

December 1, 2011

The Honorable Jack Dalrymple
Governor of North Dakota
State Capitol
Bismarck ND 58505

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

Dear Governor Dalrymple and Secretary Jaeger:

It is my honor to present the 2009-2011 Biennial Report for the Board of University and School Lands and the Office of the Commissioner of University and School Lands. This report presents an overview of the Board's authority under the state constitution and laws, the activities of the Land Department divisions that serve the educational trusts on behalf of the Board, the status of trust funds and distributions and the efforts of the Energy Infrastructure and Impact Office.

I am pleased to report that all trust balances and funds managed by the Board remain healthy and continue to grow, many at a remarkable pace. The investment portfolio has largely recovered from the loss in value experienced during the 2007-09 biennium and the Board's conservative approach to trust management helped the trusts avoid most of challenges that continue to hinder many of the nation's institutional investors. Although historically low interest rates continued to hamper the ability of the portfolio to generate strong returns from fixed income assets, equities recovered nicely from their early 2009 lows.

Other revenue sources remained strong; a thriving agriculture economy bolstered surface lease returns and mineral activity continued to grow at a dramatic rate. Throughout the biennium, quarterly oil and gas lease sales were historic in terms of bonuses received for leases. Royalty income also continued to grow as leases were developed in the Bakken and Three Forks resource play. The combination of strong investment markets and robust oil and gas activity resulted in the value of the educational trusts nearly doubling in size during the biennium, collectively growing from \$900 million to \$1.7 billion.

As a result of the 2006 constitutional change initiated by the Board, the 2009-2011 biennium marked the first time that educational trust distributions were based on the average value of the trusts' financial assets, rather than the amount of interest and income earned by each trust. The distributions to the educational institutions totaled \$82.3 million in the 2009-2011 biennium, representing a 15.5% increase from the prior biennium.

This report includes initiatives and successes undertaken by the predecessors of the current chairman and commissioner. Governor John Hoeven chaired the Land Board for 10 years until his resignation in December of 2010 and Gary Preszler retired in April of 2010 after serving nine years as commissioner. The vision and commitment of both of these men are reflected in the accomplishments of the Board, Department and the trusts; their leadership is valued and recognized.

Special acknowledgment and appreciation is also extended to the employees of the State Land Department, for their every day dedication in serving the trust beneficiaries and the people of North Dakota. Through rapid growth and changes, the educational community continues to be well-served by these committed and talented people.

With strong investment earnings and growth, expanding income sources, and prudent maintenance of real property, trust beneficiaries have and will continue to benefit from the work of the Land Board and State Land Department.

Respectfully submitted,

Lance D. Gaebe
Commissioner, State Land Department

TABLE OF CONTENTS

Commissioner's Report

Historical Overview	1
Agency Overview	2
Funding Sources and Expenses	3
Other Land Department Information	4
Department Structure	5
Land Department Personnel	6

Division Reports

Energy Infrastructure and Impact Office	7
Minerals Management	8
Surface Management	11
Unclaimed Property	14
Investments	15
Revenue Compliance	18

Financial Reports

Permanent Funds

Net Asset Balances By Trust	19
Permanent Trust Net Assets And Distributions	19
Distributions By Trust	19
Permanent Fund Receipts By Trust	20
Sources of Permanent Trust Revenues	20
Permanent Trust Revenues By Source	20

Other Funds

Net Asset Balances	20
--------------------	----



POLICY OF NON-DISCRIMINATION ON THE BASIS OF DISABILITY

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

Historical Overview

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

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

CONSTITUTIONAL AUTHORITY

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

The Land Board's members at the end of the biennium:



Governor Jack Dalrymple
Chairman



Alvin A. Jaeger
Secretary of State
Vice Chairman



Wayne Stenehjem
Attorney General



Dr. Wayne Sanstead
Supt. of Public Instruction



Kelly Schmidt
State Treasurer

Governor John Hoeven was chairman of the Board until he resigned the governorship on December 7, 2010 to serve as a United States Senator representing North Dakota.

COMMISSIONER OF UNIVERSITY & SCHOOL LANDS

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

The Office of the Commissioner has been commonly called the State Land Department.

Generally, the Commissioner is responsible for the following:

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

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

LAND SALES & ACQUISITIONS

Since statehood in 1889, much of the grant land has been sold. Beginning in 1939, whenever the state sold grant land, it reserved five percent of the minerals. In 1941, the reservation was increased to 50 percent; and, since June 28, 1960, the North Dakota Constitution has mandated a 100 percent mineral reservation. Today, the Land Department manages in excess of 656,700 of the original, grant land surface acres, and over 1.8 million of the original mineral acres. Approximately 50,700 acres have since been acquired through foreclosure or other means, bringing the total surface acreage to approximately 706,967 acres.

In 1977, the legislature transferred management authority for minerals acquired by the Bank of North Dakota and State Treasurer and responsibility for the minerals under sovereign land (navigable rivers/lakes) to the Department's oversight. The total minerals managed by the State Land Department exceed 2.5 million acres.



Agency Overview

Lance Gaebe, Commissioner

The primary responsibility of the State Land Department is to manage the permanent educational trust funds and assets under the Board of University and School Lands' control as outlined in the North Dakota Constitution. State law also gives the Department the responsibility for managing several funds and mineral acres in addition to the trust assets, operating the state Unclaimed Property Division and the Energy Infrastructure and Impact Office.

PERMANENT TRUST FUNDS

The land grant from the federal government and the State Constitution both provide that the Board of University and School Lands shall manage the land and minerals it received, and the proceeds there from, for the exclusive benefit of the institutions for which they were granted. In accordance with Article IX of the Constitution of North Dakota, the trust funds must be managed to preserve their purchasing power and to maintain stable distributions to trust beneficiaries. Distributions from the trust funds are determined using the average value of trust assets over a five-year period.

Revenues are generated through the prudent management of permanent trust assets, consisting of 696,812 surface acres, 1.8 million mineral acres, and \$1.7 billion of financial assets. The surface acres are leased to ranchers and farmers across the state. The mineral acres are offered for oil, gas, coal, gravel and scoria leasing. All revenues generated are deposited into the appropriate trust fund and are invested in a diversified portfolio of financial assets. Distributions are made to schools (public grades K-12) and other public institutions at specified intervals throughout the biennium.

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

- Common Schools
- North Dakota State University
- School for the Blind
- School for the Deaf
- State Hospital
- Ellendale State College *
- Valley City State University
- Mayville State University
- ND Youth Correctional Center
- State College of Science
- School of Mines (UND)
- Veterans Home
- University of North Dakota

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

The Common Schools Trust Fund is the largest of the permanent trusts administered by the Board. Distributions from the Common Schools Trust Fund are paid out to school districts throughout the state by the Department of Public Instruction in monthly payments from August to April of each year. Distributions to K-12 education for the 2009-2011 biennium totaled \$77,178,000 and equaled approximately \$405 per year for each K-12 grade student in the state. Distributions from the other 12 permanent trusts totaled almost \$5.1 million during the biennium.

All of the permanent trusts receive revenues from the surface lands, minerals and investments they own; however, the Common Schools Trust Fund also receives 10 percent of the oil and gas extraction tax collected by the state (ND Constitution Article X, Section 24) and 45 percent of the subsection 1X(c)1 proceeds from the tobacco class-action lawsuit settlement (N.D.C.C. § 54-27-25). It also holds the net unclaimed property proceeds collected by the department (N.D.C.C. § 15-10-05.2) until such time that property may be reunited with its owner.

The Board manages a number of other funds either for the State of North Dakota or other beneficiaries.

Capitol Building Trust Fund

The Capitol Building Trust Fund was created under Article IX of the North Dakota Constitution for the construction and maintenance of "public buildings at the capital". This trust fund is not permanent in that the balance of the trust is subject to legislative appropriation each biennium.

Indian Cultural Education Trust

The Indian Cultural Education Trust was created by the 2003 Legislative Assembly (N.D.C.C. ch. 15-68) for the purpose of generating income to benefit Indian culture. The trust is managed for the benefit of the Mandan, Hidatsa, & Arikara Nation Cultural Education Foundation; distributions from this trust are determined in the same manner as for the Common Schools Trust Fund.

Lands and Minerals Trust Fund

The Lands and Minerals Trust Fund is referenced in N.D.C.C. ch. 15-08.1 and § 61-33-07. This fund is financed by the revenues earned from approximately

704,750 mineral acres formerly owned by the Bank of North Dakota and State Treasurer, and from the minerals located under navigable streams, rivers, and lakes, the sovereign property that is owned by the State of North Dakota. This fund also serves as a collection vehicle for repayment of the developmentally disabled facilities loans that are funded by the Common Schools Trust Fund. The balance of this fund is subject to legislative appropriation each biennium.

Coal Development Trust Fund

The Coal Development Trust Fund is established by N.D.C.C. § 57-62-02 pursuant to Section 21 of Article X of the North Dakota Constitution. The Fund receives 30% of the coal severance tax. This fund is held in trust and administered by the Board for loans to coal impacted counties, cities, and school districts as provided by section N.D.C.C. § 57-62-03, and for loans to school districts pursuant to N.D.C.C. ch. 15.1-36. Any balance not loaned is invested according to the policies of the Board. The income earned by this trust is subject to legislative appropriation each biennium.

The agency also manages two other programs that are not directly related to trust fund management:

Unclaimed Property

The Land Department administers the Uniform Unclaimed Property Act (N.D.C.C. ch 47-30-1.) Under this authority, the Department collects "unclaimed property" (uncashed checks, dormant bank accounts, lost securities, safe deposit boxes, unclaimed insurance proceeds, etc.), and attempts to reunite owners with that property. Property acquired under this Act is held in trust in perpetuity on behalf of the owner; allowing owners one place to search for their property. The interest income from unclaimed property becomes part of the Commons Schools Trust Fund.

Energy Infrastructure and Impact Office

The Energy Infrastructure and Impact Office (EIIO) (N.D.C.C. ch. 57-62), formerly known as the Energy Development Impact Office, also plays a prominent role at the Land Department. The purpose of the office is to provide financial assistance to local units of government that are experiencing impacts as a result of oil and gas activity in the state. The office receives and reviews grant applications and makes award recommendations to the Board. As part of the process, the office visits the projects and political subdivisions requesting funding and administers the payout of the funds to the receiving grantees. The 2011 Legislature made several changes to the program.

Funding Sources and Expenses

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

2009-2011 Biennium - Statement of Appropriation

	<u>Appropriation</u>	<u>Final Adjusted Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Land Department:				
Salaries and wages	\$3,214,850	\$3,164,850	\$2,958,655	\$206,195
Operating expenses	739,952	839,952	790,637	49,315
Capital Assets	10,000	10,000	-	10,000
Contingencies	50,000	-	-	-
Total	\$4,014,802	\$4,014,802	\$3,749,292	\$265,510
				<u>Appropriation carried forward</u>
Energy Infrastructure and Impact Office:				
Grants*	\$9,777,759	\$9,777,759	\$2,723,423	\$7,054,336

*\$9,777,759 was appropriated within the agency budget, but separately in HB 1304, the 2009 Legislature capped at \$8,000,000 the available funding to the Oil and Gas Impact Fund.

Operations

The Department staff implements and manages all of the constitutional and legislated responsibilities of the Land Board on behalf of the educational trusts, as well as operating the state's unclaimed property responsibility and the Energy Infrastructure and Impact office. Operating expenses have and will continue to increase to accommodate the growth the energy sector which has impacted all responsibility areas within the Land Department. The department has 20 full-time permanent staff, three part-time employees and seven part-time field staff. While their numbers have not grown, staff responsibilities have expanded due to added roles and the accelerated and expanded activity in all divisions.

Tract inspections, easement and surface use requests, lease activity, reclamation efforts and title work have all increased with the expanded energy activity. Similarly, the amount of producing properties under management, the number and magnitude of damage, bonus and royalty transactions, and the size of the funds under management have all increased markedly. The dedicated staff directly manages the surface, mineral and financial assets of trusts utilizing effective accounting and computer tools that assist in tracking 17 trust funds; hundreds of requests for funds and information; thousands of transactions; tens of thousands of properties; and millions of dollars.

Other Land Department Information

PUBLICATIONS

In addition to this report, the Department publishes:

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

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

MEETINGS

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

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

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

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

INTERNET ADDRESS

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

Department Structure



INVESTMENTS DIVISION (Jeff Engleson)

Responsible for the prudent investment of \$2 billion in trust financial assets by allocating funds, monitoring performance, and reviewing money managers' compliance with Board policy.



SURFACE MANAGEMENT DIVISION (Mike Brand)

Responsible for oversight and active management of 707,000 acres of grazing and farm land, including leasing land for agriculture use and surface minerals, processing easement requests, and enhancing tract value.



MINERALS MANAGEMENT DIVISION (Drew Combs)

Responsible for managing 2.5 million acres of mineral interests by maintaining title and lease records, issuing leases, tracking production status of tracts, and promoting development.



UNCLAIMED PROPERTY DIVISION (Linda Fisher)

Responsible for administering the Uniform Unclaimed Property Act by collecting, documenting, and advertising unclaimed financial and tangible assets and providing owners with opportunities to claim.



ACCOUNTING/BUDGET DIVISION (Peggy Gudvangen)

Responsible for financial reporting, monitoring fund distributions, tracking operational expenses, preparing budget and payroll, assisting with procurement and maintaining the general ledger.



REVENUE COMPLIANCE DIVISION (Pam Rennich)

Responsible for collecting and accurately recording royalty and lease payments by monitoring production. Also responsible for compliance audits and maintaining proper internal controls.



INFORMATION TECHNOLOGY DIVISION (Levi Erdmann)

Responsible for oversight and maintenance of the Department's information systems; providing software development and database design and managing the web page, e-documents, and geospatial data.



ENERGY INFRASTRUCTURE AND IMPACT OFFICE (Jeff Engleson)

Responsible for administering the grant program that supports local units of government impacted by oil and gas development.

The Department's entire staff is made up of 21 dedicated employees, many with cross-divisional responsibilities essential to supporting the Land Board, its various educational trusts and the Energy Infrastructure and Impact Office.

All Divisions are assisted by five members of the Department's administrative support team and one temporary staffing agency employee. Seven part-time field professionals are employed to assist in the management of natural resources.

ND STATE LAND DEPARTMENT PERSONNEL (As of June 30, 2011)

EMPLOYEE	POSITION	SERVING SINCE:
Brand, Michael	Director, Surface Management Division	1979
Engleson, Jeff	Director, Investments Division; Deputy Commissioner	1986
Haupt, Michael	Land Management Professional	1987
Humann, Michael	Rangeland Professional	1987
Bayley, Keith	Land Professional	1988
Fisher, Linda	Administrator, Unclaimed Property; Leasing Coordinator	1991
Saude, Jerry	Trust Land Specialist	1991
Pazdernik, Bonita	Office Assistant	1997
Jacobs, Deb	Administrative Assistant	1998
Tober, Loa	Administrative Assistant	1998
Pascua, Jayden	Computer Network Specialist	1999
Schell, Judith	Administrative Assistant	2000
Erdmann, Levi	Director, Information Technology Division	2003
Glanville, Monica	Audit Technician	2003
Gudvangen, Peggy	Account/Budget Specialist	2005
Jacobson, Bev	Office Assistant	2006
Gaebe, Lance	Commissioner of University and School Lands	2010
Weixel, Andrew	Programmer/Analyst	2010
Combs, Drew	Director, Minerals Management Division	2011
Nelson, Diane	Mineral Title Specialist	2011
Rennich, Pamela	Director, Revenue Compliance Division	2011



Bottom Row (L-R) Drew Combs, Judith Schell, Keith Bayley, Jerry Saude, Levi Erdmann, Lance Gaebe,
 Jeff Engleson, Michael Haupt, Andrew Weixel, Michael Humann
 Top Row (L-R): Diane Nelson, Bev Jacobson, Loa Tober, Linda Fisher, Bonita Pazdernik,
 Pamela Rennich, Jayden Pascua, Michael Brand

Not Pictured: Monica Glanville, Deb Jacobs, Peggy Gudvangen

Also employed during the biennium: Gary Preszler, Commissioner; Tom Feeney, Director, Minerals Management Division;
 Brian Tschider, Minerals Title Specialist; Gustavo San Jose, IT Intern; Geraldine McGregor, Dakota Staffing Temp Employee
 and Chad Fretheim, Energy Impact Office assistant.



Energy Infrastructure and Impact Office

(formerly known as the Energy Development Impact Office)

Jeff Engleson, Director

The Energy Infrastructure and Impact Office (EIIO), formerly known as the Energy Development and Impact Office was organized in 1975 by legislative authorization of the Coal Development Impact Program under N.D.C.C. ch. 57-62.

On July 1, 1989 the EIIO was combined with the Land Department and is currently under the direction of the Board of University and School Lands. The coal program began in 1975 and expired in 1989. The Energy Impact Grant Program began in 1981 and is still in existence.

The purpose of the Energy Impact Grant Program is to provide financial assistance to local units of government that experience negative impacts as a result of oil and gas activity in the state. The program is funded by 6.67 percent of the Oil & Gas Gross Production Tax. The amount of funding available to this program was capped at \$6.0 million during the 2007-09 biennium. The cap was \$8.0 million during the 2009-2011 biennium.

To receive funding under this program, applicants must demonstrate:

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

During the biennium, the Energy Impact Director conducted two grant rounds, one in the spring of 2010 and the other in the spring of 2011. During each grant round, the Director spent most of a month traveling western North Dakota, meeting with each political subdivision that requested funding and driving the roads that are being impacted by oil and gas development. The Director gathers information from many other sources in addition to the information received from grant applicants. Oil and gas production data, salt water production/disposal data, well and pipeline location information, and other facts are gathered from the Oil and Gas Division of the Industrial Commission. The EDIO Director also gathers oil tax and property tax information from the State Treasurer's Office and the Tax Department, as well as other financial information from the various County Auditors' offices.

As the development of the Bakken oil play expanded during the biennium; every type of political subdivision was impacted. During the biennium over 800 grant requests for more than \$94.4 were received and reviewed. With the limited funding available for this program, financial need was a driving factor in determining which entities received funds.

During the 2011 Legislative Session, the impacts of oil and gas development were a major topic of discussion. In the end, major changes were made to the program. These changes include:

- Increasing the funding level for the program to \$100 million per biennium.
- Transferring grant awarding authority from the Energy Impact Director to the Land Board.
- Changing the emphasis of the program from fixing existing problems to building new infrastructure for overwhelmed communities.

Most of the changes to the program, including the change in the name of the office, became effective in April 2011.

2009-2011 Biennium Oil & Gas Impact Grant Applications and Awards

Summary by County

<u>County</u>	<u>\$ Requested</u>	<u>\$ Awarded</u>	<u>%</u>
Billings	\$ 1,815,000	\$ 20,000	0.3
Bottineau	2,734,443	644,600	8.1
Bowman	5,848,134	285,000	3.6
Burke	2,828,236	716,000	9.0
Divide	3,113,988	847,000	10.7
Dunn	11,108,515	427,500	5.4
G. Valley	1,607,700	228,500	2.9
McHenry	75,000	0	0.0
McKenzie	2,898,216	246,000	3.1
McLean	32,000	14,000	0.2
Mercer	1,696,898	67,000	0.8
Mountrail	29,382,388	2,099,500	26.5
Renville	2,906,667	528,100	6.7
Slope	1,019,708	100,000	1.3
Stark	4,197,819	296,200	3.7
Ward	901,968	146,300	1.8
Williams	22,257,836	1,260,300	15.9
TOTAL	<u>\$94,424,516</u>	<u>\$7,926,000</u>	<u>100.0</u>

2009-2011 Biennium

Oil & Gas Impact Grant Applications and Awards

Summary by Class of Subdivision

<u>Class</u>	<u>\$ Requested</u>	<u>\$ Awarded</u>	<u>%</u>
County	\$ 34,068,957	\$350,000	4.4
School	3,554,361	145,000	1.8
City	32,681,545	1,017,700	12.9
Park District	80,389	0	0.0
Airport Auth.	635,500	0	0.0
Township	17,305,923	4,806,500	60.6
Fire/Ambulance	6,097,841	1,606,800	20.3
TOTAL	<u>\$94,424,516</u>	<u>\$7,926,000</u>	<u>100.0</u>



Minerals Management

Drew Combs, Director

The Minerals Management Division administers those mineral interests held in trust for various schools and institutions. The Division also administers mineral interests formerly owned by the Bank of North Dakota, State Treasurer and those that are considered sovereign, i.e. beneath navigable lakes and rivers. This Division leases oil, gas, coal and potash mineral assets for production. The Division ensures the ownership integrity of the mineral asset and manages the leasing activity, tracks drilling and mining activity to ensure the Board rules and terms of the lease are followed.

The minerals management staff administers the largest single mineral ownership block within the Williston Basin, in the U.S.-- 2.5 million acres of mineral interests owned by the various trusts as shown below.

MINERAL ACRES	TRUST
27,687.91	Capital Building
1,527,059.34	Common Schools
10,515.88	Ellendale
80.00	Indian Cultural Trust
9,169.14	Mayville
33,107.94	ND Industrial School
18,478.73	ND School of Science
65,594.87	ND State University
15,227.95	School for the Blind
20,618.65	School for the Deaf
20,712.26	School of Mines
726,849.03	Lands and Minerals
9,950.85	State Hospital
42,102.46	University of ND
8,202.41	Valley City
18,560.77	Valley/Mayville
13,244.42	Veterans Home
2,567,162.61	TOTAL

Minerals Management Division duties include:

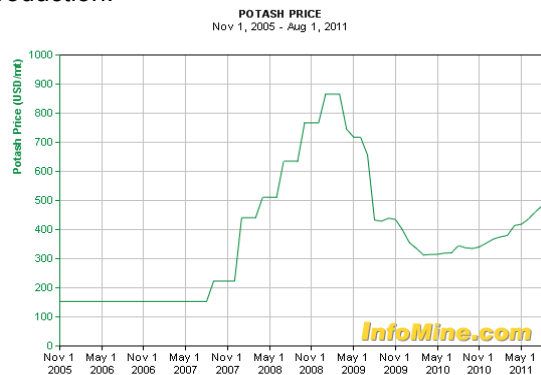
- Title Work (proving title, managing record of title, researching, etc.)
- Reviewing and approve pooling agreements, lease assignments, lease extensions
- Conducting quarterly mineral lease sales
- Public reporting and outreach
- Reviewing requests for seismic permits
- Monitoring Industrial Commission and other mineral regulatory action
- Managing Sovereign minerals
- Promoting North Dakota's lesser known minerals, including potash and uranium
- Negotiating leases for coal within the largest deposit of lignite coal in the world
- Working with surface management division on surface mineral mining and salt water disposal wells

POTASH

During the biennium, interest in North Dakota's potash deposits increased. The attention is due to the rising prices based on demand for the commodity, which is primarily used in the manufacture of fertilizer.

According to the North Dakota Geological Survey, potash beds occupy an area of 11,000 square miles that extends from the Montana border to central Bottineau County and from the Canadian border to central Dunn County. North Dakota's potash deposits have not been utilized because they are deeper than those found in Saskatchewan, which is able to use both conventional mining as well as solution mining. There are currently ten potash mines in Saskatchewan, which accounts for roughly 30% of world production.

The Minerals Division prepared new potash leasing rules and issued 56 leases on 3,906 acres of trust owned subsurface potash acres and continues to respond to inquiries into the potential for potash exploration, mining and production.



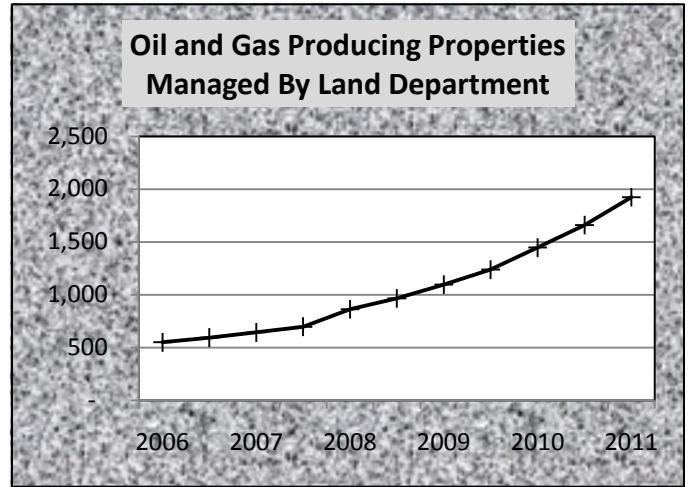
OIL AND GAS

Activity in the oil and gas sector in North Dakota has increased at a rapid rate. The development of Bakken and Three Forks formations garnered notoriety on a global scale, driving a massive effort to tap into this resource. Although there are more productive fields in the world, there are few that offer such high likelihood for a successful well. Assuming, the price of crude oil remaining at an attractive rate, rapid increases in production, exploration and investment are likely to continue.

Over the past five years, North Dakota oil production has increased nearly threefold. At the end of the biennium there were just below two hundred active drilling rigs operating in the state compared with fifteen rigs fifteen years earlier.

On behalf of the Board of University and School Lands, the Division manages a significant mineral interest in the active areas of the active oil and gas play. As of the end of the biennium 776,729 mineral acres were leased for oil and gas exploration/production. As mineral leases are drilled for production, royalty payments from oil and gas sales will increase and bonus payments will likely be a

less of a major source of revenue for the trusts. However with the expansion of the interests in minerals in the southwest part of the state, the leased acreage may increase.



MINERAL DIVISION RECEIPTS			
	2005-2007	2007-2009	2009-2011
Oil and gas royalty	58,378,390	114,233,996	206,491,182
Oil and gas bonus	22,570,515	39,258,719	467,458,103
Coal revenue	2,386,060	4,239,598	6,674,416
Oil and gas rental	1,406,708	1,354,930	2,031,729
Potash revenue			153,975
Seismic/damage payments	448,919	1,135,619	2,546,596
Total	85,190,592	160,222,862	685,356,002



Surface Management

Michael D. Brand, Ph.D., Director

This division leases and manages surface acres owned by the various trust funds under the control of the Board of University and School Lands. The major source of income from these lands comes from grazing and agricultural leases, with significant revenue also being generated from rights-of-way, salt water disposal, and gravel and scoria mining. The objective of surface management is to obtain a "fair market" return from the lands while maintaining or improving their condition and value.

LAND MANAGEMENT

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

- Grazing management plans for improving range condition and productivity.
- Developing dams and dugouts for livestock water and wildlife enhancement.
- Cooperative trash site clean-up and abandoned water wells sealing.
- Gravel and scoria mine site reclamation.
- Oil well pad, pipeline, and road siting and reclamation.
- Coal mine reclamation on trust lands.
- Monitoring flood affected tracts.

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

FIELD PERSONNEL

Larry Veikley, Minot	2002-Present
Dale Ferebee, Beach	2005-Present
Chris Hansen, Napoleon	1998-Present
Mike Sondeland, Bowman	2008-Present
Dennis Froemke, Dickinson	2011-Present
Frank Kartch, Bismarck	2006-Present
Roger Martin, Napoleon	1992-Present

RIGHTS-OF -WAY

Most rights-of-way are directly related to the impact of oil and gas development in the Bakken and Three Forks formations. There has been a steady increase in this area since 2006 and a plateau is not expected until sufficient pipelines and electrical lines have been built to support the new wells as they are drilled. Most of the drilling has been single wells to hold leases; as additional wells are drilled and the fields mature, the infrastructure will be in place and the pace of right-of-way applications should decline.

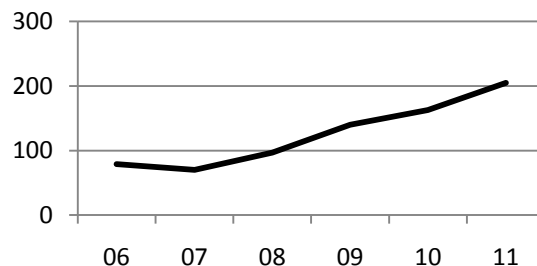
Two half-time Land Management Specialist positions were added in Dickinson and Minot to work primarily on rights-of-way. These positions were needed to provide timely inspections for rights-of-way applications and reclamation projects.

Rights-of-way produced approximately \$2.5 million in revenue during the 2009-2011 biennium, an increase of 66% over the previous biennium. The increase is a combination of both increasing payments for rights-of-way and an increase in the number of rights-of-way issued.

A wind energy easement was issued for a single wind tower to Lake Region State College. This tower is to be constructed north of the City of Devils Lake and will provide electricity for the campus, electricity sales to the local electric cooperative and a training facility for their wind energy technician program.



Rights-of-Way & Surface Damage Agreements Issued by Fiscal Year



**Surface Acres by Trust Fund
As of June 30, 2011**

Trust Fund	Acres
Common Schools	631,944.87
School for the Blind	3,481.69
Capitol Building	9,994.45
School for the Deaf	4,830.44
Ellendale State College	4,912.82
State Hospital	2,206.11
ND Youth Correctional Center	3,744.42
School of Mines ¹	3,313.81
N.D.S.U.	15,117.68
Veterans Home	2,753.69
U.N.D.	8,977.98
Valley City State University	640.00
ND State College of Science	3,712.94
Mayville State University	640.00
Valley City/Mayville ²	6,821.85
Farm Loan Pool ³	3,714.00
Indian Cultural Education	160.00
Total	<u>706,966.75</u>

1. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota.
2. Receipts from acreage held jointly by Valley City and Mayville State Universities are allocated 62.5% to Valley City and 37.5% to Mayville.
3. Receipts from this acreage are allocated to the permanent trusts that have an interest in the Board's Farm Loan Pool.

Private land rental rates are the basis for calculating the minimum opening bid on school trust lands. The private grassland rental market has been increasing for the past 20 plus years. Typically a cycle of increasing rents followed by a decline would be expected at least once during 20 years.

Continued high prices for small grains have helped maintain a strong demand for cropland rental property. Cropland only makes up 2.8 percent of school trust lands, but it is higher value land with more potential for competitive bidding.

**Land Sales and Acquisitions
2009-2011**

Acquisitions:	Acres
(+)Acreage Corrections	18.96
Railroad Abandonment	28.00
Right-of-Way Reversions	46.53
Total Acquisitions	93.49
Sales:	
Sales to public entities	470.81
Sales at public Auction	52.28
(-)Acreage Corrections	6.32
Total Sales	529.41

INVASIVE PLANTS

Noxious weed control continued to focus on leafy spurge as the major weed problem on school trust lands. Biocontrol by flea beetles remains the most effective control measure, while chemical control continued to be important for sandy soils where flea beetles have not been as effective. Canada thistle and houndstongue continue to spread throughout the state. The Canada thistle appears to be increasing as a result of wet weather. Canada thistle is now found in patches in the open prairie. Houndstongue is a recent invader that is easily spread by its bur that attaches to the hair on livestock and deer.

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

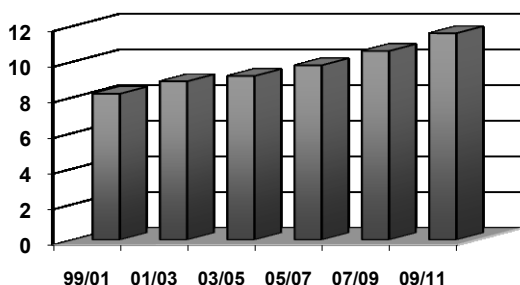
Kentucky bluegrass has been increasing over the past decade and moving into native grasslands in central and west central North Dakota. There has not been any indication that this trend has reversed and it poses a continued threat to the integrity of the native prairies.

LEASING

A total of 2,255 grazing and agricultural leases were issued this biennium. Leasing interest continued to be high with a success rate over 99 percent. The acres of flooded land had been declining in recent years, but the biennium saw a steady increase in wet conditions to the point that flooded grazing land is at its highest level in over 30 years.

Total rental income for the biennium was \$11.6 million, an increase of 9.4 percent over the previous biennium.

Surface Rental \$ in Millions

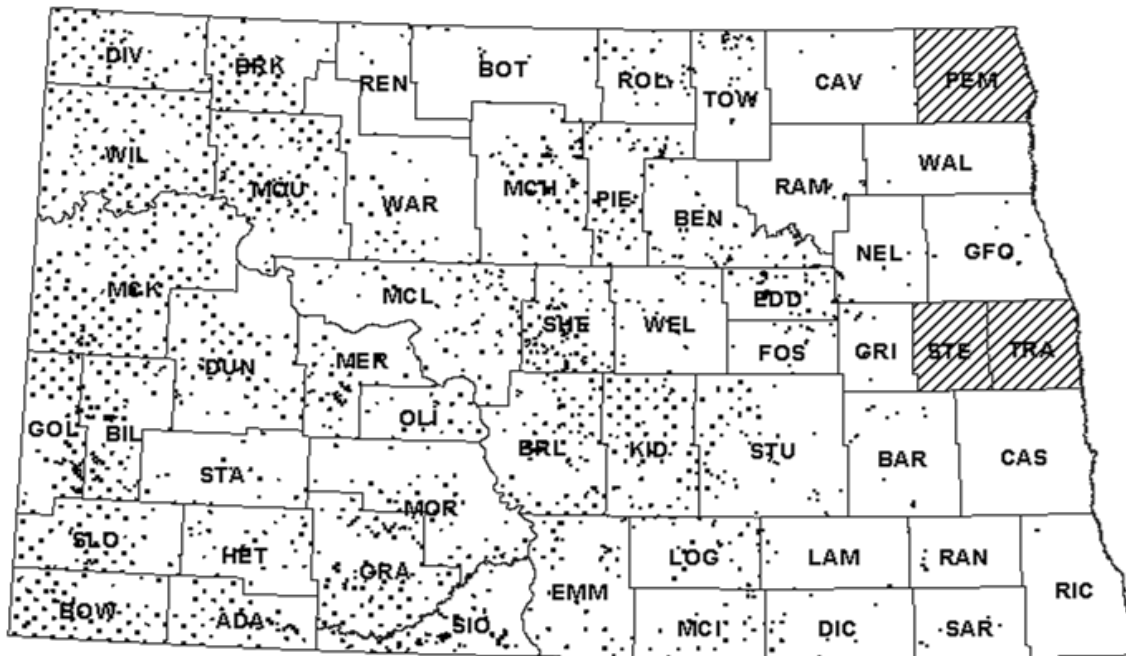


The rental market for grazing lands has remained strong with continued increases in private land rental rates.

SURFACE ACRES BY COUNTY

As of June 30, 2011

County	Acres	County	Acres	County	Acres
Adams	17,097.52	Golden Valley	28,983.55	Ramsey	2,056.50
Barnes	2,803.32	Grant	33,485.70	Ransom	1,120.00
Benson	11,965.93	Griggs	1,741.24	Renville	1,910.12
Billings	30,927.06	Hettinger	9,889.95	Richland	513.68
Bottineau	3,271.94	Kidder	28,643.79	Rolette	6,226.08
Bowman	29,310.48	LaMoure	1,435.72	Sargent	1,128.17
Burke	16,119.43	Logan	9,404.92	Sheridan	25,826.44
Burleigh	27,890.13	McHenry	22,720.56	Sioux	23,411.56
Cass	40.00	McIntosh	6,209.87	Slope	23,605.98
Cavalier	596.47	McKenzie	64,714.78	Stark	6,142.64
Dickey	3,981.51	McLean	20,890.99	Stutsman	15,664.01
Divide	20,791.24	Mercer	15,129.38	Towner	8,076.00
Dunn	25,666.71	Morton	18,085.64	Walsh	200.00
Eddy	10,281.04	Mountrail	32,451.47	Ward	11,038.98
Emmons	13,533.97	Nelson	2,694.45	Wells	5,251.89
Foster	3,111.51	Oliver	7,588.41	Williams	38,400.32
Grand Forks	1,274.77	Pierce	13,660.93	Total	706,966.75



Distribution of State School Lands





Unclaimed Property

Linda Fisher, Administrator

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

SECURITIES CUSTODY

In addition to cash assets, unclaimed property statutes require the reporting of lost/abandoned securities. As securities are received from various transfer agents, they are deposited to a "house account" maintained on behalf of the Division by a securities custody agent.

Since inception of the program, securities custody services had been provided by a local branch of Smith Barney which chose to terminate the agreement following its merger with Morgan Stanley in 2009.

During the biennium, the Division entered into a securities custody agreement with The Northern Trust in Chicago. Northern Trust assumed responsibility for Unclaimed Property securities custody in September 2010.

OUTREACH SUMMARY

Unclaimed property statutes require implementation of the following outreach mechanisms to attempt to locate the rightful owner of unclaimed property:

- County newspaper legal publication - names and last known address.
- Display ads in county newspapers.

Beyond statutory requirements, the Division has also launched a number of additional initiatives intended to educate and increase public awareness of unclaimed property and to encourage initiation of a claims process. Some of these initiatives include the following:

- Free searchable websites at www.land.nd.gov and www.missingmoney.com
- E-mail distribution to on-line user groups (State and County government, education system etc.).
- Television and radio interviews.
- Service club presentations.
- Public contact at fairs and tradeshows.
- Address updates and direct mailings.
- Cooperative Agreement for data matching with ND Child Support and Enforcement.

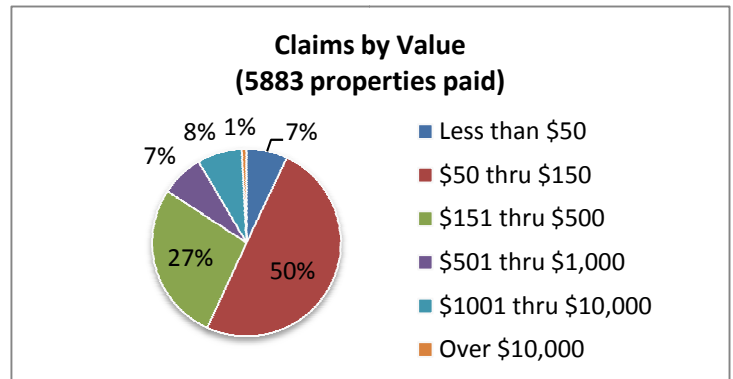
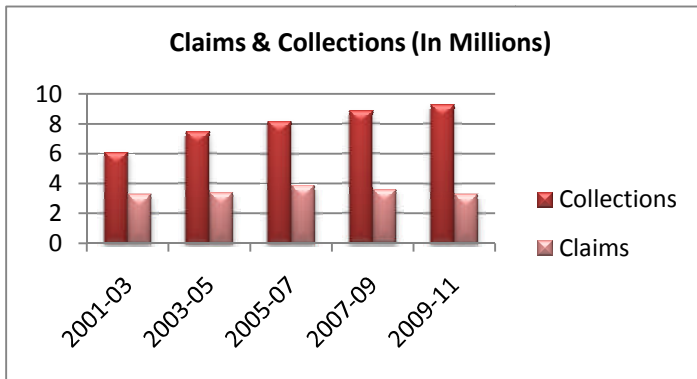
Added to the list of outreach initiatives in 2010 was publication of a display ad in every newspaper in the state encouraging the public to visit the Department web site. This is done in addition to publications in official county newspapers that are required by law.

COMPLIANCE AND EDUCATION

In-house compliance and education staff was downsized this biennium due to changing roles and staffing needs in other areas of the Department. However, via formal solicitation two additional vendors were hired to perform out-of-state compliance audits on behalf of the Division.

TECHNOLOGY UPDATE

Programming enhancements in the fall of 2009 made it possible to provide customized claims forms and instructions via e-mail; resulting in increased efficiency for staff, considerable postage savings for the department, and added convenience for claimants.





Investments

Jeff Engleson, Director

The Investment Division is responsible for directing, implementing, coordinating and monitoring all aspects of the Land Board's investment program. As of June 30, 2011, the total value of investment assets was just over \$2 billion. The bulk of these assets (\$1.7 billion) are owned by 13 permanent educational trusts under the Board's control, while the remainder are owned by the Coal Development, Land & Minerals, Capitol Building and Indian Cultural Education trust funds.

Listed below is a breakdown of the investment assets managed by the Division, by asset type:

- ◆ **Marketable Securities and Certificates of Deposits (CDs):** The total value of investment securities and cash equivalents managed by the Board as of June 30, 2011 was \$1.93 billion. \$1.68 billion of investment securities were held at a custodian bank, Northern Trust Company, and were managed by investment professionals hired by the Board to achieve specific investment goals and objectives. The Land and Minerals Trust owned \$244.02 million of Treasury bills, CDs and cash equivalents, held in custody at the Bank of North Dakota (BND), and the Capitol Building Trust owned \$3.32 million of CDs and cash equivalents, also held in custody at BND as of June 30, 2011.
- ◆ **Farm Loan Pool:** As of June 30, 2011, the total value of the Board's pool of farm real estate loans was \$44.22 million. Although BND handles the day-to-day administration of the farm loan pool, the Investment Division works closely with the bank in developing and implementing policies, goals and strategies for farm loans and in monitoring and evaluating the program on an ongoing basis.
- ◆ **Other Loans:** As of June 30, 2011, the Board had total outstanding loans, to political subdivisions and other governmental entities, of \$33.10 million. Legislatively directed loan programs from the Coal Development Trust Fund totaled \$30.81 million as of that date, and included \$26.42 million in school construction loans and \$4.39 million in loans to coal impacted political entities. In addition, the Common Schools Trust owned \$1.19 million of loans to group homes for the developmentally disabled and a \$1.03 million loan for a hotel in Williston under the Board's new energy construction loan program.

INVESTMENT GOALS AND OBJECTIVES

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

The 13 educational trust funds managed by the Board are permanent in nature, and were established to provide funding for education in North Dakota, both today, and for future generations. The Indian Cultural Education trust is similar in nature to the 13 permanent educational trusts and is invested in an investment pool with those trusts. The long range goal for all of these trusts is to have an investment program that will allow trust assets and distributions to beneficiaries to increase at a rate that meets or exceeds the historic annual rate of inflation. To that end, the Board has developed an investment allocation plan that includes a well diversified portfolio of stocks, bonds and other financial assets.

The primary purpose of the Coal Development Trust Fund is to provide loans to political subdivisions, as directed by the Legislature. The Board is responsible for administering the trust, and investing any monies that have not been loaned. As of June 30, 2011, outstanding loans to political subdivisions totaled \$30.81 million, while the Board invested the remaining \$32.31 million of this trust's assets. This trust's assets are invested in a relatively short-term, high-quality bond portfolio, that can be liquidated as needed, to fund loan programs adopted by the Legislature.

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

All of the trust funds under the Land Board's control met their distribution objectives during the biennium. The strong investment returns earned by both stocks and bonds and the growth provided by oil revenues will result in substantial distribution increases for the permanent trusts in future years.

PERMANENT TRUST INVESTMENT ASSETS

After weathering the economic storm that lasted most of the 2007-09 biennium, the permanent trusts' investment portfolio experienced a much smoother ride during the 2009-11 biennium. Although no major portfolio changes were implemented during the biennium, the combination of strong equity markets and historic oil bonus revenues drove the value of the portfolio to record levels.

The fund balance, or net assets, of the combined permanent trust funds increased by more than \$827 million during the biennium, from approximately \$900 million on June 30, 2009, to \$1.727 billion on June 30, 2011. Although increases in oil related revenues were responsible for more than \$500 million of trust growth during the biennium, the 35.08% total return earned by the investment portfolio over the past two years was also a strong contributor to growth.

Constitutional Measure #1

The most prominent change to the permanent trusts' investment portfolio during the biennium was that on July 1, 2009, Constitutional Measure No. 1 (CM No. 1) became effective. The changes to the constitution included in CM No. 1, which was approved by North Dakota voters during the November 7, 2006 general election, will revolutionize the way the trusts' financial assets are managed.

The primary change that resulted from CM No. 1 is that distributions from the permanent trust funds are now determined based on the amount of assets in the trusts and the growth of those assets over a 5-year period. Historically, distributions from the 13 permanent trust funds had been based on the amount of "interest and income" generated by each trust during a given year. This change will allow the Board to manage the portfolio more efficiently and effectively, while also better balancing its dual responsibilities of preserving the purchasing power of the fund while maintaining stable distribution to trust beneficiaries. Instead of focusing on generating income first and growth second, the portfolio can now be managed in a way that provides for consistent, steady trust growth over time and the change will benefit North Dakota children and taxpayers for generations to come.

Securities Lending Issues

During the credit crisis of 2008, Northern Trust, and many other custodian banks, had severe liquidity and valuation

issues with their securities lending programs. In September 2008, Northern declared a "collateral deficiency" in their securities lending collateral pool and assessed a \$1.22 million liability onto trust assets. Although Northern did not require immediate payment of the liability, the declaration resulted in reduced liquidity for those portfolios and funds that participated in the securities lending program.

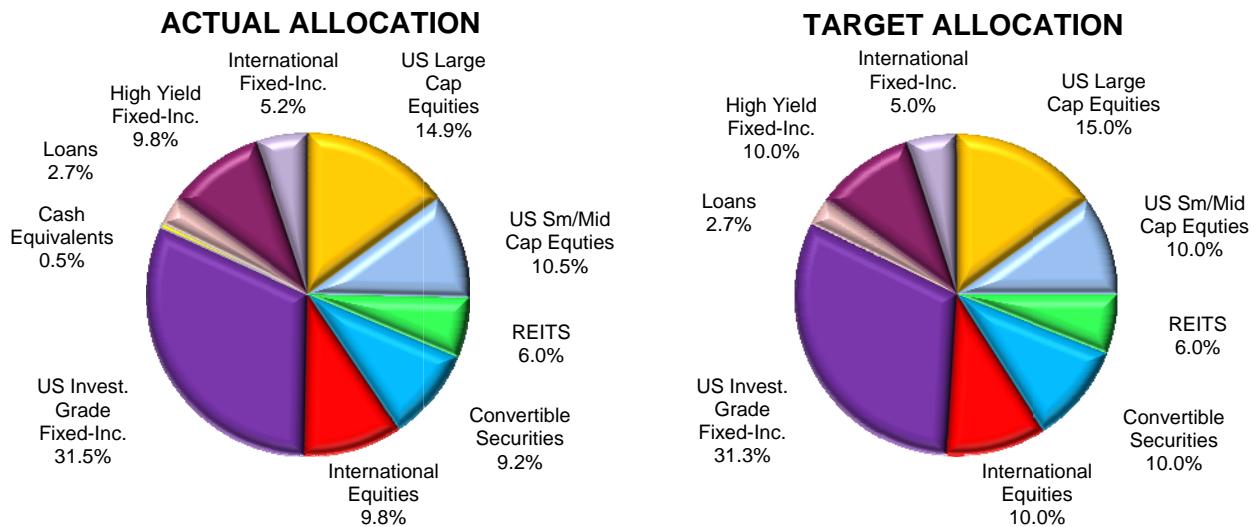
The Investment Division worked with Northern to manage the problem while credit markets improved. Over 18 months, Northern improved the quality of portfolio assets and the portfolio's duration shortened to better match liabilities. On March 16, 2010, Northern Trust reversed the last of the liabilities that had been assessed. against trust assets. Although the trusts didn't lose any money in the long run as a result of the securities lending crises, much was learned about both the rewards and risks, of what had been considered a relatively low risk practice.

Asset Allocation and Rebalancing

The permanent trusts' asset allocation remained at 51% equities and 49% fixed income during the biennium. Although this conservative approach to trust investments protected the trusts' down side during fiscal years 2008 and 2009, it did not prevent the portfolio from participating in the financial rally that occurred during fiscal years 2010 and 2011.

During the early part of the biennium, the portfolio was underweight equities, as the devastating markets during 2008 and early 2009 shrunk the value of the equity portfolio, however, as cash flows from various oil activity increased early in the biennium, the portfolio was back in balance by September 2009 and remained in balance at the end of the biennium.

The pie charts below show the permanent trusts' actual allocation and target allocation as of June 30, 2011.



Portfolio Returns and Performance

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

The table below shows the amount allocated to the various permanent trust investment portfolios as of June 30, 2011. It shows the return earned by each portfolio over various periods of time and compares that return to a relevant benchmark.

RETURNS FOR PERIODS ENDED JUNE 30, 2011								
Asset Class MANAGER Benchmark/Index	6/30/11 Allocation (\$ mil.)	% of Total Portfolio	Last Qtr.	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years	
Large Cap US Equity								
STATE STREET - S&P 500 Index	\$252.35	14.9%	0.09	30.70	3.36	-	-	-
S&P 500 Index			0.10	30.69	3.34	2.94	2.78	
Small/Mid Cap US Equities								
NORTHERN TRUST	\$177.96	10.4%	(1.14)	36.21	-	-	-	-
STATE STREET - Small/Mid Index	\$106.00	6.2%	(1.45)	34.54	6.43	3.77	6.09	
STATE STREET - Small/Mid Index	\$71.96	4.2%	(0.67)	39.12	-	-	-	
60% R2000/40% S&P Mid Cap + 200 bp Russell Completeness Index			(0.76)	40.22	9.84	7.12	8.98	
			(0.74)	38.97	7.33	5.38	6.63	
Real Estate Investment Trusts (REITS)								
DELAWARE INVESTMENT ADVISORS	\$102.13	6.0%	4.19	33.69	5.39	3.08	-	
NAREIT Equity REIT Index			3.63	33.58	5.25	2.54		
Convertible Securities								
TRUST COMPANY OF THE WEST	\$155.66	9.2%	(0.56)	19.74	1.29	2.63	1.99	
Merrill Lynch All US Convertibles Index			(0.62)	22.54	6.84	5.69	5.40	
Merrill Lynch All US Investment Grade Index			(0.56)	14.89	1.09	1.70	2.17	
International Equities								
STATE STREET - International Alpha	\$165.74	9.8%	1.01	30.64	(3.24)	(0.01)	-	
MSCI EAFE Index			1.56	30.36	(1.77)	1.47	5.66	
TOTAL EQUITIES	\$853.84	50.3%	0.36	29.95	1.83	1.59	3.99	
US Investment Grade Fixed Income								
BND - Project Notes	\$541.83	32.0%	2.15	5.46	-	-	-	
BND - Project Notes	\$3.96	0.2%	1.91	5.41	6.92	7.13	5.86	
PAYDEN & RYGEL - Long Term	\$134.95	8.0%	1.26	5.35	7.96	6.91	6.35	
PAYDEN & RYGEL - GNMA/Short Bond	\$259.18	15.3%	1.94	4.08	5.59	5.62	-	
NORTHERN TRUST - TIPS	\$135.98	8.0%	3.63	7.72	5.27	6.98	-	
PAYDEN & RYGEL - Cash	\$7.76	0.5%	(0.01)	0.05	0.33	2.12	2.27	
Barclay's Capital US Aggregate Index			2.30	3.94	6.47	6.53	5.75	
Barclay's Capital TIPS			3.65	7.72	5.27	6.90	-	
6 Month T-Bill			0.07	0.24	0.73	2.37	2.29	
Loans								
BND - Farm Loan Pool	\$46.51	2.7%	1.46	6.09	-	-	-	
BND - Farm Loan Pool	\$44.22	2.5%	1.49	6.11	6.59	7.01	7.39	
BND - Energy Construction Loans	\$1.03	0.1%	1.40	-	-	-	-	
LAND DEPARTMENT - DD Loans	\$1.26	0.1%	2.18	9.00	9.00	9.00	9.00	
US High Yield Fixed Income								
LAZARD ASSET MANAGEMENT	\$167.01	9.8%	0.81	11.94	9.12	7.68	-	
Merrill Lynch US High Yield Cash Pay Index			1.01	15.32	12.18	9.07	-	
Merrill Lynch BB/B Index			1.13	14.73	10.54	8.26	-	
International Invest. Grade Fixed Income								
FIRST INT'L ADVISORS (Evergreen)	\$87.80	5.2%	1.79	1.10	6.43	5.23	-	
Merrill Lynch Broad Global (Ex-US) Index - Hedged			1.34	0.87	4.92	4.49	-	
TOTAL FIXED INCOME	\$843.15	49.7%	1.79	6.36	6.99	6.72	6.06	
TOTAL PORTFOLIO	\$1,696.99	100.0%	1.09	17.99	5.23	4.71	5.50	

All return figures for periods of 1 year or greater have been annualized. All returns are net of fees.

The permanent trusts' investment portfolio posted a return of 17.99% during fiscal year 2011, after earning a return of 14.48% during fiscal year 2010. Although the portfolio has earned less than the 8% one would hope to earn from a diversified investment portfolio over long periods of time, it has still performed well considering the difficult financial markets the world has experienced over much of the past 10 years.

A review of individual manager portfolios shows that some managers have outperformed their benchmarks over time, while others have not. The Department monitors manager performance on a monthly basis and visits with managers to deal with any problems or issues that may arise.

OTHER TRUST INVESTMENT ASSETS

The assets of the Coal, Capitol and Lands and Minerals trusts are invested in relatively high quality, short-term fixed income investments. As interest rates have fallen,

so has the yield earned by these portfolios. The Capitol and Lands and Minerals trusts, which were both earning more than 1% early in the biennium, were yielding one-half of a percent or less on June 30, 2011. The Coal Development Trust, which is invested more actively and in slightly longer maturities, earned just 1.62% during fiscal year 2011. The ability of these funds to generate income going forward will be severely limited if interest rates stay at or near their current historic lows

SUMMARY

The Land Board's investment program continues to operate as expected. The Board's conservative approach to trust management has allowed the portfolio to weather the bad times while still participating in the strong returns posted by equity markets and most fixed income markets over the past two years.



Revenue Compliance

Pamela Rennich, Director

There has been a dramatic increase in oil activity and resulting revenues received by the trusts in the past five years. The trusts receive royalties from over 1,200 producing wells, an increase of 240% from five years ago, and the number of royalty records processed in a given month has tripled.

Due to this dramatic increase, the Land Department received approval from the Legislature to hire an accounting professional to head up a new Revenue Compliance Division within the department. This new division was established March 2011 and takes over many of the responsibilities previously performed by the former Audit Division.

The Revenue Compliance Division establishes and implements procedures to assure timely and accurate revenue accounting of: oil, gas, coal and aggregate royalties, surface rents, surface damage payments, unclaimed property payments and other cash receipts pursuant to the terms of State lease

contracts, leasing rules and regulations and state statutes. The division will perform compliance reviews of entities submitting payments to the department, and is responsible for identifying payment discrepancies and resolving issues accordingly. It will also review payments to ensure that revenues are allocated properly to the various trusts under the control of the Board of University and School Lands.

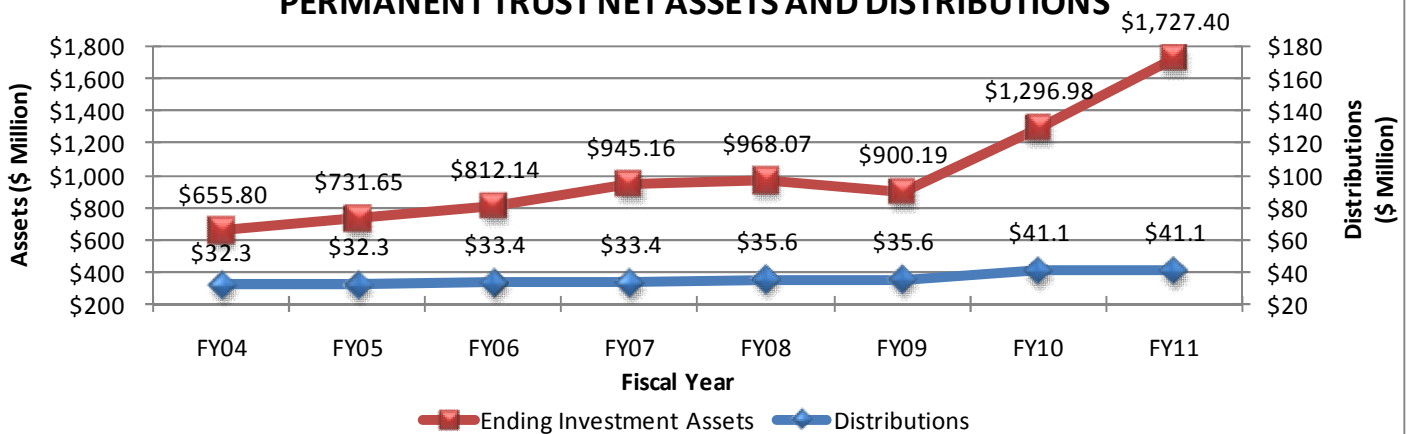
The Revenue Compliance Division is also responsible for development, implementation and monitoring of the accounting, managerial and system controls used by the Department to detect and prevent the misappropriation of trust assets and revenues.

Permanent Funds

Net Asset Balances By Trust

	6/30/2007	6/30/08	6/30/09	6/30/10	6/30/11
Common Schools	\$887,092,909	\$908,928,685	\$846,314,086	\$1,221,501,801	\$1,622,412,984
North Dakota State University	13,997,592	14,374,490	12,926,989	17,733,255	26,211,666
School for the Blind	2,253,889	2,212,301	1,892,385	2,398,152	3,130,370
School for the Deaf	4,112,495	4,439,786	4,232,854	6,455,351	9,352,875
State Hospital	5,566,307	5,939,306	5,632,733	6,977,040	9,300,413
Ellendale State College	2,065,897	2,073,799	2,008,718	3,036,777	4,592,559
Valley City State University	2,902,693	2,834,121	2,482,888	3,448,238	4,453,923
Mayville State University	2,011,467	1,902,269	1,620,969	1,905,314	2,854,879
Industrial School	4,898,034	4,782,308	4,171,174	8,187,241	10,387,494
State College of Science	4,612,074	4,915,952	4,630,622	6,660,849	8,593,518
School of Mines	5,163,629	5,651,689	5,726,268	7,338,057	10,132,213
Veterans Home	2,744,928	2,586,722	2,176,905	2,406,721	3,035,395
University of North Dakota	7,741,576	7,424,896	6,376,620	8,933,337	12,942,682
Total	\$945,163,491	\$968,066,324	\$900,193,211	\$1,296,982,133	\$1,727,400,971

PERMANENT TRUST NET ASSETS AND DISTRIBUTIONS



Distributions By Trust

	7/03 to 6/05	7/05 to 6/07	7/07 to 6/09	7/09 to 6/11
Common Schools	\$60,000,000	\$62,200,000	\$66,800,000	\$77,178,000
North Dakota State University	1,132,000	1,146,000	1,070,000	1,238,000
School for the Blind	214,000	208,000	176,000	206,000
School for the Deaf	322,000	322,000	310,000	360,000
State Hospital	292,000	310,000	390,000	456,000
Ellendale State College	232,400	235,200	168,000	196,000
Valley City State University	268,000	268,000	226,000	260,000
Mayville State University	186,000	176,000	156,000	178,000
Industrial School	396,000	404,000	378,000	438,000
State College of Science	306,000	306,000	338,000	388,000
School of Mines	312,000	322,000	370,000	428,000
Veterans Home	236,000	236,000	214,000	248,000
University of North Dakota	664,000	664,000	604,000	692,000
Total	\$64,530,400	\$66,797,200	\$71,200,000	\$82,266,000

Increase From Previous Biennium

2.3%

3.5%

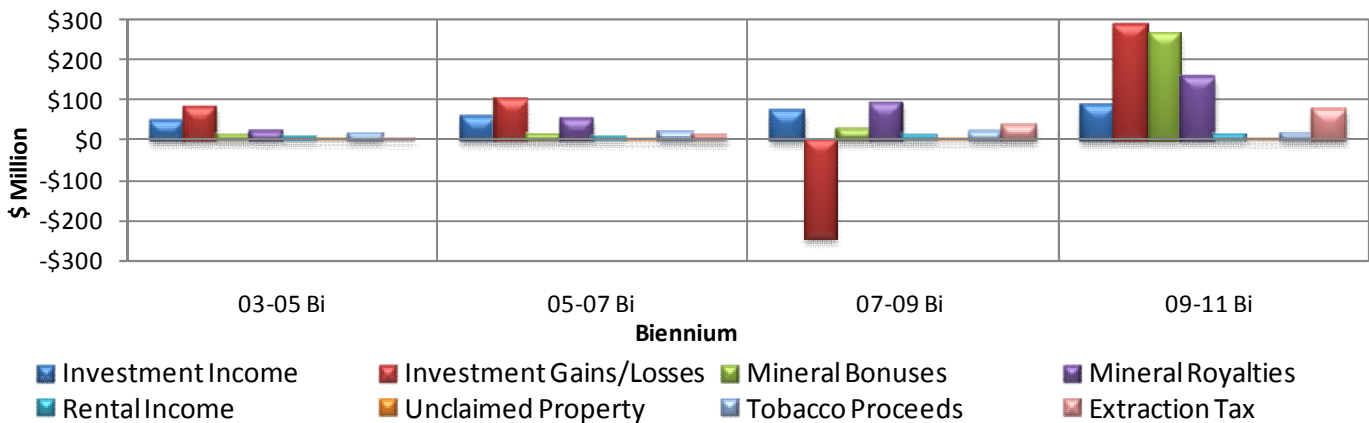
6.6%

15.5%

Permanent Trust Revenues By Trust

	7/03 to 6/05	7/05 to 6/07	7/07 to 6/09	7/09 to 6/11
Common Schools	\$204,623,394	\$268,643,921	\$34,050,810	\$863,203,537
North Dakota State University	3,085,458	4,097,965	140,150	14,714,384
School for the Blind	508,400	532,019	(161,898)	1,476,307
School for the Deaf	974,062	1,310,849	471,578	5,544,552
State Hospital	1,223,812	2,217,502	500,736	4,181,005
Ellendale State College	485,094	536,563	140,076	2,820,533
Valley City State University	645,529	824,788	(159,071)	2,279,205
Mayville State University	398,630	597,658	(211,092)	1,443,349
Industrial School	1,092,745	1,261,391	(299,223)	6,731,725
State College of Science	979,656	1,710,127	391,484	4,410,980
School of Mines	1,131,466	1,973,697	978,275	4,898,211
Veterans Home	582,876	643,546	(329,200)	1,136,568
University of North Dakota	2,129,941	1,943,142	(684,718)	7,362,237
Total	\$217,861,063	\$286,293,168	\$34,827,907	\$920,202,593

SOURCES OF PERMANENT TRUST REVENUES



Permanent Trust Revenues By Source

	7/03 to 6/05	7/05 to 6/07	7/07 to 6/09	7/09 to 6/11
Investment Income	\$50,868,081	\$59,709,979	\$74,967,590	\$88,258,418
Investment Gains/Loses	84,160,581	104,527,401	(242,259,582)	286,647,894
Mineral Bonuses	14,229,793	17,138,675	27,660,236	268,760,195
Mineral Royalties	25,855,140	53,541,895	93,203,034	159,652,727
Mineral Rentals	884,511	971,224	1,020,914	1,404,486
Surface Rentals	9,477,339	10,116,534	11,579,335	13,899,500
Unclaimed Property	4,058,227	4,397,774	6,001,464	5,724,147
Tobacco Proceed	20,977,122	22,753,729	24,753,324	18,102,049
Extraction Tax	7,350,269	13,135,957	37,901,592	77,753,177
Total	\$217,681,063	\$286,293,168	\$34,827,907	\$920,202,593

Other Funds

	Net Asset Balances		Distributions	
	6/30/09	6/30/11	7/07 to 6/09	7/09 to 6/11
Capitol Building Fund	\$1,333,302	\$3,367,502	\$488,452	\$106,700
Coal Development Fund	61,147,532	63,449,567	3,556,108	2,505,172
Land & Minerals Fund	32,586,643	249,074,431	16,498,349	35,814,077
Indian Cultural Education	487,067	667,591	-	-
Total	\$95,553,544	\$316,559,091	\$20,542,909	\$38,425,949