\$38,589,000
N.D.S.U.		712,000		619,000
School for the Blind		108,000		103,000
School for the Deaf		227,000		180,000
State Hospital		286,000		228,000
Ellendale		110,005		98,000
Valley City State University		143,000		130,000
Mayville State University		92,000		89,000
Industrial School		264,000		219,000
School of Science		246,000		194,000
School of Mines		280,000		214,000
Veterans Home		124,000		124,000
U.N.D.		375,000		346,000
		49,224,005		41,133,000
Coal Development Trust:				
Lignite Research Fund		2,213,865		2,210,826
General Fund of North Dakota		1,035,356		1,000,000
		3,249,221		3,210,826
Strategic Investment and Improvements :				
General Fund of North Dakota				35,314,242
				35,314,242
Capitol Building Trust:				
Facilities Management		721,000		101,700
		721,000		101,700

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

Oil and Gas Impact Fund:				
General Fund of North Dakota	30,000,000			
	30,000,000			
Total Transfers	\$30,000,000	\$53,194,226		\$79,759,768

NOTE 17 – ASSIGNED FUND BALANCE

On September 27, 2012 the Board of University and School Lands classified \$95,799,332 of the Strategic Investment and Improvements fund as an assigned fund balance for fiscal year 2012 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 18 – 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 shorezone, 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.

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 and the Court informed the parties that it was remanding the case back to state court. On March 5, 2012, defendant Kerry Hoffman filed an answer and crossclaim against the Board asserting claims of an unconstitutional taking of private property without just compensation. On March 26, 2012, the State filed a motion to dismiss the Kerry Hoffman's crossclaim against the Board.

On March 22, 2012, the State filed a motion with the federal court asking that the federal court refer to the North Dakota Supreme Court the question about title to the shorezone. On June 7, 2012, the federal court issued an order remanding this case back to state court.

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 shorezone 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 shorezone minerals. It is anticipated that both parties will file summary judgment motions requesting that the Court decide, as a matter of law, ownership of the shorezone. The court has scheduled oral arguments for December 17, 2012.

Wilkinson Family v. State of North Dakota

On January 10, 2012, the Wilkinson family filed a suit in state court asserting that they own shorezone minerals in about 200 acres west of Williston. This case is still in the initial pleading stage. The plaintiffs in the Wilkinson Family case did not want this case to be consolidated with the Brigham Oil & Gas and Reep et. al. cases for the summary judgment motions to determine ownership of the shorezone.

NOTE 19 – CONTINUING APPROPRIATIONS

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

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

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

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

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

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

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

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

NDCC 15-68-06 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.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

NOTE 20 – 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 1 to 2 days per month, and accrued annual leave cannot exceed 30 days as of April 30th 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 \$175,084 and \$152,742 at June 30, 2012 and 2011, respectively. This balance includes the employer's share of FICA taxes.

Governmental Activities	Balance 7/1/11	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter	Balance 6/30/12
Other long-term liabilities:						
Compensated absences	\$152,742	\$117,415	\$95,073	\$9,350	\$165,734	\$175,084

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

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.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

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 5% 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 5.12% of each participant's salary as the employer's share. In addition to the 5.12% 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, 2012, 2011 and 2010 were \$120,464, \$89,822, and \$78,940 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 \$4.50 for each of the employee's or decreased employee's years of credited service not to exceed the premium in effect for selected coverage. For this pay-as-you-go plan, total department expenditures for the periods ending June 30, 2012, 2011 and 2010 were \$14,995, \$12,611, and \$11,083 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.

Board of University and School Lands

Notes to Financial Statements

June 30, 2012 and 2011

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.

NOTE 24 – RESTATEMENT OF FINANCIALS

Subsequent to issuance of the 2012 financial statement, the Office of Management and Budget stated a \$30,000,000 State General fund appropriation for the Flood-Impacted Political Subdivision Infrastructure Development Grant program did not transfer during fiscal year 2012. Consequently, the 2012 financial statements were restated by removing the \$30,000,000. transfer in from State General fund and cash balance from the Oil and Gas and Flood Impact Grant fund and from the governmental activities. The Independent Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee Year Ended June 30, 2012 was also updated to include the adjustment to the transfer into question number three under Audit Committee Communications.

Board of University and School Lands

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2012

Assets:	Special Revenue Funds										Total	Nonmajor Govern- mental Funds						
	N.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Elberta	Valley City State U.	Wayville State U.	Industrial School	School of Science	School of Mining			Veterans Home	U.M.W.	Total	Capitol Building	Indian Cultural Education	
Cash	\$2,724	\$1,414	\$2,473	\$1,653	\$1,672	\$1,411	\$1,295	\$1,680	\$1,779	\$1,628	\$1,575	\$2,054	\$21,359	\$452,730	\$1,207	\$453,937	\$475,286	
Investments	30,682,934	4,317,663	11,103,295	9,572,770	5,342,763	5,104,275	3,274,972	12,512,025	8,021,950	10,552,652	3,430,963	14,695,445	119,041,707	2,729,813	681,862	3,411,675	123,053,382	
Interest receivable	151,180	26,293	42,634	46,895	24,550	31,115	21,872	58,085	46,046	48,248	26,905	70,595	597,418	6,396	1,114	7,510	604,928	
Accounts receivable	520,782	35,242	235,275	45,490	68,938	105,861	99,671	148,988	66,188	109,811	3,852	240,908	1,681,006	63,883		63,883	1,744,889	
Invested securities lending collateral	2,083,827	283,145	752,188	652,866	362,565	349,996	222,963	945,922	614,124	717,747	234,763	990,731	8,128,827		48,317	48,317	8,175,144	
Loans	670,900	120,505	183,888	188,414	120,757	152,846	110,015	260,361	181,724	183,481	151,731	307,853	2,661,476			2,661,476	2,661,476	
Farm and other real estate	475	153	210	117	59	168	24	218	116	184	109	264	2,096			2,096	2,096	
Total Assets	\$34,172,822	\$4,803,415	\$12,319,683	\$10,511,195	\$5,921,304	\$5,715,652	\$3,730,812	\$13,828,289	\$9,941,927	\$11,622,782	\$3,849,887	\$16,316,850	\$132,733,888	\$3,252,822	\$730,500	\$3,083,322	\$136,717,210	
Liabilities:																		
Accounts payable	\$15,868	\$2,232	\$5,728	\$4,971	\$2,761	\$2,665	\$1,688	\$6,441	\$4,676	\$5,485	\$1,788	\$7,605	\$61,888		\$353	\$353	\$62,251	
Securities lending collateral	2,083,827	283,145	752,188	652,866	362,565	349,996	222,963	945,922	614,124	717,747	234,763	990,731	8,128,827		48,317	48,317	8,175,144	
Due to other state agencies	1,674	324	459	470	301	362	274	650	478	483	379	789	6,643			6,643	6,643	
Total Liabilities	\$2,101,369	\$2,895,701	\$7,58,375	\$6,68,307	\$3,665,627	\$3,553,033	\$224,935	\$9,53,013	\$619,278	\$723,695	\$238,930	\$1,007,105	\$8,197,968		\$48,670	\$48,670	\$8,246,638	
Equity:																		
Fund Balances:																		
Special revenue funds	\$32,011,453	\$4,507,714	\$11,561,588	\$9,852,888	\$5,555,677	\$5,422,619	\$3,565,677	\$12,975,276	\$9,322,649	\$10,899,067	\$3,612,967	\$15,308,745	\$124,536,520	\$3,252,822	\$683,830	\$3,936,652	\$128,473,172	
Restricted	32,011,453	4,507,714	11,561,588	9,852,888	5,555,677	5,422,619	3,565,677	12,975,276	9,322,649	10,899,067	3,612,967	15,308,745	124,536,520	3,252,822	683,830	3,936,652	128,473,172	
Total Fund Balance	\$64,022,906	\$9,015,428	\$23,123,176	\$19,705,776	\$11,111,354	\$10,845,238	\$7,131,354	\$25,950,552	\$18,645,298	\$21,798,134	\$7,225,934	\$30,617,490	\$249,073,040	\$6,505,644	\$1,367,660	\$7,873,586	\$256,946,344	
Total Liabilities and Fund Balances	\$34,172,822	\$4,803,415	\$12,319,683	\$10,511,195	\$5,921,304	\$5,715,652	\$3,730,812	\$13,828,289	\$9,941,927	\$11,622,782	\$3,849,887	\$16,316,850	\$132,733,888	\$3,252,822	\$730,500	\$3,083,322	\$136,717,210	

Board of University and School Lands

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2011

Assets:	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.M.W.	Total	Capitol Building	Indian Cultural Education	Nonmajor Governmental Funds
Cash	\$62,131	\$13,325	\$17,700	\$17,898	\$12,147	\$15,373	\$11,683	\$24,524	\$18,517	\$18,468	\$14,739	\$28,798	\$255,382	\$2,348,325	\$5,645	\$2,609,352
Investments	24,786,618	2,917,052	8,782,180	8,960,013	4,289,800	4,185,975	2,659,756	9,871,488	8,178,547	9,986,920	2,866,718	12,184,117	89,336,202	975,000	669,215	100,971,417
Interest receivable	194,868	31,774	57,970	65,111	32,127	38,911	26,917	75,322	80,218	64,727	32,487	91,887	771,839	5,977	2,117	778,833
Accounts receivable	371,618	16,870	263,432	24,637	106,789	35,377	31,085	112,154	85,000	85,011	3,771	254,388	1,390,652	38,200		1,428,852
Invested securities lending collateral	2,399,232	284,409	841,869	869,686	413,481	408,945	257,935	955,058	782,185	938,811	275,643	1,176,579	9,813,835		63,457	9,877,292
Loans																
Farm loans	793,429	153,157	217,472	222,825	142,811	180,781	130,108	307,912	226,740	228,817	179,442	364,078	3,147,552			3,147,552
Due from other funds	19,653	278	10,041	15,841	1,724	424	223	2,613	29,349	44,517	323	27,418	152,202			152,202
Total Assets	\$28,627,347	\$3,418,688	\$10,200,374	\$10,175,913	\$5,008,689	\$4,863,766	\$3,114,687	\$11,348,081	\$9,381,053	\$11,077,272	\$3,313,133	\$14,129,283	\$114,667,684	\$3,387,502	\$731,434	\$118,766,600
Liabilities:																
Accounts payable	\$14,609	\$1,792	\$5,126	\$5,298	\$2,518	\$2,478	\$1,571	\$5,815	\$4,824	\$5,717	\$1,878	\$7,177	\$59,541		\$98	\$59,639
Securities lending collateral	2,399,232	284,409	841,869	869,688	413,481	408,945	257,935	955,058	782,185	938,811	275,643	1,176,579	9,813,835		63,457	9,877,292
Due to other state agencies	1,840	355	504	518	331	420	302	714	528	531	417	845	7,301			7,301
Total Liabilities	\$2,415,681	\$2,689,496	\$847,499	\$375,500	\$416,330	\$409,843	\$259,808	\$981,587	\$797,535	\$945,059	\$277,738	\$1,188,601	\$9,879,677		\$63,843	\$9,943,520
Equity:																
Fund Balance:																
Special revenue funds	\$28,211,688	\$3,130,370	\$9,352,875	\$9,300,413	\$4,592,559	\$4,453,823	\$2,854,879	\$10,387,494	\$8,593,518	\$10,132,213	\$3,035,395	\$12,942,682	\$104,987,987	\$3,387,502	\$687,591	\$109,023,080
Restricted	28,211,688	3,130,370	9,352,875	9,300,413	4,592,559	4,453,823	2,854,879	10,387,494	8,593,518	10,132,213	3,035,395	12,942,682	104,987,987	3,387,502	687,591	109,023,080
Total Fund Balance	\$28,211,688	\$3,130,370	\$9,352,875	\$9,300,413	\$4,592,559	\$4,453,823	\$2,854,879	\$10,387,494	\$8,593,518	\$10,132,213	\$3,035,395	\$12,942,682	\$104,987,987	\$3,387,502	\$687,591	\$109,023,080
Total Liabilities and Fund Balances	\$28,627,347	\$3,418,688	\$10,200,374	\$10,175,913	\$5,008,689	\$4,863,766	\$3,114,687	\$11,348,081	\$9,381,053	\$11,077,272	\$3,313,133	\$14,129,283	\$114,667,684	\$3,387,502	\$731,434	\$118,766,600

Board of University and School Lands
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Nonmajor Governmental Funds
 June 30, 2012

	Special Revenue Funds													Total		
	M.D.S.U.	School for the Blind	School for the Deaf	State Hospital	Ellensburg	Valley City State U.	Mayville State U.	Industrial School	School of Sciences	School of Mines	Veterans Home	U.I.U.D.	Capitol Building		Indian Cultural Education	Nonmajor Governmental Funds
Investment Income	\$748,680	\$84,402	\$267,250	\$251,722	\$130,466	\$121,436	\$81,727	\$302,648	\$233,090	\$276,265	\$62,058	\$378,288	\$15,493	\$18,221	\$33,714	\$3,000,887
Loan Income																
Farm loans	53,620	10,350	14,687	15,059	9,651	12,216	8,793	20,609	15,323	15,484	12,127	24,605				212,714
Change in fair value of investments	1,065	3,717	6,116	(18,226)	3,316	(3,771)	8,217	3,301	(4,867)	(8,283)	(585)	3,301			(1,218)	(3,222)
Securities lending income	6,088	658	2,201	1,910	1,061	1,024	652	2,475	1,787	2,100	687	2,922			138	23,021
Royalties	3,400,437	538,878	1,418,818	368,800	502,318	359,500	451,353	1,687,669	644,515	729,112	59,273	1,507,487			345,068	12,013,344
Bonuses	2,230,692	812,869	704,601	220,525	395,307	586,000	170,480	826,688	70,344	227,38	537,82	760,921			28,539	7,983,366
Rental Income	181,587	47,888	83,888	28,185	55,693	61,120	39,448	58,113	49,039	46,550	39,426	128,664			241,595	1,026,266
Total Revenues	6,633,189	1,505,060	2,477,569	871,055	1,087,814	1,137,885	760,871	2,901,683	1,010,032	1,083,970	717,768	2,804,799	679,623	19,138	668,161	23,650,276
Expenditures:																
Current																
General government																23,303
Intergovernmental																2,899
Education	121,402	18,736	41,856	32,580	24,691	25,889	17,673	50,101	34,801	37,116	16,196	63,736			485,977	485,977
Total Expenditures	121,402	18,736	41,856	32,580	24,691	25,889	17,673	50,101	34,801	37,116	16,196	63,736			26,202	512,170
Excess of revenues over expenditures	6,511,787	1,486,324	2,435,713	838,475	1,073,123	1,111,696	742,898	2,851,782	975,131	1,046,854	701,572	2,741,083	666,320	16,239	622,559	23,130,097
Other Financing Uses:																
Transfer to Educational Institutions	(712,000)	(108,000)	(227,000)	(288,000)	(110,005)	(143,000)	(82,000)	(264,000)	(246,000)	(280,000)	(124,000)	(375,000)	(721,000)		(721,000)	(2,967,005)
Transfer to Facilities Management																
Total Other Financing Uses	(712,000)	(108,000)	(227,000)	(288,000)	(110,005)	(143,000)	(82,000)	(264,000)	(246,000)	(280,000)	(124,000)	(375,000)	(721,000)		(721,000)	(3,689,005)
Net Change in Fund Balance	5,799,787	1,377,324	2,208,713	550,475	963,118	968,696	660,898	2,587,782	729,131	766,854	577,572	2,366,083	(114,680)	18,239	(88,441)	19,450,092
Fund Balance - beginning	28,211,666	3,130,370	9,352,875	9,300,413	4,592,559	4,453,023	2,854,879	10,387,494	8,593,518	10,152,213	3,035,395	12,942,692	3,867,502	687,691	4,035,083	109,023,080
Fund Balance - ending	\$32,011,453	\$4,507,714	\$11,561,588	\$9,852,888	\$5,555,677	\$5,422,619	\$3,505,877	\$12,875,276	\$9,322,649	\$10,899,067	\$3,612,967	\$15,308,745	\$3,252,822	\$683,830	\$5,956,652	\$129,473,172

BOARD OF UNIVERSITY AND SCHOOL LANDS

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Nonmajor Governmental Funds
 June 30, 2011

Revenues:	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
Investment Income	\$550,392	\$85,870	\$234,226	\$248,195	\$108,123	\$119,378	\$73,069	\$281,735	\$234,339	\$284,597	\$81,894	\$330,531	\$2,712,149	\$34,635	\$19,581	\$2,766,365
Loan Income	60,035	11,589	16,455	16,860	10,866	10,877	8,845	23,298	17,158	17,313	13,578	27,548	238,160			238,160
Farm loans	2,635,975	368,865	961,069	1,042,863	433,358	506,316	300,554	1,201,685	998,651	1,095,170	348,395	1,352,386	11,255,137			11,340,578
Change in fair value of investments	3,178	371	1,098	1,134	539	531	336	1,245	1,033	1,224	358	1,137	12,535		83	12,618
Securities lending income	1,692,186	105,381	1,542,456	438,481	628,074	224,349	194,876	468,662	660,481	728,858	21,541	1,198,018	7,841,401	320,868		8,162,269
Royalties	3,995,343	241,000	295,074	803,656	437,861	236,652	437,340	437,060	198,880	885,200	274,000	1,433,289	9,671,855	930,508		8,783,391
Bonuses	173,283	38,668	61,824	30,884	58,471	59,195	38,684	55,212	48,593	40,551	27,538	119,803	752,087	105,027	2,701	859,815
Rental Income	9,200,302	851,624	3,113,132	2,681,533	1,675,230	1,160,089	1,054,684	2,463,897	2,159,123	3,049,013	767,305	4,413,022	32,483,324	552,066	107,808	33,143,196
Total Revenues																
Expenditures:																
Current:																
General government														21,090		21,090
Intergovernmental															2,859	2,859
Education	102,931	16,408	35,608	30,480	71,448	24,414	16,119	44,644	32,454	34,857	14,631	57,877	431,659			431,659
Total Expenditures	102,931	16,408	35,608	30,480	71,448	24,414	16,119	44,644	32,454	34,857	14,631	57,877	431,659	21,090	2,859	451,618
Excess of revenue over expenditures	8,097,411	835,218	3,077,524	2,551,373	1,653,782	1,135,685	1,038,685	2,419,253	2,126,669	3,009,156	752,674	4,355,145	32,051,655	530,876	104,947	32,687,578
Other Financing Uses:																
Transfer to Educational Institutions	(619,000)	(103,000)	(180,000)	(228,000)	(89,000)	(130,000)	(89,000)	(219,000)	(194,000)	(214,000)	(124,000)	(348,000)	(2,544,000)	(101,700)		(2,544,000)
Transfer to Facilities Management	(819,000)	(103,000)	(180,000)	(228,000)	(89,000)	(130,000)	(89,000)	(219,000)	(194,000)	(214,000)	(124,000)	(348,000)	(2,544,000)	(101,700)		(2,645,700)
Total Other Financing Uses	(1,438,000)	(206,000)	(360,000)	(456,000)	(178,000)	(260,000)	(178,000)	(438,000)	(388,000)	(428,000)	(248,000)	(696,000)	(5,088,000)	(203,400)		(5,291,400)
Net Change in Fund Balance	6,459,411	732,218	2,697,524	2,323,373	1,555,782	1,005,685	949,685	2,209,253	1,932,669	2,794,156	628,674	4,009,145	28,507,655	428,276	104,947	30,041,878
Fund Balance - beginning	17,739,255	2,388,169	6,455,351	6,977,040	3,038,777	3,448,238	3,107,241	8,107,241	6,630,849	7,338,937	2,106,721	8,933,337	75,489,332	2,938,228	562,844	78,981,202
Fund Balance - ending	\$26,211,666	\$3,130,370	\$9,352,875	\$9,300,413	\$4,692,559	\$4,453,923	\$4,056,926	\$10,316,494	\$8,563,698	\$10,133,113	\$2,733,395	\$12,942,482	\$104,987,087	\$3,367,502	\$567,591	\$108,023,080



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Governor of North Dakota
Legislative Audit and Fiscal Review Committee

Board of University and School Lands
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund of the Board of University and School Lands as of and for the year ended June 30, 2012 and have issued our report thereon dated October 31, 2012, except for the items detailed in Note 24 of the financial statements which is dated December 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a certain deficiency in internal control over financial reporting 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 12-1. 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.

Compliance and Other Matters

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

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

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



Bismarck, North Dakota

October 31, 2012, except for the items detailed in Note 24 of the financial statements which is dated December 13, 2012.

12-1 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 concurs with the recommendation and will 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. The Commissioner intends to request an unclaimed property compliance FTE during the upcoming legislative session



CPAs & BUSINESS ADVISORS

**Independent Auditor's Specific Comments Requested by the
North Dakota Legislative Audit and Fiscal Review Committee
Year Ended June 30, 2012**

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, 2012 audit of the Board of University and School Lands are as follows:

Audit Report Communications

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

Unqualified

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

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?

Yes, finding from prior year was addressed and corrected.

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.

The passed (immaterial) audit adjustments are detailed in the management letter following page 50.

The Oil and Gas and Flood Impact Grant Fund and governmental activities had to be updated to remove the cash and transfer in from the State General Fund per communication from ND Office of Management and Budget.

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

None

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

None

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

None

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

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

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

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

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

Eide Bailly LLP

Bismarck, North Dakota
October 31, 2012, except for the items detailed in Note 24 of the financial statements which is dated
December 13, 2012.