

State Of
North Dakota

***BOARD OF UNIVERSITY AND
SCHOOL LANDS***

State Land Department

Fifty-fifth Biennial Report

to the
Governor
and
Secretary of State



July 1, 2001 to June 30, 2003

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Gary D. Preszler, Commissioner

The Honorable John Hoeven
Governor of North Dakota
State Capitol
Bismarck ND 58505

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

Dear Governor Hoeven and Mr. Jaeger:

It is my privilege to present the 2001-2003 Biennial Report for the Board of University and School Lands. The report presents an overview of the Board's authority under the Constitution and state law, and the activity of the Board as reported by each of the Land Department's division directors and the Energy Development Impact Office.

I am pleased to report that all the trust funds remain healthy and total distributions from the 13 permanent trust funds were over \$9.3 million greater than the previous biennium. This increase in the level of distributions was attained despite historic low interest rates, weak equity markets, and a decline in revenues from oil and gas and coal mining activity. Further, despite the market volatility, the market value for the 13 permanent trust funds increased by over \$5 million during the biennium. Although equity markets currently appear to be improving, low interest rates will continue to impede future interest income generation. Maintaining fundamental investment principles and strategies, such as risk diversification and not compromising credit quality for the sake of increasing returns, have allowed the trusts to weather these volatile times for investments.

The Board's prudent investment policies, coupled with the continued responsible management of the surface and minerals properties held by the trusts and the efforts made administering the Unclaimed Property Act, will allow the various beneficiaries to reap the rewards for generations to come. It is with this vision that the Land Department employees have dedicated and inspired themselves to work in a most efficient and productive manner.

Respectfully submitted,

Gary D. Preszler
Secretary, Board of University
and School Lands
Commissioner, State Land Department

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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 Dept. 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 X), 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 currently consists of the following members:



Governor John Hoeven
Chairman



Alvin A. Jaeger
Secretary of State
Vice Chairman



Wayne Stenehjem
Attorney General



Dr. Wayne Sanstead
Supt. of Public Instruction



Kathi Gilmore
State Treasurer

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 their behalf. Specific responsibilities of the Board and the Commissioner are set out in N.D.C.C. ch. 15-01 through ch. 15-08.1.

Generally, the Commissioner of University and School Lands 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).

The office of the Commissioner of University and School Lands has been commonly called the State Land Department.

In 1989, the Energy Development Impact Office became a division of the Office of the Commissioner, however, the EDIO Director is appointed directly by the Board of University and School Lands (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 July 28, 1960, the North Dakota Constitution has mandated a 100 percent mineral reservation. Today, the Land Department manages in excess of 660,000 of the original, grant land surface acres, and over 1.8 million of the original mineral acres. Approximately 51,000 acres have since been acquired through foreclosure or other means, bringing the total surface acreage to approximately 714,000 acres.

In 1977, the legislature transferred management authority for minerals acquired by the Bank of North Dakota and for the minerals under sovereign land (navigable rivers/lakes) to the Department. This brings the total mineral acres managed to over 2.5 million acres.

Agency Overview

The Land Grant to the State from the federal government and the State Constitution provides that the Board shall manage the land, minerals and proceeds from the land for the exclusive benefit of the institutions for which they were granted. The income earned is to be distributed according to N.D.C.C. ch. 15.03-05.2, again, for the exclusive benefit of those trust beneficiaries. (See "Schedule of Net Asset Balances" and "Schedule of Distributions by Trust", page 18.)

This income is generated through prudent management of trust assets, consisting of over 714,000 surface acres, over 2.5 million mineral acres, and over \$622 million of financial assets. The surface acres are leased to ranchers and farmers across the state. The 2.5 million mineral acres are offered for oil, gas, coal, gravel and scoria leasing. Revenues from all sources are deposited in trust funds and are invested in the Farm Loan Pool administered by the Bank of North Dakota, U.S. Treasury notes and bonds, and corporate bonds and stocks. The income from these investments, together with surface and mineral rentals, is distributable to schools (public grades K-12), educational and other public institutions at specified intervals throughout the biennium. (See "Investments", pages 13-17, and "Surface Management", pages 9-12.)

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

- | | |
|----------------------------------|--------------------------------|
| 1) Common Schools | 8) Mayville State University |
| 2) North Dakota State University | 9) Industrial School |
| 3) School for the Blind | 10) State College of Science |
| 4) School of the Deaf | 11) Schools of Mines |
| 5) State Hospital | 12) Veterans Home |
| 6) Ellendale State College* | 13) University of North Dakota |
| 7) Valley City State University | 14) Capitol Building |

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

Common Schools Trust Fund

The largest trust administered by the Land Department is the Common Schools Trust Fund. Distributions from the Common Schools Trust Funds are a part of the tuition apportionment payments made to the various school districts each year. Distributions during the 2001-2003 biennium were approximately \$266 per student per year for each child in kindergarten through grade 12.

Besides the sources of revenue listed above, the Common Schools Trust Fund receives 10% of the oil and gas extraction tax (ND Constitution Article X, Section 24) amounting to approximately \$2 million per year, which is invested according to the policy of the Board in the permanent funds of that trust fund. (See "Schedule of Permanent Fund Receipts by Trust", page 18.)

The Common Schools Trust Fund also receives 45% of the proceeds from the tobacco class-action lawsuit settlement (N.D.C.C. § 54-27-25). These funds become part of the permanent funds and are invested according to the policy of the Board. (See "Schedule of Permanent Fund Receipts by Trust", page 18.)

Lands and Minerals Trust Fund

The Land Department is the trustee for the Lands and Minerals Trust Fund created by N.D.C.C. ch. 15-08.1 and § 61-33-07. This trust fund consists of approximately 704,750 mineral acres formerly owned by the Bank of North Dakota, and the minerals located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state. All monies collected in this fund are subject to legislative appropriation each biennium. This fund serves as a collection vehicle for repayment of the developmentally disabled facilities loans funded by the Common Schools Trust. The Bank of North Dakota administers the loans. The principal and interest payable to the Common Schools Trust is appropriated from the Land and Minerals Trust Fund. (See "Schedule of Other Funds", page 18.)

Coal Development Trust Fund

The Coal Development Trust Fund was established by N.D.C.C. § 57-62-02 and pursuant to Section 21 of Article X of the North Dakota Constitution. The Fund receives 30% of the coal severance tax. The fund must be 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. The unloaned balance is invested according to the policy of the Board. (See "Investments", page 12 and "Schedule of Other Funds", page 18.)

Unclaimed Property

The Land Department administers the Uniform Unclaimed Property Act (N.D.C.C. ch. 47-30.1). In this capacity the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and attempts to find the property's owner. Property acquired via this Act is held in trust in perpetuity on behalf of the owner; therefore, owners have one place they can search for their property. The income from property for which the owner cannot be found is distributed to ND public grades K-12. (See "Unclaimed Property Division", page 12.)

Energy Development Impact Office

The Energy Development Impact Office (EDIO) (N.D.C.C. ch. 57-62) is also a part of the Land Department. The EDIO allocates funds appropriated by the state legislature to assist local political subdivisions in dealing with problems arising from oil development. In the allocation of these funds, the Director of the office accepts applications for funding, travels to visit with subdivisions requesting the funding, allocates the funds, and administers the payout of the funds to the grantees. (See "Energy Development Impact Office", page 6.)

Mission Statement

The mission of the State Land Department, under the direction of the Board of University and School Lands, is to serve as a trustee for the benefit of the common schools (public grades K-12), various institutions of higher education, and certain other state institutions.

Land Department Statement of Goals

The primary goal of the Department is to maximize distributable income and trust growth within the parameters allowed by state law, board policy, the prudent investor rule and sound land and mineral management practices. To achieve this primary goal, the following subgoals have been established:

1. To obtain a "fair market" return from the surface lands while improving their condition and value.
2. To develop and pursue a strong, effective minerals management program which maximizes revenue to the trusts.
3. To develop and pursue an aggressive, fair minerals audit program to ensure that the trusts receive all royalties.
4. To continue to encourage and improve compliance with the Uniform Unclaimed Property Act.

5. To preserve the purchasing power of the trusts by maintaining and increasing, relative to inflation, the income distributable to trust beneficiaries.
6. To manage the permanent financial assets of the trusts within the guidelines of the Prudent Investor Rule.

Energy Development Impact Office Statement of Goals

The primary goal of the office is to ensure that local subdivisions hosting energy activity are not required to bear a disproportionate share of the costs associated with that activity (both in its "boom" and "bust" cycles.) The guiding principle of the office is to ensure that the benefit to all of the people of North Dakota, from the extraction of energy resources will not be gained at the expense of those whose lives or property are disturbed, without adequate compensation, in the process.

Funding Sources and Expenses

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

Land Department Statement of Appropriations and Expenditures

Land Department and Energy Development Impact Office	2001-2003 Appropriations	2001-2003 Expenditures	Unexpended Appropriations
Salaries and wages	\$1,842,696	\$1,697,789	\$144,907
Operating expenses	736,457	558,344	178,113
Equipment	48,050	39,834	8,216
Grants	4,888,100	4,888,100	0
Total	\$7,515,303	\$7,184,067	\$331,236

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 Development 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 land 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; however, Board member's schedules may require changes in this schedule.

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

WORLD WIDE WEB ADDRESS

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

ND STATE LAND DEPARTMENT PERSONNEL

Employee	Position	Land Department Employment Dates
Bayley, Keith	Account Budget Specialist	1988-Present
Brand, Mike	Director of Surface Management	1979-Present
Bren, Travis	Auditor	2002-Present
Engleson, Jeff	Director of Investment Division	1986-Present
Erdmann, Levi	Programmer Analyst	2003-Present
Fisher, Linda	Administrator of Unclaimed Property; Leasing Coordinator	1991-Present
Froemke, Debra	Audit Technician	2001-Present
Glanville, Monica	Administrative Assistant	2003-Present
Humann, Mike	Land Conservationist	1987-Present
Haupt, Mike	Range Specialist	1987-Present
Jacobs, Debra	Administrative Assistant	1998-Present
Larson, Rick	Deputy Commissioner; Director of Minerals Management & EDIO	1987-Present
McCulley, Lynn	Administrative Assistant	2000-2003
Pascua, Jayden	Data Processing Information Specialist	1999-Present
Pazdernik, Bonnie	Office Assistant	1997-Present
Preszler, Gary D.	Commissioner	2001-Present
Saude, Jerry	Land Management Specialist	1991-Present
Schell, Judith F.	Administrative Assistant	2000-Present
Smith, Desirae	Programmer Analyst	1996-2002
Tober, Loa	Administrative Assistant	1998-Present



*Left row (front to back): Keith Bayley, Mike Humann, Linda Fisher, Mike Brand, and Mike Haupt
 Middle row: Deb Froemke, Deb Jacobs, Bonnie Pazdernik, Travis Bren, and Jayden Pascua
 Right row: Judith Schell, Jerry Saude, Loa Tober, Levi Erdmann, and Monica Glanville
 Standing (right to left): Gary Preszler, Jeff Engleson, and Rick Larson*

Picture was taken in a one-room historic schoolhouse setting.

Energy Development Impact Office

Rick D. Larson, Director

The Energy Development Impact Office (EDIO) 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 EDIO was combined with the Land Department and is currently under the direction of the Board. The coal program began in 1975 and expired in 1989. The Oil Impact Grant Program began in 1981 and is still in existence.

During the 2001-2003 biennium, the Oil Impact Grant Program helped reduce the financial hardships of local political subdivisions which resulted from activities of the oil industry. The program is funded by 6.67% of the Oil & Gas Gross Production Tax. For the 2001-2003 biennium, that allocation amounted to approximately \$5 million. The allocation cannot exceed \$5 million for a biennium.

During the 2001-2003 biennium, the office conducted grant rounds in the spring of 2001 and the spring of 2002.

To receive funding, applicants must show:

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

These funds are awarded by the EDIO Director following visits with the local political subdivisions requesting the funding. Following these visits, the Director considers information received during these meetings, the information included in the application, and any other compiled data relating to oil production, oil taxation, and property taxation. Information is also obtained through the state's computer network from the Industrial Commission Oil & Gas Division showing oil wells, oil production, and salt water production, which helps establish the degree of oil-related traffic in each township. Also, the EDIO collects oil tax and property tax data from various sources, including the State Treasurer's Office, the State Tax Commissioner's Office, the State Department of Public Instruction, and the ND League of Cities.

2001-2003 Biennium Oil Impact Grant Applications and Awards

Summary by County

<i>County</i>	<i>\$ Requested</i>	<i>\$ Awarded</i>	<i>%</i>
Bottineau	\$ 1,740,630	\$ 432,700	8.5
Bowman	6,124,853	1,056,000	20.8
Burke	836,819	395,900	7.8
Divide	506,815	249,750	4.9
Dunn	683,200	202,000	4.0
G. Valley	715,519	278,000	5.5
McHenry	67,125	35,000	0.7
McKenzie	1,513,313	200,500	4.0
McLean	4,500	3,000	0.1
Mercer	12,009	0	0.0
Mountrail	892,175	275,850	5.4
Renville	1,693,765	397,900	7.8
Slope	516,833	183,000	3.6
Stark	2,617,892	431,900	8.5
Ward	64,000	30,000	0.6
Williams	6,071,922	903,500	17.8
TOTAL	<u>\$24,063,370</u>	<u>\$5,075,000</u>	<u>100.0</u>

2001-2003 Biennium Oil Impact Grant Applications and Awards

Summary by Class of Subdivision

<i>Class</i>	<i>\$ Requested</i>	<i>\$ Awarded</i>	<i>%</i>
County	\$ 8,932,235	\$1,977,900	39.0
School	2,164,025	352,000	6.9
City	7,941,767	868,000	17.1
Park District	76,680	0	0.0
Airport Auth.	248,800	28,500	0.6
Township	2,559,137	1,271,350	25.1
Fire Ambul.	2,140,726	577,250	11.4
TOTAL	<u>\$24,063,370</u>	<u>\$5,075,000</u>	<u>100.0</u>

The tables on this page summarize the amounts allocated by county and by class of subdivision for the oil impact grant program. Counties and townships accounted for 66.9% of the total amount awarded, most of which was for road projects. Cities accounted for 18.2% of the total. A list of individual grants made during the 2001-2003 biennium is available upon request. Altogether, the EDIO allocated grants totaling \$5,075,000 during the 2001-2003 biennium.

A total of 523 grants were issued in the two grant rounds to counties, cities, townships, schools, fire and ambulance districts and other local units of government in an area west of a line from Bottineau to Bowman. The EDIO is a program that successfully channels financial help to where it is most needed, at minimum operational expense.

Minerals Management

Rick D. Larson, Director

The Minerals Management Division administers mineral interests held in trust for the benefit of various schools and institutions of North Dakota. The Division also administers mineral interests formerly owned by the Bank of North Dakota, plus the minerals under navigable rivers and lakes.

OIL AND GAS ACTIVITY

The two technologies continue to be the main activity in North Dakota are unitization of existing production, and horizontal drilling in existing well and fields. Both activities are exploiting known production and trying to incrementally produce more oil from those reserves. A highlight for the biennium is leasing activity in Stutsman and Wells Counties. One well was drilled rumored to be targeting shallow natural gas. The results are not public information as of the end of the biennium.

Oil prices continued to stay at high levels, but the division did not see an increase in oil and gas leasing activity that would normally be expected at those levels. The natural gas prices and outlook for the natural gas industry had companies spending their money in areas where natural gas potential was greater. The Williston Basin of North Dakota is primarily an oil producing basin. Oil and gas royalty dropped from \$18,160,765 the previous biennium to \$16,348,984 this biennium because of the decline in barrels produced. The 2001-2003 lease sales generated \$472,266 in bonuses for the trusts, which amounts to an average of \$6.05 per acre. The following chart of oil and gas lease results show the county-by-county acreage and average bonus.

COAL PRODUCTION

Total coal royalty revenue for this biennium was \$1,192,316. Coteau Properties Company, BNI Coal, Ltd., and Dakota Westmoreland Corporation (formerly Knife River Mining Company) were actively mining tracts where the state owned a mineral interest, however much of the mining has progressed through the State-owned minerals. The division saw new leasing activity from Coteau Properties Company in Mercer County and from Falkirk Mining Company in McLean County. The division leased 1529.83 acres for coal mining.

Oil and Gas Leasing Activity

	1999-2001	2001-2003
Gross Mineral Acres Owned*	2,545,942	2,552,453
Acres Under Lease	364,633	280,728
# of Oil/Gas Lease Sales	8	8
Net Mineral Acres Leased	115,085	78,119
Ave. Bonus/Net Mineral Acre	\$10.50	\$6.05

*Approximate acreage only. Total acreage will vary due to estimates of the acreage owned by the state under navigable rivers and lakes.

Mineral Division Receipts

	1999-2001	2001-2003
Oil and gas royalty	\$18,160,765	\$16,348,984
Oil and gas bonus	\$1,208,119	\$473,112
Coal royalty	\$4,189,023	\$1,192,316
Oil and gas rental	\$459,501	\$384,622
Testholes and damages	\$180,141	\$162,219
TOTAL	\$24,197,549	\$18,561,253

OIL AND GAS LEASE SALE RESULTS

North Dakota State Minerals

COUNTY		Aug-01	Nov-01	Feb-02	May-02	Aug-02	Nov-02	Feb-03	May-03	TOTAL
BILLINGS	TOTAL \$	\$19,012.24	\$4,552.44	\$16,320.00	\$29,654.32	\$17,984.30	\$15,629.70	\$0.00	\$0.00	\$103,153.00
	MIN. ACRES	1,555.44	398.74	1,440.00	1,390.72	2,774.90	481.32	0.00	0.00	8,041.12
	\$/MIN ACRE	\$12.22	\$11.42	\$11.33	\$21.32	\$6.48	\$32.47	\$0.00	\$0.00	\$12.83
BOTTINEAU	TOTAL \$	\$5,765.47	\$160.00	\$14,000.00	\$0.00	\$0.00	\$720.00	\$0.00	\$0.00	\$20,645.47
	MIN. ACRES	2,409.42	160.00	320.00	0.00	0.00	80.00	0.00	0.00	2,969.42
	\$/MIN ACRE	\$2.39	\$1.00	\$43.75	\$0.00	\$0.00	\$9.00	\$0.00	\$0.00	\$6.95
BOWMAN	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,505.36	\$400.00	\$17,920.00	\$20,825.36
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	626.34	400.00	320.00	1,346.34
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4.00	\$1.00	\$56.00	\$15.47
BURKE	TOTAL \$	\$0.00	\$42,497.78	\$0.00	\$0.00	\$640.00	\$0.00	\$0.00	\$0.00	\$43,137.78
	MIN. ACRES	0.00	800.14	0.00	0.00	320.00	0.00	0.00	0.00	1,120.14
	\$/MIN ACRE	\$0.00	\$53.11	\$0.00	\$0.00	\$2.00	\$0.00	\$0.00	\$0.00	\$38.51
DIVIDE	TOTAL \$	\$11,451.02	\$0.00	\$0.00	\$412.18	\$0.00	\$1,760.00	\$1,220.00	\$1,757.14	\$16,600.34
	MIN. ACRES	2,847.30	0.00	0.00	412.18	0.00	160.00	560.00	878.58	4,858.06
	\$/MIN ACRE	\$4.02	\$0.00	\$0.00	\$1.00	\$0.00	\$11.00	\$2.18	\$2.00	\$3.42
DUNN	TOTAL \$	\$640.00	\$0.00	\$0.00	\$0.00	\$2,319.04	\$6,960.00	\$0.00	\$100.00	\$10,019.04
	MIN. ACRES	640.00	0.00	0.00	0.00	1,429.52	880.00	0.00	100.00	3,049.52
	\$/MIN ACRE	\$1.00	\$0.00	\$0.00	\$0.00	\$1.62	\$7.91	\$0.00	\$1.00	\$3.29
G. VALLEY	TOTAL \$	\$640.00	\$8,497.65	\$0.00	\$0.00	\$320.00	\$0.00	\$3,588.95	\$1,920.00	\$14,966.60
	MIN. ACRES	640.00	2,789.69	0.00	0.00	320.00	0.00	3,588.95	1,920.00	9,258.64
	\$/MIN ACRE	\$1.00	\$3.05	\$0.00	\$0.00	\$1.00	\$0.00	\$1.00	\$1.00	\$1.62
HETTINGER	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$160.00	\$0.00	\$17,760.00	\$0.00	\$17,920.00
	MIN. ACRES	0.00	0.00	0.00	0.00	80.00	0.00	160.00	0.00	240.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$2.00	\$0.00	\$111.00	\$0.00	\$74.67
MCKENZIE	TOTAL \$	\$9,840.00	\$32,999.82	\$3,710.00	\$0.00	\$10,945.49	\$56,545.57	\$0.00	\$9,407.84	\$123,448.72
	MIN. ACRES	1,680.00	2,819.99	1,750.00	0.00	1,968.89	1,706.69	0.00	1,467.98	11,393.55
	\$/MIN ACRE	\$5.86	\$11.70	\$2.12	\$0.00	\$5.56	\$33.13	\$0.00	\$6.41	\$10.83
MCLEAN	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$8,960.00	\$8,960.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	160.00	160.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$56.00	\$56.00
MOUNTRAIL	TOTAL \$	\$0.00	\$2,932.39	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$6,099.82	\$9,032.21
	MIN. ACRES	0.00	1,452.39	0.00	0.00	0.00	0.00	0.00	5,059.82	6,512.21
	\$/MIN ACRE	\$0.00	\$2.02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.21	\$1.39
RENVILLE	TOTAL \$	\$8,881.11	\$405.84	\$0.00	\$80.00	\$0.00	\$311.10	\$287.05	\$160.00	\$10,125.10
	MIN. ACRES	80.01	87.84	0.00	80.00	0.00	195.55	166.42	160.00	769.82
	\$/MIN ACRE	\$111.00	\$4.62	\$0.00	\$1.00	\$0.00	\$1.59	\$1.72	\$1.00	\$13.15
ROLETTE	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$120.00	\$120.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	120.00	120.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$1.00
SLOPE	TOTAL \$	\$4,921.25	\$8,768.00	\$6,599.58	\$4,503.77	\$0.00	\$200.95	\$0.00	\$0.00	\$24,993.55
	MIN. ACRES	635.00	3,288.00	1,279.86	4,080.32	0.00	200.95	0.00	0.00	9,484.13
	\$/MIN ACRE	\$7.75	\$2.67	\$5.16	\$1.10	\$0.00	\$1.00	\$0.00	\$0.00	\$2.64
STARK	TOTAL \$	\$0.00	\$12,926.96	\$0.00	\$320.00	\$1,872.11	\$0.00	\$11,027.61	\$0.00	\$26,146.68
	MIN. ACRES	0.00	725.87	0.00	320.00	1,424.11	0.00	78.21	0.00	2,548.19
	\$/MIN ACRE	\$0.00	\$17.81	\$0.00	\$1.00	\$1.31	\$0.00	\$141.00	\$0.00	\$10.26
STUTSMAN	TOTAL \$	\$7,695.33	\$0.00	\$0.00	\$0.00	\$816.73	\$0.00	\$0.00	\$1,534.63	\$10,046.69
	MIN. ACRES	7,657.06	0.00	0.00	0.00	810.93	0.00	0.00	1,134.28	9,602.27
	\$/MIN ACRE	\$1.00	\$0.00	\$0.00	\$0.00	\$1.01	\$0.00	\$0.00	\$1.35	\$1.05
WARD	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$480.00	\$0.00	\$0.00	\$480.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	240.00	0.00	0.00	240.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2.00	\$0.00	\$0.00	\$2.00
WELLS	TOTAL \$	\$1,494.68	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,494.68
	MIN. ACRES	1,494.68	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,494.68
	\$/MIN ACRE	\$1.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00
WILLIAMS	TOTAL \$	\$3,914.72	\$0.00	\$6,156.03	\$80.00	\$0.00	\$0.00	\$0.00	\$0.00	\$10,150.75
	MIN. ACRES	2,954.72	0.00	1,876.03	80.00	0.00	0.00	0.00	0.00	4,910.75
	\$/MIN ACRE	\$1.32	\$0.00	\$3.28	\$1.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2.07
TOTALS	TOTAL \$	\$74,255.82	\$113,740.88	\$46,785.61	\$35,050.27	\$35,057.67	\$85,112.68	\$34,283.61	\$47,979.43	\$472,265.97
	MIN. ACRES	22,593.63	12,522.66	6,665.89	6,363.22	9,128.35	4,570.85	4,953.58	11,320.66	78,118.84
	\$/MIN ACRE	\$3.29	\$9.08	\$7.02	\$5.51	\$3.84	\$18.62	\$6.92	\$4.24	\$6.05

Surface Management

Michael D. Brand, Director

This division leases and manages surface acres held in trust for various schools and institutions. The major source of income on these lands comes from grazing and agricultural leases, with additional revenue 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 the improvement of range condition and productivity.
- Reseeding of marginal cropland with native grasses.
- Development of dams and dugouts for livestock water and wildlife enhancement.
- Cooperative clean-up of trash sites and sealing abandoned water wells.
- Reclamation of oil well sites, pipeline rights-of-way and gravel mines.

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

Another major responsibility of the surface management division is to review and issue easements and permits. The most common easements are for electrical lines, and for oil and gas pipelines and roads. We also issued a permit for a meteorological tower in Burleigh County in 2002. The tower is being used to evaluate wind conditions for possible future wind generation of electricity.

LEASING

A total of 2,148 grazing and agricultural leases were issued this biennium. Public auctions were held each spring and fall with the leases going to the highest

bidder. Leasing success has been high with a success rate over 99%. Flooding in the northeastern part of the state continued to depress leasing income in that area but recent dry weather should help in the coming biennium.

Total rental collected for the biennium increased by 9% to \$8.9 million from last biennium. This increase is due to competitive bidding at auction, and changes to the minimum acceptable bids as calculated with the Fair Market Value Method (FMVM). The FMVM tracks changes to the agricultural rental market in various leasing regions, and uses this information to calculate the minimum acceptable bid at public auction for each tract of school trust land. The expected downturn in the agricultural rental market did not occur in this biennium. Strong cattle prices with increased beef consumption and the closing the border to Canadian beef may keep rentals stable for a few more years.

This biennium also saw the completion of 10 years of improving surface lease auction efficiency. Improvements to the process over the past 10 years were as follows:

1. Automated the auctions with laptop computers.
2. Automated auction advertisement and inputting of new leases.
3. Synchronized leases in eastern counties so that auctions would only be held once every 5 years.
4. Combined two small auction years into one so that in one year out of five there would not be a fall auction.

The fourth step was taken in 2003.

Land Sales and Acquisitions 2001-2003

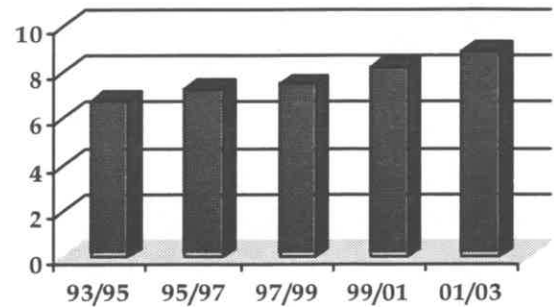
<i>Acquisitions:</i>	<i>Acres</i>
Railroad Abandonment	16.14
Total Acquisitions	16.14
<i>Sales:</i>	
Farm Loan Pool	169.31
Total Sales	169.31

NOXIOUS WEED CONTROL

There has been a significant reduction in the density and extent of leafy spurge on many tracts of land because of biocontrol with flea beetles. This has increased the income and reduced spraying expenses on those tracts. Flea beetles are now found throughout the State and are spreading on their own. Moving flea beetles is now done to supplement the populations that we are finding nearly everywhere. As before, sandy soils are still poor habitat for flea beetles. However, flea beetles have moved into wooded draws which was unexpected. Attention has shifted to maintaining flea beetle populations and discovering why they seem to work in one spot and not another.

Spotted knapweed remains a major concern in North Dakota. No new infestations were found on school trust lands and known infestations were monitored for effective control. Saltcedar is a new noxious weed that recently invaded the State along the Yellowstone and

Surface Rental \$ in Millions



Missouri Rivers. Because it has come in along the rivers, all tracts of school trust land along the Little Missouri River were inspected for saltcedar and none was found. These tracts will have to be periodically inspected to ensure early detection and control.

SPECIAL PROJECTS

Railroad rights-of-way often sever tracts of school trust land making leasing and management more difficult. Railroad abandonment has become more common and there is an opportunity to recover these rights-of-way and restore the continuity of certain school trust lands. Although the 16.14 acres acquired during the 2001/2003 biennium is small, they are important out of proportion to their size in making these tracts whole again. This project will continue for several more bienniums.

Correction of the many improperly described easements on land known as the "East Bismarck" tract was nearly completed. New legal descriptions were provided for several lines and three new electrical transmission line routes were negotiated in preparation for the possible sale of this property.

A major gravel mine that has been in operation in Ward County since 1976 began reclamation in 2003. This mine eventually reached 65 acres in size. Significant reclamation work has been started and it is expected that it will be completed in the 2003/2005 biennium.

FORECLOSED AND OTHER PROPERTY

There were no foreclosures this biennium that resulted in property being acquired by the Board. The only acquisitions were a result of an ongoing project to acquire abandoned railroad rights-of-way where they cross school trust lands. The only land sale was a tract donated in 1999 by Russell and Helen Hedlund, Edina, MN, to the common schools trust fund. As a condition of the donation, the Hedlunds agreed that the tract could be sold and the money placed in the permanent trust for the perpetual benefit of the schools.

Surface Acres by Trust Fund As of June 30, 2003

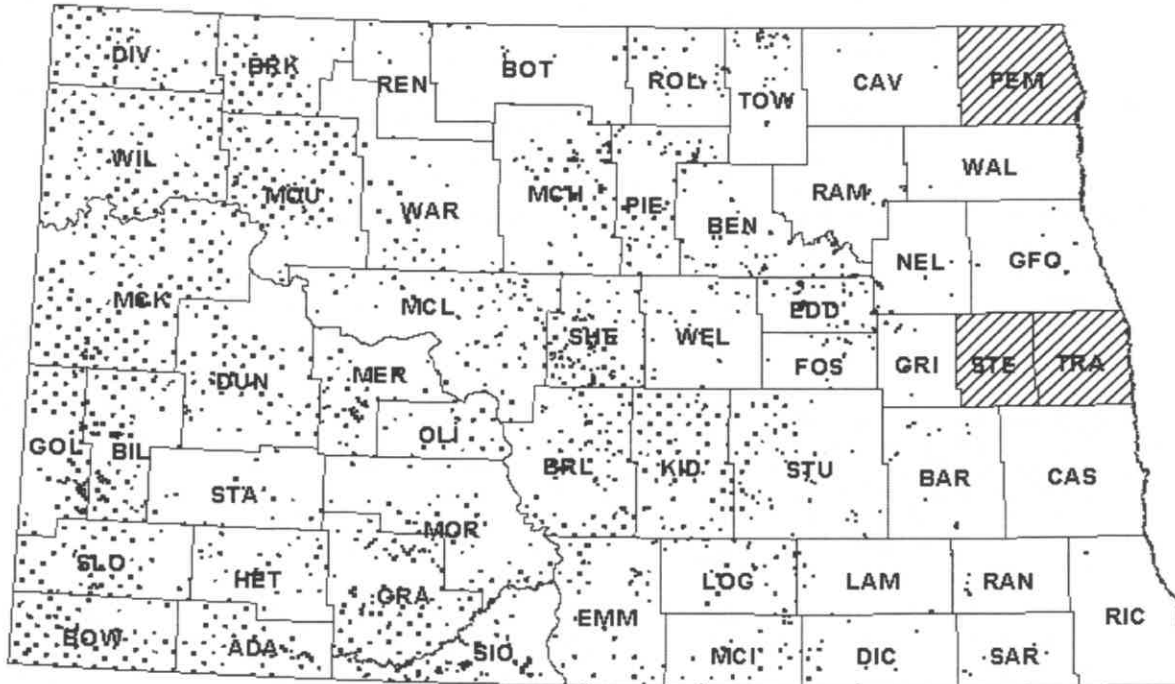
Trust Fund	Acres
Common Schools	635,533.87
School for the Blind	3,481.69
State Capitol	9,985.10
School for the Deaf	4,828.85
Ellendale State College ¹	4,984.17
State Hospital	2,203.91
Industrial School	3,899.43
School of Mines ¹	3,392.03
N.D.S.U.	15,117.68
Veterans' Home	2,913.69
U.N.D.	9,616.98
Valley City State University	640.00
ND State College of Science	3,731.31
Mayville State University	640.00
Valley City/Mayville ²	6,818.08
Farm Loan Pool ³	5,848.00
Total	<u>713,634.79</u>

- Income from the assets held by the Ellendale Trust Fund is allocated equally among the following institutions: Dickinson State University, Minot State University, NDSU-Bottineau, School for the Blind, Veterans' Home, State Hospital, and State College of Science. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota.
- Receipts from acreage held jointly by Valley City and Mayville State Universities are allocated 62.5% to Valley City and 37.5% to Mayville.
- Receipts from this acreage is distributed by formula to all of the above funds except the State Capitol fund.

SURFACE ACRES BY COUNTY

As of June 30, 2003

County	Acres	County	Acres	County	Acres
Adams	17,115.78	Golden Valley	28,983.55	Ramsey	2,056.50
Barnes	2,803.32	Grant	33,638.72	Ransom	1,120.00
Benson	12,725.28	Griggs	1,741.24	Renville	1,910.12
Billings	31,082.07	Hettinger	9,879.60	Richland	513.68
Bottineau	3,597.94	Kidder	28,643.79	Rolette	6,822.88
Bowman	29,310.48	LaMoure	1,435.72	Sargent	1,127.79
Burke	16,119.43	Logan	9,404.92	Sheridan	26,225.02
Burleigh	27,878.66	McHenry	23,360.56	Sioux	23,411.56
Cass	45.47	McIntosh	6,357.50	Slope	23,605.98
Cavalier	596.47	McKenzie	64,714.78	Stark	6,142.64
Dickey	3,980.69	McLean	21,036.54	Stutsman	15,664.01
Divide	21,127.12	Mercer	14,969.38	Towner	8,076.00
Dunn	26,122.70	Morton	18,113.89	Walsh	201.02
Eddy	10,274.62	Mountrail	32,445.36	Ward	11,198.98
Emmons	14,476.80	Nelson	2,853.66	Wells	5,248.63
Foster	3,111.51	Oliver	7,588.41	Williams	38,399.32
Grand Forks	2,073.77	Pierce	14,300.93	Total	<u>713,634.79</u>



Distribution of State School Lands

No School Land
 School Land



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 make efforts to locate owners, and to support the Common Schools Trust Fund with interest earned on funds that remain unclaimed. The Act has been in effect since July 1, 1975.

CURRENT UNCLAIMED PROPERTY ISSUES

Unclaimed property has seen many changes over the years, but none so significant as the impact of the internet - both good and bad. To the advantage of owners, the world-wide web has provided a convenient and inexpensive means by which they can search for property and, in most cases, start the claim process on their own. At least 20% of claim forms we receive are printed from our web site, plus countless owners who see their name on the site, but ask us to mail forms when they call our office for more information on the property.

Unfortunately, the more "public" the information becomes, the more vulnerable it is to fraudulent activity. Confirmed cases of fraudulent claims have increased nationwide. North Dakota does not have any confirmed cases, but is in no way immune from the possibility as identify theft becomes more of a problem. As a result, our claim requirements on larger property values became more stringent in this biennium and we have become more diligent in safeguarding owner property and personal information.

Equally alarming, from a consumer protection standpoint, is the increasing number of websites and individuals that claim to provide property-locating assistance to individuals for a fee. While most are technically "legal", some provide meaningful services and others do not. It can be difficult for consumers to tell which ones are which. We have recently begun highlighting this issue in public service announcements and also in printed material that comes from this office. The message? Always contact ND Unclaimed Property first.

PUBLICATION / NOTIFICATION EFFORTS

- Publish legal notices of names and generic unclaimed property advertisements in each official county newspaper.
- Maintain a no-charge web site where the public can search for property by name (or by city of last known address) and can start the claim process.
- Appear on television and do radio interviews around the state to provide unclaimed property information to both claimants and holders.
- Make presentations at various community and business functions.
- Operate a booth at the ND State Fair in Minot, and the Women's Showcase and Red River Valley Fair in Fargo.
- Direct mail to owners of security-related property.

Despite direct and repeated contact with some of our owners, much property remains unclaimed. It is important to note that while we provide the opportunity to reunite owners with property, the responsibility to follow-through with the process lies with the owner.

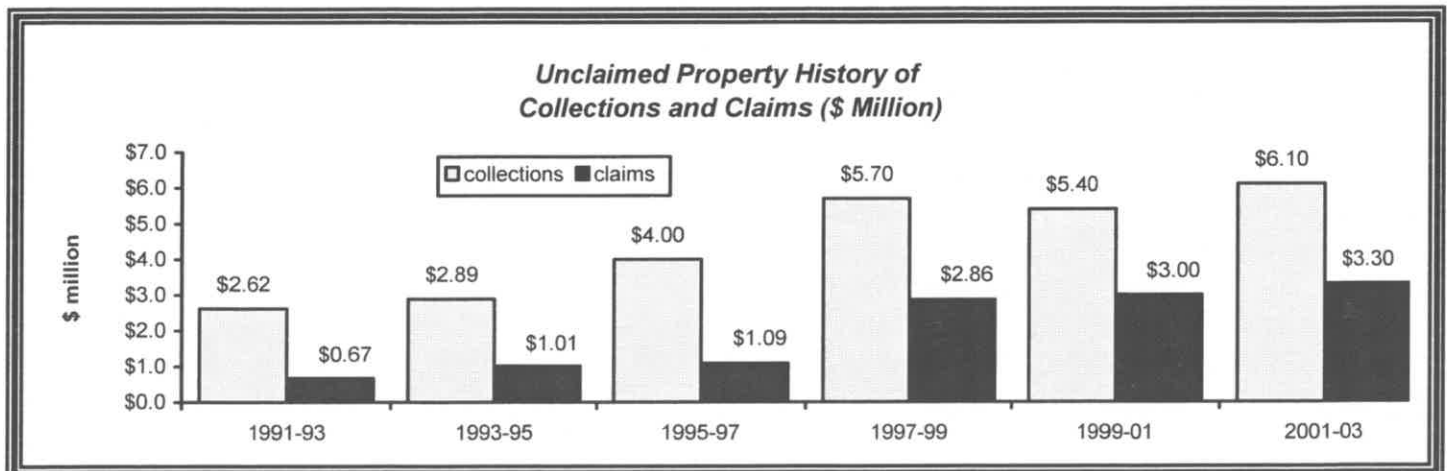
TECHNOLOGICAL ADVANCES

Much of this biennium has been dedicated to developing and testing technology to help implement 2001 legislative mandates relating to securities tracking. We also implemented software enhancements used in accepting e-reports from holders. Currently, about 25% of our reports are coming via electronic medium, resulting in increased accuracy and reduced data entry costs.

LEGISLATIVE CHANGES

2003 legislation requires that State agencies be notified of unclaimed property via certified mail, and that the names of these agencies not be published.

It also exempts all information submitted by claimants, which is used to prove ownership of the property, from the open records law.



Investments

Jeff Engleson, Director

The Investment Division is responsible for directing, implementing, coordinating and monitoring all aspects of the Land Department's investment program.

As of June 30, 2003, the total value of investment assets managed by the Division was approximately \$622.44 million. The bulk of these assets (\$566.49 million) are owned by the 13 permanent education trusts under the Board's control, while the remainder are owned by the Coal Development, Land & Minerals and Capitol Building trust funds. Listed below is a breakdown of the investment assets managed by the Division, by asset type:

- ◆ **Marketable Securities and CDs:** The total value of investment securities and CDs managed by the Board as of June 30, 2003 was \$550.14 million. \$549.93 million of investment securities are held in trust by our custodian bank, The Northern Trust Company, and are managed by investment professionals that are hired by the Board to achieve specific investment goals and objectives. The Capitol Building Trust owns \$210,000 of CDs purchased from both the Bank of North Dakota (BND) and other North Dakota financial institutions.
- ◆ **Farm Loan Pool:** As of June 30, 2003, the total value of the Board's pool of farm real estate loans was \$33.03 million. Although the BND handles the day-to-day operations 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.
- ◆ **Loans to Political Subdivisions:** As of June 30, 2003, the Board had total outstanding loans, to various political subdivisions, of \$39.27 million. Legislatively directed loan programs from the Coal Development Trust Fund total \$33.93 million as of that date, and include \$31.15 million in school construction loans and \$2.78 million in loans to various energy impacted political entities. In addition, the common schools trust fund has two outstanding loans, totaling \$5.34 million, which have funded the building and furnishing of group homes for the developmentally disabled.

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, and investment goals and objectives of 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 long range goal for the permanent 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 (4%/year). To that end, the Board developed a long-term investment allocation plan to include a well diversified portfolio of stocks, bonds and other 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 moneys that have not been loaned. As of June 30, 2003, outstanding loans to political subdivisions totaled \$33.93 million, while the Board invested the remaining \$21.81 million of this trust's assets. Because of the limited authority the Board has over this trust, its 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 and certificates of deposits, that have minimal chance of principal loss.

During the 2001-03 biennium the Board continued to fine tune its investment program. Over time, we expect to continue to develop and improve an investment program that already incorporates the purpose and nature of each trust into an investment plan that meets the goals and objectives of the trust.

PERMANENT TRUST INVESTMENT ASSETS

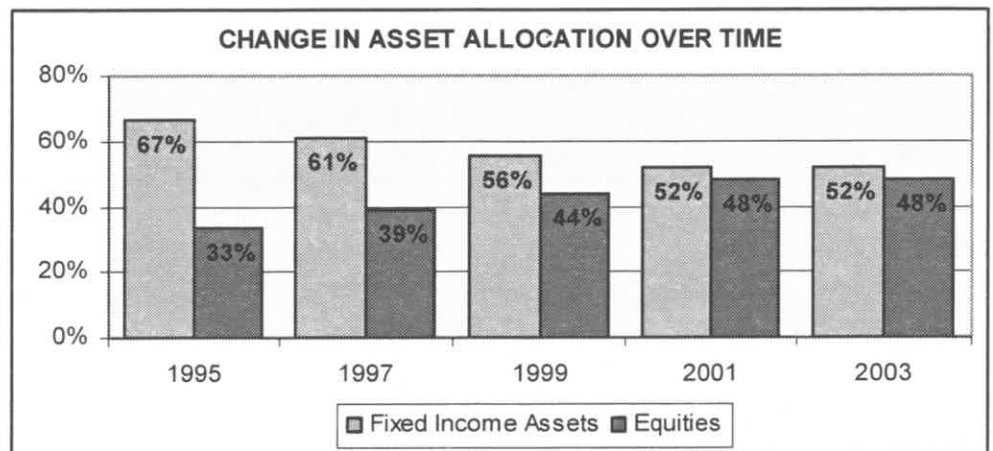
Asset Allocation Plan:

In 1995 the Board hired Yanni•Bilkey Investment Consulting to perform a study of the Board's investment program. The two main conclusions of the study were that the permanent trusts needed to 1) significantly increase their exposure to equity securities (common stocks), and 2) decrease the percentage of assets distributed each year from a rate of approximately 6.5% of assets to a rate closer to 5%. Using the Yanni•Bilkey study as a base, the Land Department staff developed and implemented an investment plan for the permanent trusts that applied the investment theory presented in the study to the legal and fiscal realities that limit the Board's management of these funds.

The plan adopted by the Board:

- ◆ Gradually increased the permanent trusts' exposure to equity securities.
- ◆ Provides for modest increases in distributions to beneficiaries as we work toward the ultimate goal of increasing distributions by 4% each year.
- ◆ Decreases the permanent trust's reliance on mineral royalties and bonuses as a source of trust growth.
- ◆ Includes various safeguards that provide assurance that trust beneficiaries will receive stable or increasing distributions for years to come.

When the Board began implementing the asset allocation plan in 1995 the portfolio was approximately 2/3rds fixed income assets and 1/3rd equity securities. As of June 30, 2003 the portfolio was 52% fixed income assets and 48% equities. The pie chart in the lower right hand portion of this page shows a detailed breakdown of the permanent trusts' asset allocation as of June 30, 2003.



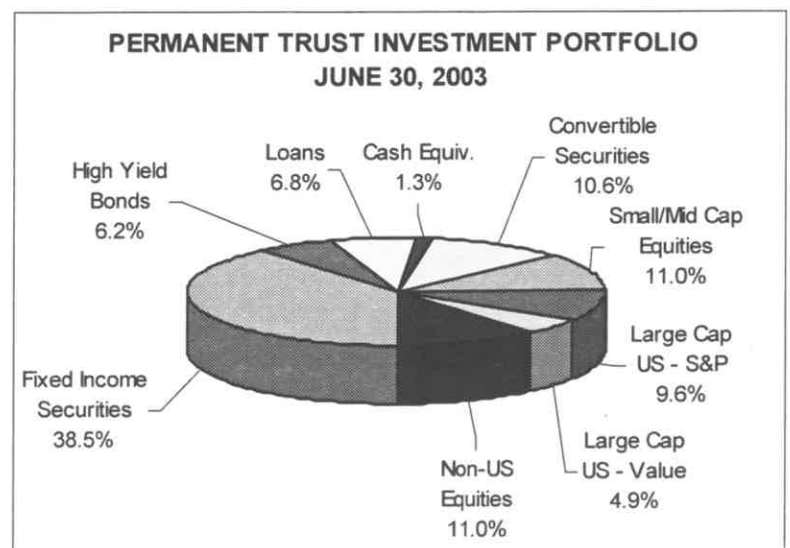
When the Board adopted the current asset allocation/distribution plan,

determining a specific, detailed, long-term asset allocation/distribution policy for the permanent trusts was not as important as adopting changes that would get the investment program going in the right direction. Over the past eight years great strides have been made towards getting the investment program in-line with the recommendations made in the Yanni•Bilkey study. The permanent trusts have clearly reaped the benefits of the Board's actions eight years ago.

DiMeo Schneider Investment Study:

Although the permanent trusts' current asset allocation plan has worked well, in December 2002 the Board hired the investment consulting firm of DiMeo Schneider & Associates to perform an investment study. The purpose of the study was to help the Board further develop its investment program and policies in order to better manage the trust funds under its control.

The results of the DiMeo Schneider study were presented to the Board in April 2003. The study included a number of recommendations that will be implemented over the next few years in order to improve the Board's investment program. The recommendations should also help the Board maintain distributions to trust beneficiaries at a time when interest rates are at or near historic lows and equity markets have posted negative returns for three consecutive years.



Fixed Income Investments:

When the Board adopted the asset allocation plan in 1995, it made a conscious decision that it could no longer look at fixed income assets on a total return basis, as pensions and most other institutional investors do. Rather, the Board decided that the objective of the fixed income portfolio is to generate the long-term, predictable, income and cash flows needed to meet distribution goals.

To meet this objective, a fixed income portfolio was built that consists primarily of high quality, relatively high yielding, loans and fixed income securities, that is managed in more of a "buy and hold" manner than most institutional fixed income portfolios. The fixed income assets managed in this yield-oriented strategy include long-term government and corporate fixed income securities, as well as farm real estate loans and developmentally disabled loans (DD Loans) #2 and #3. The total amount dedicated to this yield-oriented fixed income portfolio was over \$256 million as of 6/30/03.

SUMMARY OF PERMANENT EDUCATIONAL TRUST FIXED INCOME ASSETS MANAGED FOR YIELD FOR PERIODS ENDED JUNE 30, 2001, 2002 & 2003					
Manager/Asset Class	6/30/03 Alloc. (\$ million)	% of Total Portfolio	FY Ended 6/30/03	FY Ended 6/30/02	FY Ended 6/30/01
Bank of North Dakota	\$ 42.50	6.3%	7.22%	7.37%	7.57%
Payden & Rygel Long-Term	\$111.63	16.6%	6.54%	7.08%	7.30%
Avg. Yield on Cost – Fixed Income Securities	\$154.13	22.9%	6.46%	7.21%	7.47%
Benchmark Yield for Fixed Income Securities			7.25%	7.25%	7.25%
Farm Loan Pool	\$ 33.03	4.9%	7.62%	7.84%	8.09%
DD Loans #2 & #3	\$ 5.34	0.8%	9.00%	9.00%	9.79%
Avg. Yield on Cost – Loans	\$ 38.37	5.7%	7.78%	7.96%	8.26%
Payden & Rygel GNMA/Short Bond Funds	\$ 64.08	9.5%	3.35%	5.39%	N/A
Avg. Yield on Cost – All Fixed Income Investments	\$256.58	38.1%	6.46%	7.35%	7.66%
Yield Requirement per Asset Allocation Schedule			7.50%	7.50%	7.50%

The goal of the yield-oriented fixed income portfolio is to maintain an average yield on cost of 7.50% or greater. Although the portfolio exceeded this goal in 2001, the yield fell well below the goal during both years of the current biennium. The primary reason for the decline in portfolio yield is that interest rates have been at or near all time lows during much of the past two years. With rates so low, principal prepayments and loan payoff in the Bank of North Dakota and farm loan pool accounts have increased and the rates at which this principal can be reinvested have declined. Most of the principal prepayments and loan payoffs are invested temporarily in the much lower yielding Payden & Rygel GNMA/Short Bond account, pending a decision by the Board as to how to best deploy these assets in the long-term.

The Board added a high yield bond component to the permanent trusts' total fixed income portfolio in 1999. Due to the nature of high yield bonds, this portfolio is actively managed on a total return basis. As of June 30, 2003, the total value of the high yield portfolio was \$35.18 million.

To date, the Board has made a conscious decision to maintain the credit quality of the fixed income portfolio, even if it means generating less income from the portfolio. Although lowering the credit quality of the portfolio may increase yield, the Board is unwilling to increase the risk of loss of fixed income principal in order to generate more income. The DiMeo Schneider investment study addressed ways for the Board to help maintain and increase the yield of the portfolio without adding undue risk.

Equity Securities:

The purpose of the permanent trusts' equity and convertible securities portfolio is to provide the growth needed to reach the Board's ultimate goal of increasing both trust assets, and distributions, at a rate greater than or equal to inflation. In order to help accomplish this goal, the Board increased the permanent trusts' exposure to equity securities from approximately 33% in 1995 to 48% on June 30, 2003. Due to the weak equity markets in recent years the percentage of assets allocated to equities remained relatively stable during the biennium.

The permanent trusts' equity asset mix includes allocations to large-capitalization U.S equities, small- and mid-capitalization U.S equities, international equities and convertible securities. The current weighting of each asset class in the equity portfolio is based on the Yanni•Bilkey study.

The permanent trusts' combined equity and convertible securities portfolio posted an average annual return of -6.05% during the biennium. The portfolio posted total return losses of -11.65% during fiscal year 2002 and -0.09% during fiscal year 2003. The combined equity and convertible securities portfolio has earned an annualized total return of 8.12% since August 1995, slightly below the 10% total return we expect to earn from a diversified portfolio of equity and convertible securities over time. The following schedule summarizes the position of our combined equity and convertible securities portfolio as of June 30, 2001, and its performance since the Board implemented the asset allocation plan in August 1995.

PERMANENT EDUCATIONAL TRUST EQUITY & CONVERTIBLE NET RETURNS FOR PERIODS ENDED JUNE 30, 2003							
Asset Class MANAGER Index	6/30/03 Allocation (\$ mil.)	% of Total Portfolio	Last 1 Year (%)	Last 2 Years (%)	Last 5 Years (%)	Since Inception (%)	Inception Date
Large Cap U.S. Equities							
STATE STREET - S&P 500 Index Fund S&P 500	\$54.53	8.1%	0.25	-9.34	-1.62	1.30	2/1/98
MISSOURI VALLEY PARTNERS Russell 100 Value Index	\$27.85	4.1%	-0.04	-4.02	N/A	2.90	4/1/00
Small/Mid Cap U.S. Equities							
NORTHERN TRUST GLOBAL ADVISORS NTGA Benchmark (composite index + 2.00%)	\$62.39	9.2%	-3.89	-2.95	7.92	11.45	3/1/96
International Equities							
STATE STREET - MSCI EAFE Index Fund MSCI EAFE	\$62.44	9.3%	-6.37	-7.90	N/A	-4.69	3/1/99
Convertible Securities							
TRUST COMPANY OF THE WEST First Boston Convertible	\$60.14	8.9%	9.88	-6.28	4.03	9.40	6/30/90
Combined Equity and Convertibles	\$267.35	39.6%	-0.09	-6.05	2.36	8.12	8/1/95
All total return figures for periods of 1 year or greater have been annualized.							

MONITORING AND EVALUATING PERFORMANCE

During the 90s, most of the efforts in the investment area were directed towards adopting and implementing an asset allocation plan for the permanent trusts. Now that an investment plan is in place, the focus has switched to monitoring, evaluating, and enhancing the performance of the plan.

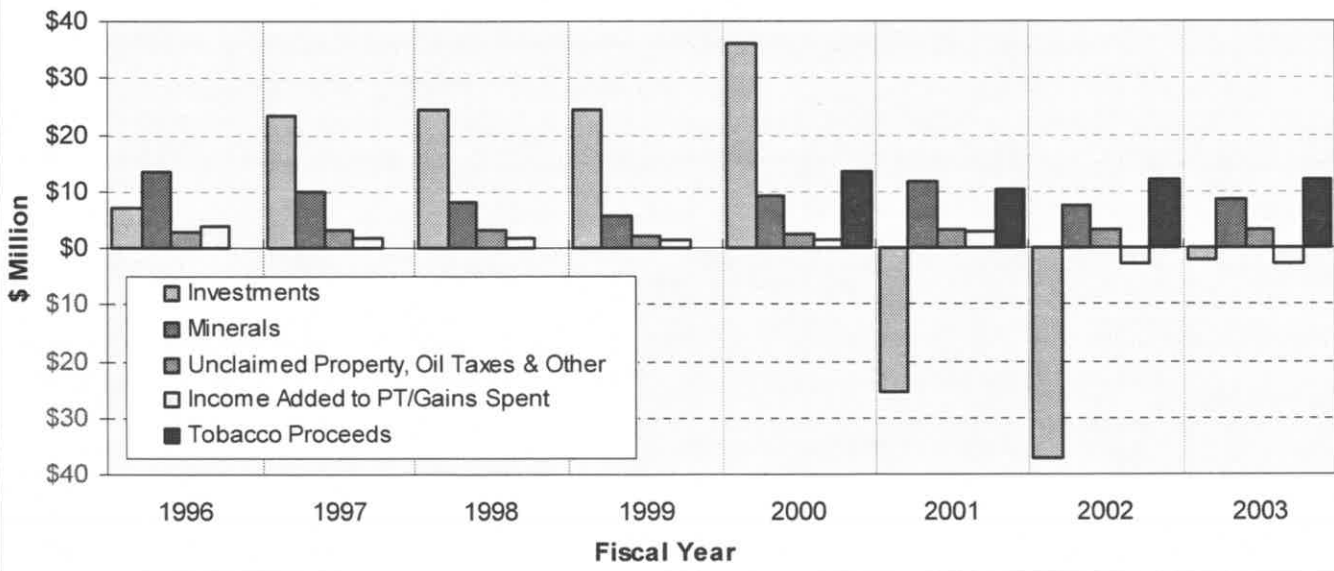
The Investment Division prepares quarterly performance reports for the Board that summarize the performance of the investment program and compares it to established benchmarks and goals. The reports are reviewed by an independent accounting firm to help ensure that accurate data is being presented to the Board. The Investment Division is also performing other functions that were previously handled by investment consultants, including manager searches.

By bringing more investment-related knowledge and functions in-house, we can better manage the permanent trust assets under the Board's control.

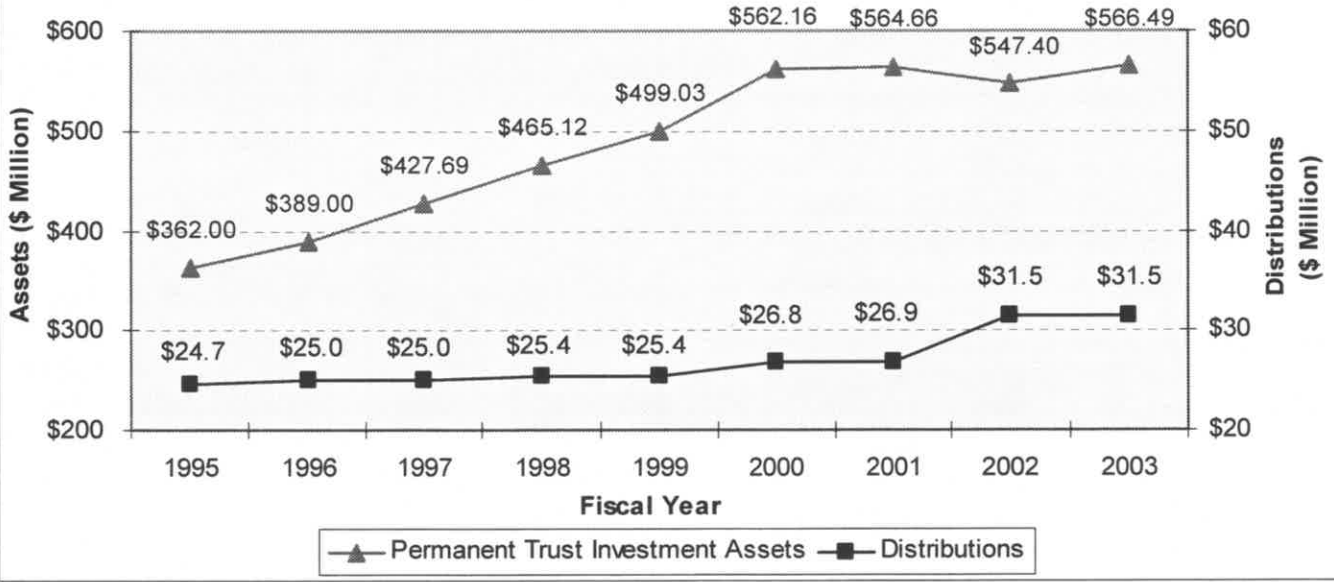
SUMMARY

The Board's investment plan for the permanent trusts continued to perform well during the biennium. Although our equity portfolio was down during fiscal year 2001, the Board's conservative approach to investing weathered the downturn without reducing planned distributions to trust beneficiaries and without altering the long-term goals and objectives for the trusts.

SOURCES OF PERMANENT TRUST GROWTH



PERMANENT TRUST ASSETS AND DISTRIBUTIONS



Permanent Funds

	Schedule of Net Asset Balances		Schedule of Income Available for Distribution by Trust	
	6/30/01	6/30/03	7/99 to 6/01	7/01 to 6/03
Common Schools	\$542,085,158	\$549,247,497	\$73,130,784	\$67,184,401
North Dakota State University	10,031,824	9,502,265	1,552,488	1,373,472
School for the Blind	1,871,969	1,729,801	294,946	261,209
School for the Deaf	2,754,909	2,588,771	441,071	386,905
State Hospital	2,829,679	2,785,894	400,497	356,887
Ellendale State College	1,775,072	1,628,372	298,944	272,247
Valley City State University	2,232,792	2,093,231	354,295	317,581
Mayville State University	1,583,563	1,459,822	254,206	225,180
Industrial School	3,766,183	3,490,100	587,003	512,651
State College of Science	2,755,821	2,616,653	414,538	364,820
School of Mines	2,878,719	2,757,757	430,677	379,816
Veterans Home	2,227,385	2,083,680	326,029	284,569
University of North Dakota	5,054,280	5,234,393	766,161	706,604
Total	\$581,847,354	\$587,218,236	\$79,251,639	\$72,626,342

	Schedule of Distributions By Trust		Schedule of Permanent Fund Receipts By Trust	
	7/99 to 6/01	7/01 to 6/03	7/99 to 6/01	7/01 to 6/03
Common Schools	\$47,550,000	\$57,793,000	\$49,108,737	\$45,394,594
North Dakota State University	1,556,595	1,316,081	420,732	281,942
School for the Blind	294,197	250,425	10,919	11,682
School for the Deaf	440,835	385,193	77,968	70,180
State Hospital	400,094	336,410	134,189	181,444
Ellendale State College	298,310	267,540	20,139	1,872
Valley City State University	354,146	308,749	45,821	44,650
Mayville State University	253,435	218,662	13,081	8,921
Industrial School	587,320	494,294	45,174	40,216
State College of Science	414,288	351,622	89,460	87,410
School of Mines	430,735	358,863	84,769	106,777
Veterans Home	325,803	276,302	32,307	40,348
University of North Dakota	768,020	634,235	377,361	530,199
Total	\$53,673,778	\$62,991,376	\$50,460,657	\$46,800,236

	Schedule of Sources of Income Available for Distribution	
	7/99 to 6/01	7/01 to 6/03
Investment Income	\$38,849,956	\$40,169,511
Loan Income	10,139,272	8,828,901
Rents	8,559,508	8,628,655
Amortization of Gains & Losses	21,611,266	15,144,145
Other	91,637	(144,870)
Total	\$79,251,639	\$72,626,342

	Schedule of Sources of Permanent Fund Receipts	
	7/99 to 6/01	7/01 to 6/03
Mineral Bonus	\$967,000	\$520,741
Oil Extraction Taxes	4,643,585	4,014,425
Tobacco Collections	23,804,911	23,998,745
Royalties	19,783,764	15,518,119
Unclaimed Property	1,041,257	2,748,206
Other	220,140	-
Total	\$50,460,657	\$46,800,236

Other Funds

	Schedule of Net Asset Balances		Schedule of Distributions	
	6/30/01	6/30/03	7/99 to 6/01	7/01 to 6/03
Capitol Building Fund	\$1,624,876	\$308,985	\$501,269	\$1,000
Coal Development Fund	53,614,089	56,464,579	4,029,000	3,590,000
Land & Minerals Fund	2,053,624	641,126	3,237,515	3,545,102
Total	\$57,292,589	\$57,414,690	\$7,767,784	\$7,136,102