



State of Idaho Endowment Funds

**Administered by the
Endowment Fund Investment Board**



**FINANCIAL STATEMENTS – JUNE 30, 2013
STATE OF IDAHO ENDOWMENT FUNDS**

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INDEPENDENT AUDITOR'S REPORT

To the Investment Board
**State of Idaho Endowment Funds Administered by the
Endowment Fund Investment Board**
Boise, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of June 30, 2013, and the related statement of activities for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of Idaho Endowment Funds administered by the EFIB, as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the EFIB's basic financial statements. The accompanying financial information listed as supplemental schedules in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The supplemental schedules on pages 31 through 36 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 09, 2013, on our consideration of the EFIB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the EFIB's internal controls over financial reporting and compliance.

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Boise, Idaho
September 09, 2013

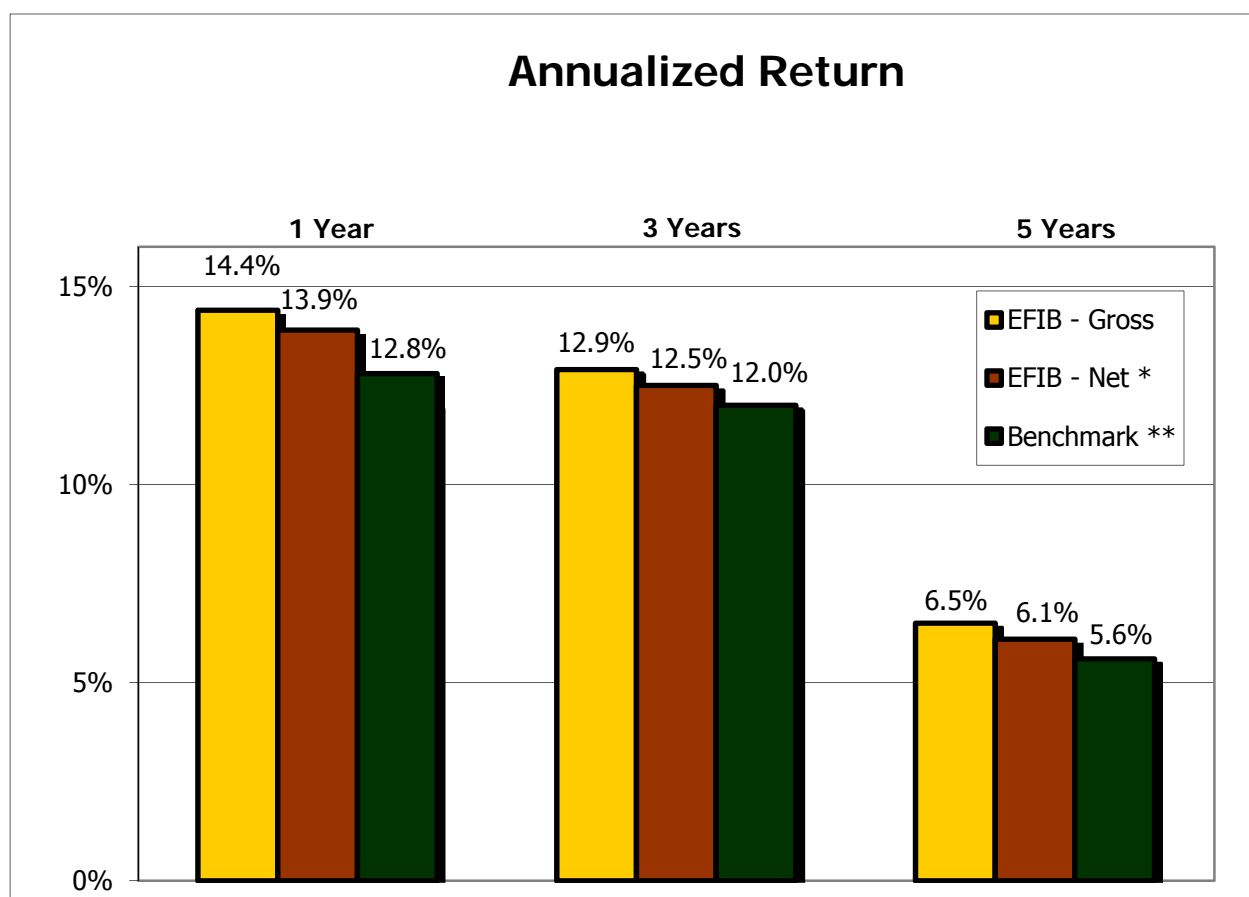
**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

This discussion and analysis of the State of Idaho Land Grant Endowment Funds' (the Endowment Funds) financial performance provides a summary of the financial activities of the Endowment Funds, and its manager, the Endowment Fund Investment Board (the EFIB), for the year ended June 30, 2013.

FINANCIAL HIGHLIGHTS

Total of the Endowment Funds

- Net position increased \$180.2 million, which represents a 14.1% increase from fiscal year 2012.
- Receipts to Earnings Reserves from endowment lands, increased to \$74.4 million, a 18.9% increase from fiscal year 2012.
- Net distributions to beneficiaries, excluding the Capitol Commission, increased 2.3% in fiscal year 2013 to \$47.5 million, from \$46.4 million in fiscal year 2012.
- Total investment return, before fees, was 14.4% in fiscal year 2013, compared to 1.0% in fiscal year 2012 and 24.6% in fiscal year 2011.



* Net returns are net of outside investment manager fees (approximately 35 basis points in 2013). The ratio of total fiscal year 2013 EFIB expenses to year-end assets was 43 basis points.

** Benchmark consists, as of June 30, 2013, of 49% Russell 3000 index, 21% MSCI All-Country World Index (ACWI) ex-US, & 30% Barclays Capital Aggregate index.

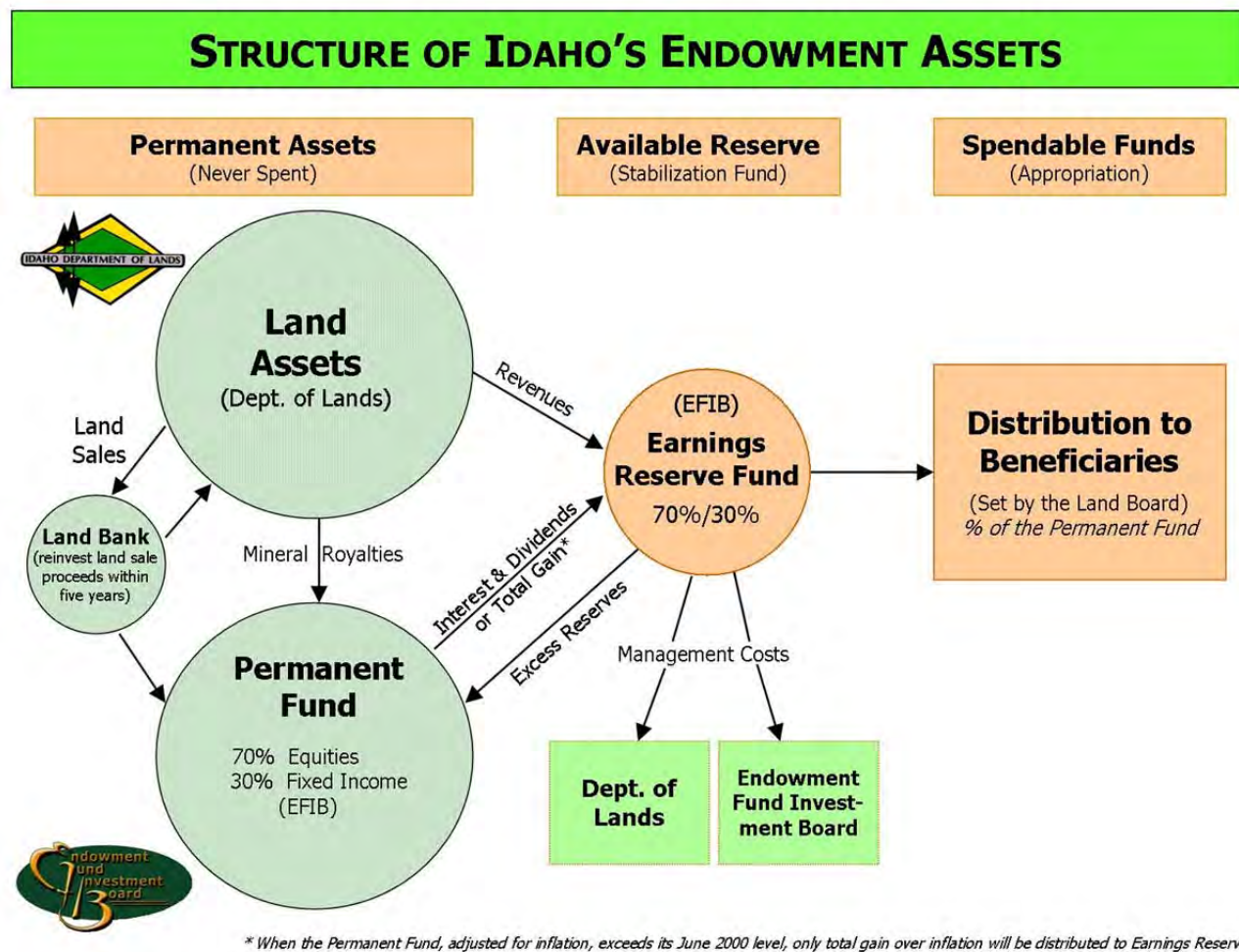
STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

PURPOSE OF THE STATE OF IDAHO ENDOWMENT FUNDS

The purpose of the State of Idaho Endowment Funds is to manage and invest the revenues generated from the management and sale of endowment land assets of the State.

Monies are generated from lands endowed to, and for the benefit of nine different endowments: Public School, University of Idaho Agricultural College, Charitable Institutions (Idaho State University, Juvenile Corrections Center, State Hospital North, Veterans' Home, School for Deaf and Blind), Normal School (Idaho State University, Lewis-Clark State College), Penitentiary, University of Idaho School of Science, State Hospital South, University of Idaho and the Capitol Permanent Fund.

The financial assets of all institutions are pooled for investment purposes and distributions are based on their proportionate share of the total pooled fund. Assets of the Public School endowment account for approximately two-thirds of the total of the Endowment Funds.



**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

ROLE OF THE ENDOWMENT FUND INVESTMENT BOARD

The Endowment Fund Investment Board was created by the 1969 Idaho Legislature and charged with management responsibility of the permanent land grant endowment funds of the State. In addition to managing the State of Idaho Endowment Funds, the EFIB also oversees the investments of the State Insurance Fund, the Judges' Retirement Fund, the Ritter Island Endowment Fund, and the Trail of the Coeur d'Alene's Endowment Fund.

USING THIS ANNUAL REPORT

The annual report consists of the independent auditor's report, the financial statements and the notes to the financial statements, supplemental schedules, and examination of management assertions. These statements are organized to give the reader a complete understanding of the total Endowment Funds, as a whole, along with the specifics of each individual endowment.

FINANCIAL STATEMENTS

The financial statements and notes to the financial statements are prepared by the Endowment Funds' management. The total of the Endowment Funds combines the assets of nine different endowments. The financial statements consist of a statement of net position and a statement of activities with combined totals. The notes to the financial statements are an integral part of the financial statements and provide additional information on the Fund and its operations.

DISTRIBUTIONS TO THE BENEFICIARIES

The Endowment Funds exist to provide perpetual distributions to their beneficiaries. For all endowments, except Capitol Permanent, the State Board of Land Commissioners has established a distribution policy. The current policy establishes distributions at a rate of 5% of the three-year moving average Permanent Fund balance (6% for State Hospital South) and allows for adjustments to the distributions based on factors including the amount in the Earnings Reserve and transfers to the Permanent Fund. The 2012 Idaho Legislature passed Senate Bill 1360 to appropriate the fiscal year 2013 distributions to the beneficiary institutions.

Total Fund Distributions

	2013	2012
Public School	\$ 31,292,400	\$ 31,292,400
Agricultural College	916,800	850,800
Charitable Institutions	2,964,600	2,964,600
Normal School	2,670,000	2,661,600
Penitentiary	1,246,800	1,040,400
School of Science	2,997,600	2,984,400
State Hospital South	2,868,000	2,301,600
University of Idaho	2,552,400	2,329,200
Subtotal	47,508,600	46,425,000
Capitol Permanent Fund	-	-
Total Distributions	\$ 47,508,600	\$ 46,425,000

STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Statement of Net Position

	2013	2012
Total Current Assets	\$ 1,485,511,780	\$ 1,311,621,408
Total Current Liabilities	24,838,843	31,142,913
Net Position - Permanent Funds	1,211,084,091	1,082,941,558
Net Position - Earnings Reserve	249,588,846	197,536,937
Total Net Position	\$ 1,460,672,937	\$ 1,280,478,495

Statement of Activities

	2013	2012
Program Revenues		
Receipts from Dept. of Lands		
Permanent Receipts	\$ 2,899,700	\$ 2,935,528
Earnings Reserve Receipts	74,419,147	62,615,438
Income from Investments	31,121,257	29,084,592
Increase in Value of Investments	151,430,062	(16,197,506)
Total Program Revenues	259,870,166	78,438,052
Program Expenses		
Distribution to Beneficiaries	47,508,600	46,425,000
Distribution for Expenses-Lands	26,001,715	22,673,106
Distribution for Expenses-EFIB	6,165,409	5,407,160
Total Program Expenses	79,675,724	74,505,266
Recognition of Prepaid Expenses	-	8,742,933
Net Program Revenue/Change in Net	\$ 180,194,442	\$ 12,675,719

Revenues reflect all receipts from endowment lands and total income from investments. During fiscal year 2013, land revenues increased by 18%, primarily due to higher timber harvest volume but also higher realizations. During the same period, income from investments increased 7%, which is attributable to higher dividend rates, partly offset by lower interest rates. Market value gains of \$151.4 million were due primarily to a rise in stock prices.

Total expenses reflect distributions to beneficiaries as well as expenses paid. The fiscal year 2013 distribution to beneficiaries of \$47.5 million represented a 2.3% increase over the previous year.

The distributions for expenses reflect the expenses paid by the Endowment Funds to the Department of Lands for its expenditures associated with the management of the lands and to the EFIB for the management of the investments of the Funds. Distributions to the Department of Lands for their expenses increased 14.7% in fiscal year 2013 due mostly to a one-time refinement of an estimate totalling \$2.8 million (see Note 5). Distributions to the EFIB for their expenses increased 14.0% in fiscal year 2013, due mostly to higher investment management fees associated with rising market values.

STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

FACTORS THAT MAY AFFECT FINANCIAL POSITION

With the exception of the Capitol Permanent Fund, each Endowment Fund is distinct in that it has a permanent corpus and an Earnings Reserve Fund. The permanent corpus, or Permanent Fund, is to remain intact while distributions are permitted from the Earnings Reserve Fund. Both the Permanent and Earnings Reserve Funds are affected by market gains and losses of the Fund.

Under legislation passed by the 1998 Idaho Legislature, an Earnings Reserve Fund was established to pay distributions to beneficiaries and expenses of the EFIB and the Department of Lands. Most land revenue is an addition to the Earnings Reserve Fund while Department of Lands and EFIB expenses as well as distributions to beneficiaries are depletions. Each June 30, the proportionate change in market value is allocated to the Permanent Fund and the Earnings Reserve Fund for four of the endowments. For Agricultural College, State Hospital South, and Penitentiary, the proportionate change in market value is allocated to their Earnings Reserve fund as well as the cumulative total return above inflation of its Permanent Fund. The University of Idaho endowment will adopt this methodology in FY 2014 and the Charitable Institutions, Normal School and School of Science endowments will adopt it in FY 2015. These allocation methodologies are specified in *Idaho Code* 57-720.

On July 1, 2004, the Capitol Permanent Fund was pooled with the other endowment funds for investment purposes. Additions to that fund include revenue from its lands as well as investment income. Unlike the other beneficiary accounts, prior to FY 2014, the Capitol Permanent Fund did not have an Earnings Reserve Fund. The EFIB authorizes distributions from the fund to the Capitol Commission, effective July 1 of each fiscal year. However, the Capitol Commission, because it had sufficient reserves, opted to not take a distribution for FY 2013.

Legislation passed by the 2013 Idaho Legislature (House Bill 181) established, as of the beginning of FY 2014, the Capitol Maintenance Reserve Fund to accumulate earnings from the endowment land and Permanent Fund to support major maintenance needs of the Capitol building, as they arise. It is anticipated that the Reserve Fund will receive regular annual distributions from its Permanent Fund, as determined by the EFIB. Distributions from the Maintenance Reserve Fund will be determined by the Capitol Commission, subject to legislative appropriation. In May of 2013, the EFIB authorized that two distributions be made to the Capitol Maintenance Reserve Fund in July, 2013 – a special one-time distribution of \$1,000,000 and a regular \$2,019,000 distribution based on 5% of the value of the Capitol Permanent Fund.

For endowments other than the Capitol Permanent Fund, the Board of Land Commissioners has approved, and the legislature has appropriated in Senate Bill 1131, the following distributions to beneficiaries for FY 2014.

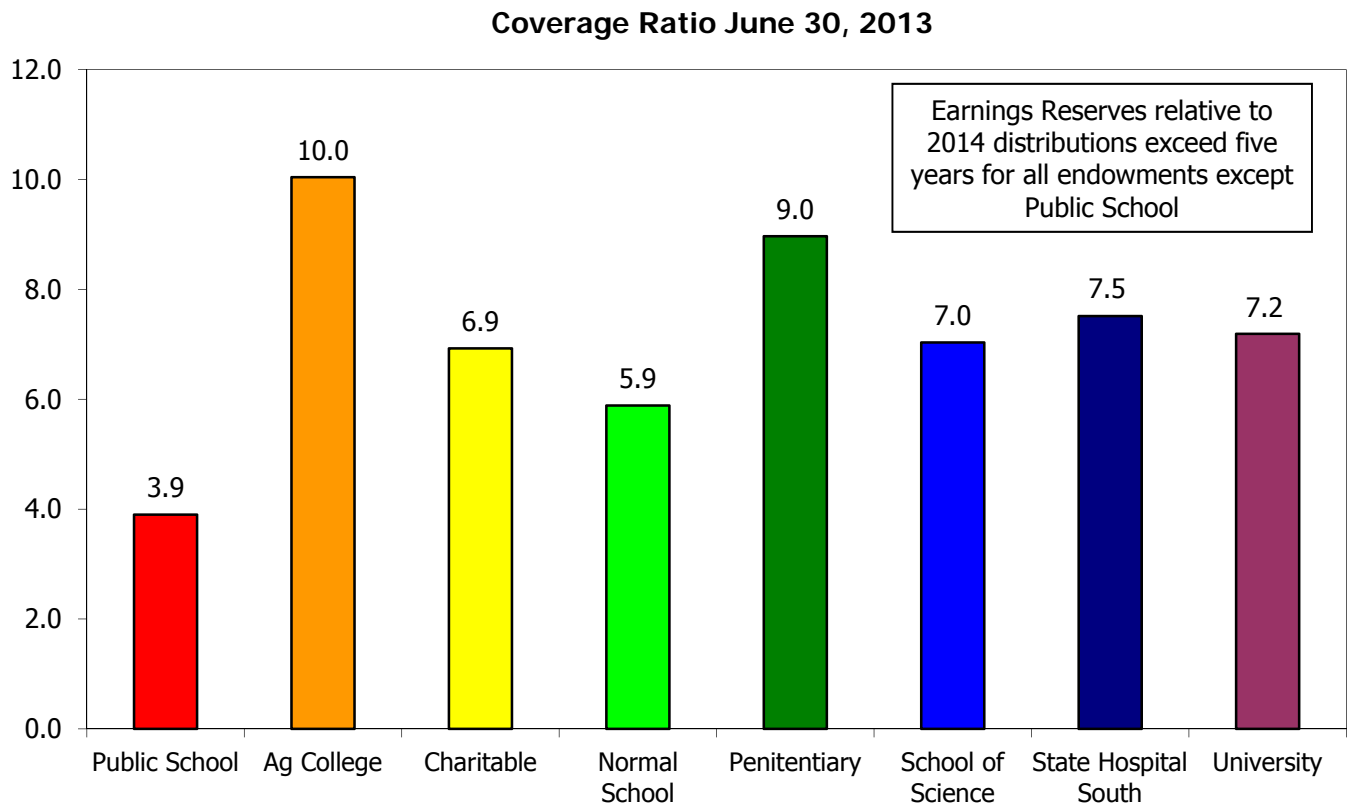
	2014
Public School	\$ 31,292,400
Agricultural College	967,200
Charitable Institutions	3,348,000
Normal School	2,670,000
Penitentiary	1,422,000
School of Science	3,338,400
State Hospital South	2,946,000
University of Idaho	2,860,800
Total	\$ 48,844,800

The FY 2015 distributions approved by the Board of Land Commissioners on August 20, 2013 (see Note 13) have not yet been appropriated and will be considered by the Legislature in its 2014 session.

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Even if a distribution has been approved and appropriated, it cannot be paid if there are not sufficient funds in Earnings Reserve. A measure the EFIB uses to evaluate the adequacy of reserves is the "Coverage Ratio", (Annual Distribution divided by Reserves). Based on these coverage ratios, the EFIB believes that Earnings Reserves are sufficient to permit payment of approved distributions to all endowments in FY 2014.

The following Coverage Ratio chart illustrates the number of years of coverage.



By Board of Land Commissioners' Policy, the level of Earnings Reserves deemed adequate is at least five years of future distributions and any excess may be transferred from the Earnings Reserve Fund to the corresponding Permanent Fund. Based on this policy, on August 20, 2013, the Board of Land Commissioners approved the transfer of certain excess Earnings Reserves to the respective Permanent Funds of all endowments except Public School and Normal School (see Note 13). The transfers are expected to occur in September, 2013 and were targeted to reduce the years of reserves to five (six years for Agricultural College), as at June 30, 2013.

STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

TOTAL COST OF INVESTMENT MANAGEMENT

In fiscal year 2013, the EFIB had expenditures of \$6,165,409 to manage the Endowment Funds.

Investment Management Operating Costs	Expense	Basis Points*
Internal investment oversight	\$ 273,668	2
Internal accounting	147,360	1
Outside investment manager fees**	5,101,466	35
Custody expense	373,574	3
Consultant and auditor fees	260,475	2
Subtotal	6,156,543	43
Less manager fees deducted from NAV**	230,071	
Total Cash Expenditures	5,926,472	
Plus reimbursement, accrual and cash	238,937	
Total Accrual Basis Expense	\$ 6,165,409	

* Relative to total fiscal-year end 2013 assets of \$1,460,672,937.

** Fees for investments in mutual funds are deducted directly from the fund by the investment manager. They are included in "Outside investment manager fees" but are not paid by the EFIB.



FINANCIAL STATEMENTS

JUNE 30, 2013

**Administered by the
Endowment Fund Investment Board**

STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013

Current Assets:	
Cash with Treasurer	\$ 155,553
Investments, at Fair Value	1,461,931,855
Receivable for Unsettled Trades	8,065,618
Receivable From Idaho Department of Lands	6,199,896
Accrued Interest and Dividends Receivable	4,214,543
Prepaid Expenses to the Department of Lands	4,944,315
Total Assets	1,485,511,780
Current Liabilities:	
Payable for Unsettled Trades	23,270,325
Investment Manager Expenses Payable	1,568,518
Total Liabilities	24,838,843
Restricted Nonexpendable Net Position - Permanent Funds:	
Public School	792,921,747
Agricultural College	20,644,643
Charitable Institutions	78,201,933
Normal School	69,461,116
Penitentiary	30,210,332
School of Science	78,312,101
State Hospital South	48,415,077
University of Idaho	67,000,934
Capitol Permanent Fund	25,916,208
Total Permanent Net Position	1,211,084,091
Restricted Expendable Net Position - Earnings Reserve:	
Public School	122,017,927
Agricultural College	9,713,331
Charitable Institutions	23,186,096
Normal School	15,719,512
Penitentiary	12,754,466
School of Science	23,484,258
State Hospital South	22,139,310
University of Idaho	20,573,946
Total Earnings Reserve Net Position	249,588,846
Total Net Position	\$ 1,460,672,937

**STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	Public School	Agricultural College* *	Charitable Institutions	Normal School
PERMANENT NET POSITION				
Permanent Net Position, beginning of year	\$ 708,395,945	\$ 19,972,919	\$ 67,722,305	\$ 62,172,295
Program Revenues:				
Receipts from Dept. of Lands	2,322,465	8,646	(25,679)	87,687
Income from Investments	82,203,337	331,555	8,107,307	7,201,134
Total Program Revenue	84,525,802	340,201	8,081,628	7,288,821
Transfer from Earnings Reserve	-	384,000	2,398,000	-
Transfer to Earnings Reserve	-	(52,477)	-	-
Increase (Decrease) in Net Position	84,525,802	671,724	10,479,628	7,288,821
Permanent Net Position, end of year	792,921,747	20,644,643	78,201,933	69,461,116
EARNINGS RESERVE NET POSITION				
Earnings Reserve Net Position, beginning of year	100,168,001	7,157,515	19,081,721	13,192,304
Program Revenues:				
Receipts from Dept. of Lands	41,873,940	788,789	6,711,192	4,474,552
Income from Investments	32,320,035	3,468,457	4,537,448	3,425,804
Total Program Revenues	74,193,975	4,257,246	11,248,640	7,900,356
Program Expenses:				
Distribution for Expenses-Lands	17,091,250	319,973	1,348,607	2,343,841
Distribution for Expenses-EFIB	3,960,399	133,134	433,058	359,307
Distributions to Beneficiaries	31,292,400	916,800	2,964,600	2,670,000
Total Program Expenses	52,344,049	1,369,907	4,746,265	5,373,148
Net Program Revenue	21,849,926	2,887,339	6,502,375	2,527,208
Transfer to Permanent Fund	-	(384,000)	(2,398,000)	-
Transfer from Permanent Fund	-	52,477	-	-
Increase (Decrease) in Net Position	21,849,926	2,555,816	4,104,375	2,527,208
Earnings Reserve Net Position, end of year	122,017,927	9,713,331	23,186,096	15,719,512
TOTAL NET POSITION	\$ 914,939,674	\$ 30,357,974	\$101,388,029	\$ 85,180,628

* The Capitol Permanent Fund does not have an Earnings Reserve account.

** Income for the Agricultural College, Penitentiary and State Hospital South Fund are allocated using a different methodology (see Note 4).

Penitentiary**	School of Science	State Hospital South**	University of Idaho	Capitol Permanent Fund*	Total
\$ 28,248,677	\$ 69,220,614	\$ 46,326,411	\$ 58,669,471	\$ 22,212,921	\$ 1,082,941,558
525	8,759	7,101	25,380	464,816	2,899,700
569,130	8,118,728	690,565	6,946,083	3,238,471	117,406,310
569,655	8,127,487	697,666	6,971,463	3,703,287	120,306,010
1,392,000	964,000	1,391,000	1,360,000	-	7,889,000
-	-	-	-		(52,477)
1,961,655	9,091,487	2,088,666	8,331,463	3,703,287	128,142,533
30,210,332	78,312,101	48,415,077	67,000,934	25,916,208	1,211,084,091
8,500,294	17,655,248	16,120,561	15,661,293		197,536,937
2,949,599	7,060,869	4,171,474	6,388,732		74,419,147
4,794,232	4,534,961	8,116,695	3,947,377		65,145,009
7,743,831	11,595,830	12,288,169	10,336,109		139,564,156
665,017	1,381,274	1,708,102	1,143,651		26,001,715
185,842	423,946	302,318	367,405		6,165,409
1,246,800	2,997,600	2,868,000	2,552,400		47,508,600
2,097,659	4,802,820	4,878,420	4,063,456		79,675,724
5,646,172	6,793,010	7,409,749	6,272,653		59,888,432
(1,392,000)	(964,000)	(1,391,000)	(1,360,000)		(7,889,000)
-	-	-	-		52,477
4,254,172	5,829,010	6,018,749	4,912,653		52,051,909
12,754,466	23,484,258	22,139,310	20,573,946		249,588,846
\$ 42,964,798	\$101,796,359	\$ 70,554,387	\$ 87,574,880	\$ 25,916,208	\$1,460,672,937

**STATE OF IDAHO ENDOWMENT FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 - GENERAL DESCRIPTION OF THE FUNDS

Accounts Under Jurisdiction of the Endowment Fund Investment Board

The Endowment Fund Investment Board (the EFIB) is charged with the administration and investment of the Permanent Endowment and Earnings Reserve Funds of the State of Idaho (the State), comprised of the Public School, Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and University of Idaho Endowment Funds, as well as the Capitol Permanent Fund, all held for the benefit of certain State of Idaho institutions.

The State of Idaho Endowment Funds (the Endowment Funds) is considered part of the State of Idaho financial reporting entity and is included in the State of Idaho Comprehensive Annual Financial Report (CAFR). The Endowment Funds are invested according to an investment policy established by the EFIB.

The EFIB has no jurisdiction over assets held by the Idaho Department of Lands (Lands) or other agencies; therefore, the EFIB gives accounting recognition only when a transaction related to endowment land assets has been consummated by Lands.

The EFIB employs external investment managers for management of the Endowment Funds.

Endowment Funds Investment Reform Legislation

On July 1, 2000, the EFIB significantly changed operations and reporting of the Endowment Funds, under legislation enacted by the Idaho Legislature in 1998.

The legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest Endowment Funds according to policies established by the State Board of Land Commissioners.
- (2) The application of the Uniform Prudent Investor Act replaces the previous, more restrictive, investment criteria.
- (3) An Earnings Reserve Fund is established to create a buffer to preserve the Permanent Fund balances.
- (4) Administrative costs are to be paid from earnings of the Endowment Funds instead of from annual General Fund appropriations.
- (5) Distributions to beneficiaries are determined by the State Board of Land Commissioners and are to be paid from the Earnings Reserve Funds, which include investment earnings, net capital gains and receipts from Lands.

In March 2004, legislation was enacted which establishes an objective that the Permanent Funds of each endowment grow from June 2000 levels at least at the cumulative rate of inflation plus deposits. Further, it provided that any market appreciation of the Permanent Fund could not be transferred to the Earnings Reserve if that objective had not been achieved.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The financial statements include all funds for which the EFIB is financially accountable, i.e., the land grant endowments of the State, and are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

The Endowment Funds are part of the State of Idaho reporting entity based on certain GASB criteria. These statements present only the Endowment Funds and are not intended to present the financial position and results

STATE OF IDAHO ENDOWMENT FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

of operations of State of Idaho in conformity with generally accepted accounting principles in the United States of America.

Basis of Presentation

The Endowment Funds are accounted for and reported as a Permanent Fund as defined by GASB and use the modified accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred. The statement of net position and the statement of activities display information about the Endowment Funds and include the financial activity of the overall reporting entity. These statements report all activities of the Endowment Funds as a governmental type activity. Given the type of assets and liabilities held by Endowment Funds, there are no adjustments required to convert from modified accrual basis to full accrual basis as required by GASB.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

According to policies established by the Board of Land Commissioners, the EFIB is authorized to invest the Endowment Funds in certain fixed income and equity investments as defined by the policy of the EFIB and consistent with Section 57-723 of the *Idaho Code*. This section states in part, "The EFIB and its investment manager(s) or custodian(s) shall be governed by the Idaho Uniform Prudent Investor Act (Chapter 5, Title 68, *Idaho Code*), and shall invest and manage the assets of the respective trusts in accordance with that act and the Idaho constitution." In accordance with this code section and the EFIB's investment policy, the Endowment Funds may be invested in equities (67% to 73% of the investment portfolio, with a current target of 70%) and fixed income (27% to 33% of the investment portfolio, with a current target of 30%).

The following is a list of investments by asset class allowed by the general investment policy:

- (1) Cash Equivalents: Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.
- (2) Fixed Income: US government and agency securities; corporate notes and bonds; mortgage backed bonds; fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMOs; asset backed securities.
- (3) Mutual or Collective Funds: Registered funds or Delaware Business Trusts only.
- (4) Equities: Common stocks; convertible notes and bonds; convertible preferred stocks; American depository receipts (ADR's); stocks of non-US companies (ordinary shares); non-investment grade bonds, preferred stocks.
- (5) Futures, Options & certain Derivatives: Financial index futures and options used to adjust the overall effective asset allocation of the entire portfolio and for use as hedges, and certain derivatives as approved by the EFIB.

Investment securities are stated at fair value, based on published market prices and quotations from major investment brokers when available. Purchase and sale transactions are recorded on the trade date.

Derivatives are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include such things as futures contracts, swap contracts, option contracts, and foreign currency forwards.

In fiscal year 2013, the EFIB utilized foreign currency forwards to hedge currency exposure and equity and fixed income index futures for cash equitization and passive rebalancing. Index futures obligate the buyer to purchase an asset (or the seller to sell an asset) at a predetermined future date and price. Futures contracts detail the

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quality and quantity of the underlying asset and are standardized to facilitate trading on a futures exchange. Similarly, foreign currency forwards obligate the buyer to buy or seller to sell a currency at a specified price, at a specified quantity and on a specified future date.

The tables below summarize the various contracts in the portfolio as of June 30, 2013. The notional value of these instruments is not recorded in the financial statements.

Futures	Expiration Date	Contracts	Notional Value	Unrealized G/L	Required Margin
10-Year Treasury Nt.	Sept 2013	286	\$ 36,196,875	\$ (665,260)	\$ 346,060

Any idle monies after cash flow transactions are swept into the Idle Pool for overnight investment. The Idle Pool is managed by the State of Idaho Treasurer's office. The funds of the Idle Pool are invested pursuant to *Idaho Code* 67-1210 and 67-1210A, and invested in US Treasury and US Government Agency obligations, investment grade corporate obligations, high quality commercial paper, and bank Certificates of Deposit. For performance evaluation, the fund is compared to the 180-day Treasury constant maturity rate. The Idle Pool is not rated. All investments are held in trust by a safekeeping bank. An annual audit of the Idaho Treasurer's office is conducted by the Legislative Auditor of the State of Idaho who has full access to the records of the Idle Pool.

Expendable and Nonexpendable Net Position

The net position of the Earnings Reserve Funds are expendable assets of the Endowment Funds. These expendable assets are used for distributions to beneficiaries and distributions for expenses of the EFIB and Lands. The net position of the Permanent Funds are nonexpendable assets.

Income from Investments

Income from investments is recognized when earned and includes interest, dividends, other income, and market appreciation (realized and unrealized). Income from investments is allocated and distributed to each fund participating in the investment pool in the same ratio that each fund's average daily balance bears to the total daily balance of all participants' funds. Income from investments is recorded on an accrual basis.

Within each endowment, income from investments is further allocated to its Permanent Fund and Earnings Reserve Fund in accordance with Sections 57-723A and 57-724A of the *Idaho Code*. The definition of "income" to be allocated depends on whether or not the Permanent Fund portion of an endowment fund has exceeded, at the end of the fiscal year, its "Gain Benchmark" as defined in statute. If the Permanent Fund balance of an endowment has never achieved its Gain Benchmark at fiscal year-end, interest and dividends from its Permanent Fund assets are allocated to its Earnings Reserve Fund and any market appreciation or depreciation from its Permanent Fund assets is retained by its Permanent Fund.

The Gain Benchmark, as specified in *Idaho Code* 57-724, represents the desired or targeted value of principal or corpus in each endowment fund (excluding Capitol Permanent). It is determined by starting with the ending balance at June 30, 2000 and adding deposits (mainly extracted minerals from endowment land), the annual impact of inflation (based on the Consumer Price Index – All Urban (CPI)), and certain reinvested income (transfers from Earnings Reserve designated by the Land Board as a permanent increase in corpus). The level of the Gain Benchmark determines whether market appreciation in the Permanent Fund should be retained to offset inflation and previous losses or is eligible to be transferred to the Earnings Reserve as distributable income.

Once the Permanent Fund balance of an endowment has achieved or exceeded its Gain Benchmark at fiscal year-end for the first time, then total cumulative income in excess of inflation of its Permanent Fund (including market appreciation) will be transferred each year to its Earnings Reserve Fund. This alternative methodology for allocating income is implemented two years after a Permanent Fund first crosses the Gain Benchmark. The two year delay in implementing the cumulative total return allocation method accommodates the lead times inherent in the state's budget and appropriation process.

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Losses in Principal of the Permanent Funds

At the end of each fiscal year, the EFIB is required to calculate whether the market values of the Permanent Funds are below the principal or Loss Benchmark level as defined in statute (June 2000 value adjusted for deposits – primarily revenues from extracted minerals and proceeds of land sales).

A loss in principal of the Public School Permanent Fund is made up as follows:

- (1) The State Board of Land Commissioners may transfer any funds in the Public School Earnings Reserve Fund that they determine will not be needed for administrative costs or scheduled distributions in the following fiscal year to the Public School Permanent Fund, to make up for any prior losses in value.
- (2) If funds transferred from the Earnings Reserve Fund are insufficient to make up all losses in value to the Public School Permanent Fund, the remaining loss shall be made up, within ten years, by legislative transfer or appropriation. If subsequent gains, as determined pursuant to the statute, or transfers from the Earnings Reserve Fund, make up for any remaining loss before this ten year period expires, then no legislative transfer or appropriation shall be necessary.

At June 30, 2013, the market value of the Public School Permanent Fund was \$204 million above the loss benchmark as defined by statute.

A loss in principal of the Permanent Funds other than the Public School Permanent or Capitol Permanent Funds shall be made up from Earnings Reserve Fund monies that the State Board of Land Commissioners determines will not be needed for administrative costs or scheduled distributions to each endowment's respective beneficiary.

Federal law requires that losses to the Agricultural College fund must be made up by the State, but the requirement to restore losses to that endowment has not been established in statute. As of June 30, 2013, the market value of the Permanent Fund portion of the Agricultural College endowment was \$5.8 million above the principal or Loss Benchmark level as defined in statute.

There is no statutory requirement to make up losses in the Capitol Permanent Fund.

Distributions to Beneficiaries

With the exception of the Capitol Permanent Fund, distributions to the other eight beneficiaries are authorized by the State Board of Land Commissioners and are made in equal installments on approximately the 10th of each month. Distributions to the Capitol Commission from the Capitol Permanent Fund are authorized by the EFIB and made on approximately July 1 of each fiscal year.

Other

Investments have risks the other parties to securities transactions do not fulfill their contractual obligations. The EFIB attempts to minimize such risks by diversifying the portfolio investments, monitoring investment grade and quality, and purchasing only high-grade or government-backed securities in fixed income portfolios.

The EFIB does not intend to use market timing as an investment strategy. However, the investment policy provides the flexibility for tactical asset allocation using capitalizations, investment styles, sectors, and other factors.

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NOTE 3 - INVESTMENTS

Investments at June 30, 2013:

Fund Investments	Cost	Fair Value
Marketable Securities:		
Northern Money Market Funds*	\$ 11,750,331	\$ 11,750,331
State Street Fixed Income Index Funds		
Barclays Capital Aggregate Bond & U.S. TIPS	405,638,011	394,199,167
Equity Funds		
Aberdeen Asset Management	60,068,288	67,171,333
Allianz NFJ	86,275,908	84,720,982
Barrow, Hanley, Mewhinney & Strauss	27,300,303	38,766,426
Capital International	7,313,247	11,292,230
Clearwater Advisors	866,983	866,983
Eagle Asset Management	27,161,493	36,887,090
Grantham, Mayo, Van Otterloo	7,191,575	10,488,753
INTECH	69,940,308	78,376,723
Lazard Asset Management	58,638,195	64,907,732
LSV Asset Management	66,577,414	81,707,615
Marvin & Palmer	79,545,236	97,229,392
Northern Equity Index Funds S&P 500 SMA	142,838,545	157,637,251
Robeco Boston Investment Mgmt	67,334,880	83,832,385
Sands Capital	50,833,487	81,216,172
Systematic Financial Management	63,185,705	69,722,249
TimesSquare Capital Management	56,416,261	75,954,334
Total Fund Investments	1,288,876,170	1,446,727,148
Pending Trades		
Receivable for Investments sold	(7,476,983)	(8,065,618)
Payable for Investments purchased	23,270,325	23,270,325
Total Net Investments	\$ 1,304,669,512	\$ 1,461,931,855
* This is cash that is not allocated to an investment manager		

CUSTODIAL CREDIT RISK - The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to EFIB ownership and further to the extent possible, be held in the EFIB's name. At June 30, 2013, all of the Endowment Funds' investments were insured or registered investments, or investments held by the EFIB or their agent in the EFIB's name.

The State Treasurer, per the State Constitution, is the custodian of the investments of the Public School Endowment Fund. Investments for all endowment funds, including Public School, are held under a safekeeping agreement with the Trust Department of the Northern Trust Company.

CONCENTRATION OF CREDIT RISK – The EFIB minimizes exposure to concentration of credit risk by establishing concentration of credit risk limits in investment manager portfolio guidelines. As of June 30, 2013, the Endowment Funds did not hold any credit positions exceeding 5% of the total portfolio, other than securities issued or guaranteed by the United States government.

INVESTMENT AND CREDIT RISK – The EFIB Investment Policy Statement permits investment in the following types of fixed income securities:

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Cash Equivalents: Treasury bills, money market funds, short-term investment funds, commercial paper, banker's acceptances, repurchase agreements and certificates of deposit.

Fixed Income: U.S. government and agency securities, corporate notes and bonds, mortgage backed bonds, fixed income securities of foreign governments and corporations, planned amortization class collateralized mortgage obligations, or other "early tranche" commercial mortgage obligations (CMOs), asset backed securities.

Restricted investments include interest-only (IO), principal-only (PO), residual tranche CMOs, naked options, and purchase of securities on margin and short-sale transactions.

The EFIB Investment Policy Statement further provides the following guidelines for fixed income and cash equivalent investments:

- Assets are to be invested only in investment grade bonds rated Baa3/BBB- (or equivalent) or better.
- Assets may be invested only in commercial paper rated A1 (or equivalent) or better.
- The fixed income weighted average portfolio maturity may not exceed that of the Barclays Capital Aggregate Bond Index by more than 0.5 years.
- Money market funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's and/or Moody's.

As of the fiscal year end, the Endowment Funds' fixed income investments had the following characteristics:

Fund Investments	Fair Value	Modified Adjusted Duration	Average Rating
Northern Money Market Fund	\$ 11,750,331	Not Applicable	AAA/AA+
State Street Global Advisors			
Barclays Capital Aggregate Bond	335,206,790	5.49	Aa1/AA2
U.S. TIPS	58,992,377	7.18	AAA/AA+
Total	\$ 405,949,499		

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FOREIGN CURRENCY RISKS – The EFIB’s Investment Policy Statement permits investing approximately 21% of total investments in international equities. No foreign fixed income securities are permitted except currency. The Endowment Funds’ exposure to foreign currency risk is as follows:

Investment and Country	Currency	Fair Value
Equities		
Australia	AUD	\$ 9,775,276
Brazil	BRL	296,356
Canada	CAD	4,546,769
Switzerland	CHF	22,547,969
Denmark	DKK	3,506,706
Europe	EUR	38,715,330
Great Britain	GBP	48,860,145
Hong Kong	HKD	13,431,065
Indonesia	IDR	562,534
Israel	ILS	732,852
Japan	JPY	44,495,696
South Korea	KRW	2,405,059
Norway	NOK	2,780,068
Philippine	PHP	3,833,691
Sweden	SEK	8,184,613
Singapore	SGD	6,431,261
Thailand	THB	586,764
Taiwan	TWD	782,108
South Africa	ZAR	554,650
Total Fund Investments		\$ 213,028,912

NOTE 4 – INCOME FROM INVESTMENTS

Per *Idaho Code* Section 57-724A, once the balance of an endowment’s Permanent Fund exceeds the statutory Gain Benchmark at the end of a fiscal year, then, beginning two fiscal years later, income distributed to the endowment’s Earnings Reserve would include the Permanent Fund’s total cumulative income (interest, dividends and market appreciation/depreciation) above its Gain Benchmark.

State Hospital South’s Permanent Fund passed its Gain Benchmark in FY 2009 and therefore, in FY 2011, began allocating the total cumulative gain or loss of its Permanent Fund according to this alternative methodology. Agricultural College and Penitentiary achieved their respective Gain Benchmarks in FY 2011 and began using the alternative methodology in FY 2013.

The University of Idaho endowment passed its Gain Benchmark in FY 2012 and will therefore begin utilizing the alternative methodology in FY 2014. Charitable Institutions, Normal School, and School of Science passed their Gain Benchmarks in FY 2013 and will utilize the alternative methodology in FY 2015.

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The components of income from investments for FY 2013 and their allocation are shown below.

Permanent Fund Income

Endowment	Net Increase in Fair Value	Income Retained to Offset Inflation or Losses	Capitol Permanent Income from Investments**	Total Investment Income
Public School	\$ 82,203,337			\$ 82,203,337
Agricultural College*		\$ 331,555		331,555
Charitable	8,107,307			8,107,307
Normal School	7,201,134			7,201,134
Penitentiary*		569,130		569,130
School of Science	8,118,728			8,118,728
State Hospital South*		690,565		690,565
University	6,946,083			6,946,083
Cap Perm Fund**	2,686,771		\$ 551,700	3,238,471
Total	\$ 115,263,360	\$ 1,591,250	\$ 551,700	\$ 117,406,310

* For Agricultural College, Penitentiary and State Hospital South, the cumulative total income vs. the Gain Benchmark is allocated to their Earnings Reserve Fund as part of Allocation of Permanent Fund Gain or (Loss) in the table below.

** The Capitol Permanent Fund does not have an Earnings Reserve account, so its Permanent Fund retains all interest, dividends and other income.

Earnings Reserve Fund Income

Endowment	Net Increase in Fair Value	Interest, Dividends and Other Income	Allocation of Permanent Fund Gain or Loss	Total Investment Income
Public School	\$ 12,649,774	\$ 19,670,261		\$ 32,320,035
Agricultural College*	791,726	652,758	\$ 2,023,973	3,468,457
Charitable	2,403,736	2,133,712		4,537,448
Normal School	1,629,664	1,796,140		3,425,804
Penitentiary*	1,025,853	909,139	2,859,240	4,794,232
School of Science	2,434,646	2,100,315		4,534,961
State Hospital South*	1,794,548	1,492,785	4,829,362	8,116,695
University	2,132,930	1,814,447		3,947,377
Total	\$ 24,862,877	\$ 30,569,557	\$ 9,712,575	\$ 65,145,009

* For endowments using the alternative income methodology (currently Agricultural College, Penitentiary and State Hospital South), the Earnings Reserve Fund is allocated the Permanent Fund's total cumulative income vs. the Gain Benchmark or the Permanent Fund's total cumulative loss up to the amount of Interest, Dividends and Other Income attributable to the Permanent Fund.

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The components of Interest, Dividends and Other Income are shown below.

Income From Investments		
Interest, Other Income and Fees	\$	11,372,676
Equity Funds		19,748,581
Total *	\$	31,121,257

* The total includes Capitol Permanent Fund income from investments.

Because there is a two-year delay in switching to the alternative total cumulative income method of allocating Permanent Fund earnings, at the beginning of the fiscal year the new method is implemented, the Permanent Fund will contain a previously undistributed transition gain or loss versus the Gain Benchmark. Any undistributed or deferred gain (\$3.5 million for Charitable Institutions, \$3.1 million for Normal School, \$3.1 million for School of Science and \$7.5 million for University) becomes available for allocation to Earnings Reserves in the year the total cumulative income vs. the Gain Benchmark method is implemented and is in addition to any gain, or is an offset to any loss, experienced in the fiscal year of implementation. Any undistributed or deferred loss must first be offset by future income before any income from the Permanent Fund can accrue to the Earnings Reserve after implementation.

NOTE 5 – EXPENSES

Expenses of the EFIB are paid from the Earnings Reserve Funds and by the EFIB's three other clients: the State Insurance Fund, the Supreme Court and two endowments associated with the Department of Parks and Recreation. The portions paid by the other clients are paid under investment management contracts and are not considered an expenditure of the Endowment Funds and are therefore not included as expenditures or as reimbursements in these financial statements. Total expenses for fiscal year 2013 paid by the other clients were \$123,600.

Distributions for Expenses for Lands represent the Department of Lands' actual expenses for managing endowment land. In FY 2013, the EFIB paid Lands \$1.6 million less than Lands' expended, which is reported as a reduction of prepaid asset.

In FY 2012, an estimated prepaid expense of \$8.7 million was recorded to recognize amounts forwarded to the Department of Lands that had not been spent by them. In FY 2013, a more refined estimate of the amount of this prepaid expense was developed, which resulted in a \$2.8 million reduction in the prepaid and additional expense added to Distributions for Expenses – Lands in the Statement of Activities.

Public School	\$	1,824,807
Agricultural College		34,821
Charitable Institutions		150,320
Normal School		195,191
Penitentiary		80,994
School of Science		175,088
State Hospital South		193,587
University of Idaho		145,999
Total	\$	2,800,807

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NOTE 6 – DISTRIBUTIONS

Pursuant to Section 66-1106 of the *Idaho Code*, Charitable Institutions Endowment Fund income is distributed to five institutions according to the factors shown below. Distributions to these sharing institutions for the year ended June 30, 2013 were as follows:

Charitable Institutions Distributions

	Factor	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University Fund	8/30	\$ 790,560	\$ 359,629	\$ 115,482
State Juvenile Corrections Institutions Fund	8/30	790,560	359,629	115,482
School for the Deaf and Blind Fund	1/30	98,820	44,954	14,435
Veterans Home Fund	5/30	494,100	224,766	72,177
State Hospital North Fund	8/30	790,560	359,629	115,482
Total		\$ 2,964,600	\$ 1,348,607	\$ 433,058

Pursuant to Section 33-3301B of the *Idaho Code*, Normal School Endowment Fund Income is distributed to the two institutions shown below. Distributions to these sharing institutions at June 30, 2013 were as follows:

Normal School Distributions

	%	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University, Pocatello	50%	\$ 1,335,000	\$ 1,171,921	\$ 179,654
Lewis-Clark State College, Lewiston	50%	1,335,000	1,171,920	179,653
Total		\$ 2,670,000	\$ 2,343,841	\$ 359,307

NOTE 7 – CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICT BONDS

On July 1, 2002, the State of Idaho's Credit Enhancement Program for school district bonds became effective. This program, in accordance with *Idaho Code* Section 57-728 and in conjunction with *Idaho Code* Chapter 53, Title 33, requires the Public School Endowment Fund to purchase up to \$200 million in notes of the State of Idaho that are issued to avoid the default of a voter-approved school district bond that has been guaranteed by the program. This program results in a higher credit rating for qualifying school bonds and, through lower interest costs, saves school districts thousands of dollars throughout the life of the bond issue. As of June 30, 2013, the Public School Endowment Fund had not been required to purchase any notes and the EFIB was not aware of any purchase commitments.

The outstanding principal amount of debt guaranteed by the Credit Enhancement Program is limited to four times the amount made available by the Public School Endowment Fund, or \$800 million. Participation in the Credit Enhancement Program is limited to \$20 million per school district, with the exception that any guarantees exceeding the \$20 million limit prior to July 1, 2007 remain in effect. \$506 million of bonds guaranteed by the Credit Enhancement Program remained outstanding as of June 30, 2013. Expected principal and interest payments in the coming year total \$61 million.

The Public School Endowment Fund would only be required to loan monies to the State to make payments on school bonds after several other potential funding sources have been exhausted. If a school district does not make timely prepayment of debt service on guaranteed bonds, the State Treasurer is required to make the payment, if possible, by intercepting monies due to that school district from the State, including General Fund payments and distributions from the Public School Endowment Fund. If these funds are not sufficient to meet the debt service payment, the State Treasurer is required to utilize any available funds from the state sales tax account. If all these sources prove insufficient to make the payment, the Treasurer may borrow the remaining

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amount from the Public School Endowment Fund, at a rate of 400 basis points above one-year Treasury Bills. This loan from the Endowment Fund would be repaid by the intercept of future state funds due to the school district and other sources.

Since July 2009, the EFIB has charged an application fee to offset administrative costs and a guaranty fee that is deposited in the Public School Endowment Fund for providing the ongoing credit enhancement. Application fees for FY 2013 totaled \$5,000 and guaranty fees totaled \$19,585 and are included in Income from Investments.

NOTE 8 – BUDGETARY COMPARISON

Budgets are adopted on a cash basis for the Endowment Funds. The budget for administrative expenses (personnel, operating and capital outlay) from the Earnings Reserve Funds is approved by the legislature on an annual basis. Expenses for consulting fees, bank custodial fees, and portfolio-related external costs are continually appropriated by the Idaho Legislature on an annual basis. The EFIB is not required by law to adopt or publish an overall budget for operations.

NOTE 9 – MISCELLANEOUS REVENUE

By law, certain miscellaneous State revenue is required to be deposited in the Public School Permanent Fund:

- Unclaimed estates, dividends and stock certificates from Idaho corporations (Idaho Constitution Section 4 Article IX)
- Five percent of federal land sales (Section 7 of the Idaho Admission Bill)
- Proceeds from sales of unclaimed livestock (*Idaho Code* Section 25-1174)
- Anonymous political contributions in excess of \$50 (*Idaho Code* Section 67-6610)
- Unqualified election expenses of political parties paid from state income tax funds (*Idaho Code* Section 34-2505)

In FY 2013, the Public School Permanent Fund received \$7,550 representing five percent of the net proceeds from the sale of federal land in Idaho and \$235 from anonymous political contributions. These miscellaneous revenues are included in Receipts from Department of Lands. There were no revenues from unqualified election expenses, unclaimed estates, unclaimed livestock, and unclaimed dividends and stock certificates.

NOTE 10 – PENSION AND OTHER POST-EMPLOYMENT BENEFITS

All employees of the EFIB are covered by the Public Employee Retirement System of Idaho (PERSI). The PERSI Base Plan is a cost sharing multiple employer public retirement system created by the Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible state employees. Financial reports for the Plan are available on the PERSI web site (www.persi.idaho.gov).

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

The contribution requirements of the EFIB and its employees are established and may be amended by the PERSI Board of Trustees. For the year ending June 30, 2013, the required contribution rate as a percentage of covered payroll for members was 6.23% and 10.39% for employers. The EFIB employer contributions required and paid were \$31,857 for FY 2013, \$31,242 for FY 2012, and \$30,868 for FY 2011.

The State funds or partially funds post-employment benefits relating to health, disability, and life insurance. The EFIB participates in the State of Idaho's post-employment benefit programs. The State administers the retiree

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healthcare plan which allows retirees to purchase healthcare insurance coverage for themselves and eligible dependents. The State provides long-term disability income benefits for active employees who become disabled, generally up to a maximum age of 70. The State provides basic life and dependent life coverage for disabled employees, generally up to a maximum age of 70. For up to 30 months following the date of disability, an employee is entitled to continue healthcare coverage. Benefit costs are paid by the EFIB through a rate charged by the State. The primary government (State of Idaho) is reporting the liability for the retiree healthcare and long-term disability benefits. Specific details of these other post-employment benefits are available in the Comprehensive Annual Financial Report of the State of Idaho, which may be accessed at www.sco.idaho.gov or obtained by contacting: State Controller's Office, P.O. Box 83720, Boise, ID 83720-0011.

NOTE 11– COMMITMENTS

For endowments other than the Capitol Permanent Fund, the Board of Land Commissioners has approved, and the legislature has appropriated, the following distributions to beneficiaries for FY 2014.

	2014
Public School	\$ 31,292,400
Agricultural College	967,200
Charitable Institutions	3,348,000
Normal School	2,670,000
Penitentiary	1,422,000
School of Science	3,338,400
State Hospital South	2,946,000
University of Idaho	2,860,800
Total	\$ 48,844,800

Beginning in FY 2014, the EFIB will authorize distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund, effective July 1 of each fiscal year. For FY 2014, the EFIB authorized a special one-time distribution of \$1,000,000 and a regular distribution, based on 5% of the Capitol Permanent Fund, of \$1,019,000.

NOTE 12 – LAND BANK

The Land Bank Fund was established under *Idaho Code* Section 58-133 to allow the State Board of Land Commissioners to hold proceeds from the sale of state endowment land pending the purchase of other land for the benefit of the beneficiaries of that endowment. These proceeds may be held for a period not to exceed five years from the effective date of the sale. Funds in the Land Bank are invested in the State Treasurer's Idle Pool and any investment earnings are added to the original proceeds. Land Bank Fund assets are not included in the balances of the Endowment Funds since they are being held primarily for purchase of land that will be managed by Lands. The authority to acquire land using Land Bank assets rests with the State Board of Land Commissioners.

As of June 30, 2013 the Land Bank Fund balance was as follows:

Land Bank Fund	2013
Public School	\$ 41,442
Normal School	34
State Hospital South	439,018
University	115,996
Total	\$ 596,490

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If by the end of the fifth year, the proceeds from a land sale have not been spent or encumbered to purchase other land within the State, the proceeds are deposited in the Permanent Fund along with accumulated investment earnings. During FY 2014, there are no endowments which will reach the five year limit. Since the Land Bank became operational in FY 2001, there have been no material deposits to any of the Permanent Funds. In FY 2013, \$80 of land sale proceeds for the State Hospital South endowment reached the five-year limit and was deposited in its Permanent Fund as Receipts from Department of Lands.

NOTE 13 – SUBSEQUENT EVENTS

Endowment Distributions

For endowments other than the Capitol Permanent Fund, on August 20, 2013, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2015, except that a decision on the Public School distribution was deferred. The FY 2015 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2014 session.

	2015
Public School	Not available
Agricultural College	1,164,000
Charitable Institutions	3,852,000
Normal School	3,144,000
Penitentiary	1,707,600
School of Science	3,866,400
State Hospital South	3,228,000
University of Idaho	3,326,400

On August 20, 2013, the Board of Land Commissioners also approved the following transfers from Earnings Reserves to the Permanent Funds, effective September 1, 2013:

	Total Transfer	Principal Addition	Loss Makeup
Agricultural College	\$ 1,871,000	\$ 1,871,000	\$ -
Charitable	3,930,000	3,930,000	-
Penitentiary	4,214,000	4,214,000	-
School of Science	4,151,000	4,151,000	-
State Hospital South	6,001,000	6,001,000	-
University of Idaho	3,940,000	3,940,000	-
Total	\$ 24,107,000	\$ 24,107,000	\$ -

At the Board of Land Commissioner's discretion, transfers can either increase permanent principal (increasing the Gain Benchmark) or make up for inflation or past investment losses (with no impact on the Gain Benchmark).

Since all six endowments ended the fiscal year at or above their Gain Benchmark, all of the transfers are considered an increase in permanent principal (i.e., increased each fund's Gain Benchmark).

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Investment Board
State of Idaho Endowment Funds Administered by the
Endowment Fund Investment Board
Boise, Idaho

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the EFIB), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise EFIB's basic financial statements, and have issued our report thereon dated September 09, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
September 09, 2013



SUPPLEMENTAL SCHEDULES

**State of Idaho
Endowment Funds**

**STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013**

Expenditures	
PERSONNEL	
Regular Employees	\$ 305,327
Board/Commission Members	1,400
Total Benefits	95,575
Subtotal Personnel Expenditures	402,302
OPERATING	
Telephone and Data Line Charges	9,691
Publications & Subscriptions	17,392
Employee Training	22,824
Audit	61,000
Travel and Board Meeting Expenses	20,912
Office and Other Materials and Supplies	4,301
Office Space	40,652
Governmental Overhead - State	23,300
Other Expenses	1,448
Subtotal Operating Expenditures	201,520
CAPITAL OUTLAY	
Furniture and Other Office Equipment	1,004
Computer Equipment	802
Subtotal Capital Expenditures	1,806
Total Appropriated Expenses	605,628
Less Payments Made by Other Clients*	123,600
Subtotal	482,028
CONTINUOUS APPROPRIATION - Consultant, Custodial and Manager Fees**	
Callan Associates	199,475
Aberdeen Asset Management	424,711
Allianz NFJ	293,656
Barrow, Hanley, Mewhinney & Strauss	226,633
Clearwater Advisors	61,093
Eagle Asset Management	223,554
INTECH Investment Management	375,365
Lazard Asset Management	489,588
LSV Asset Management	371,375
Marvin & Palmer Associates	526,321
Northern Trust	422,503
Robeco Boston Investments	359,728
Sands Capital Management	529,122
State Street Global Advisors	140,932
Systematic Financial Management	303,287
TimesSquare Capital Management	497,101
Total Consultant, Custodial, and Manager Fees	5,444,444
Total Endowment Cash Expenditures	5,926,472
Less Reimbursement of Capitol Permanent Fund Expenses	(105,126)
Change in Manager Fee Accrual	344,063
TOTAL ACCRUAL BASIS EXPENSE - Endowment Funds	\$ 6,165,409

* State Insurance Fund, Supreme Court and Department of Parks and Recreation

** Fees of \$87,505 \$123,567 & 18,999 were paid to Capital International, Grantham Mayo and Vanguard, respectively, on an indirect basis as deductions from Net Asset Value of their mutual funds and are not reported as EFIB expenditures.

**STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF THE GAIN BENCHMARK
FOR THE YEAR ENDED JUNE 30, 2013**

The table below summarizes the status of each endowment's Permanent Fund compared to its Gain Benchmark. See Note 4, *Income from Investments*, for more information on the methodology used to calculate the Gain Benchmark and the statutory provisions that govern its use.

The Public School endowment has never achieved its Gain Benchmark. Therefore, its Earnings Reserve Funds receive dividends and interest (but not market appreciation) from its Permanent Fund. However, once an endowment achieves its Gain Benchmark for the first time, then cumulative total income in excess of inflation of its Permanent Fund (including market appreciation) will be transferred each year to its Earnings Reserve Fund. This new methodology for allocating total income is implemented two years after the fund first crosses the Gain Benchmark.

The State Hospital South endowment achieved its Gain Benchmark in FY 2009, so it began implementing the alternative income allocation methodology in FY 2011. The Agricultural College and Penitentiary Permanent Funds passed their Gain Benchmarks at the end FY 2011 and began following the new method beginning in FY 2013. The University endowment passed its Gain Benchmark at the end of FY 2012 and the Charitable Institutions, Normal School and School of Science endowments passed their Gain Benchmarks at the end of FY 2013.

At June 30, 2013, the Permanent Funds of the Charitable Institutions, Normal School, School of Science and University endowments included undistributed cumulative total income vs. benchmark that will either be allocated to Earnings Reserves in FY 2014 for University or FY 2015 for the other three, or be used to offset any future decrease in market value.

<i>Endowment</i>	<i>Fiscal Year</i>	<i>Beginning Benchmark</i>	<i>Deposits</i>	<i>Reinvested Income</i>	<i>Inflation Impact</i>	<i>Ending Benchmark</i>
Public School	2001-2012	555,954,750	30,409,347	-	194,744,483	781,108,580
	2013	781,108,580	2,322,465	-	13,000,756	796,431,801
	<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2013</i>					<i>(3,510,054)</i>
Agricultural College	2001-2012	14,787,041	36,488	-	5,096,913	19,920,442
	2013	19,920,442	8,646	384,000	331,555	20,644,643
	<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2013</i>					<i>0</i>
Charitable Institutions	2001-2012	54,513,960	225,545	-	18,796,946	73,536,451
	2013	73,536,451	(25,679)	-	1,223,938	74,734,710
	<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2013</i>					<i>3,467,223</i>
Normal School	2001-2012	47,258,942	1,504,722	-	16,431,198	65,194,862
	2013	65,194,862	87,687	-	1,085,101	66,367,650
	<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2013</i>					<i>3,093,466</i>
Penitentiary	2001-2012	18,258,289	11,781	4,314,000	6,286,220	28,870,290
	2013	28,870,290	525	859,000	480,517	30,210,332
	<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2013</i>					<i>0</i>
School of Science	2001-2012	54,836,451	209,117	-	18,901,488	73,947,056
	2013	73,947,056	8,759	-	1,230,772	75,186,587
	<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2013</i>					<i>3,125,514</i>
State Hospital South	2001-2012	23,442,162	162,237	15,055,000	8,198,672	46,858,071
	2013	46,858,071	7,100	770,000	779,906	48,415,077
	<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2013</i>					<i>0</i>
University	2001-2012	42,442,536	88,597	-	14,622,632	57,153,765
	2013	57,153,765	25,380	1,360,000	951,266	59,490,411
	<i>Actual Permanent Fund Balance Over(Under) Benchmark at June 30, 2013</i>					<i>7,510,523</i>

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF GAINS AND (LOSSES) ON FAIR VALUE OF PUBLIC SCHOOL PERMANENT FUND
INVESTMENTS THROUGH THE YEAR ENDED JUNE 30, 2013

Summary Schedule of Gains and (Losses) on Fair Value of Investments Public School Permanent Endowment Fund					
Fiscal Year	Deposits to Original Corpus	Adjusted Original Corpus	Actual Ending Fund Balance	Annual Net Gain (Loss)	Cumulative Net Gain (Loss)
2000		\$ 555,954,750			
2001	\$ 1,742,339	557,697,089	\$ 511,726,709	\$ (45,970,380)	\$ (45,970,380)
2002	1,369,675	559,066,764	441,549,031	(71,547,353)	(117,517,733)
2003	2,190,629	561,257,393	436,160,540	(7,579,120)	(125,096,853)
2004	840,647	562,098,040	500,618,909	63,617,722	(61,479,131)
2005	1,551,570	563,649,610	537,181,394	35,010,915	(26,468,216)
2006	1,758,724	565,408,334	581,893,579	42,953,461	16,485,245
2007	3,358,272	568,766,606	662,500,453	77,248,602	93,733,847
2008	4,090,835	572,857,441	633,149,828	(33,441,460)	60,292,387
2009	4,201,860	577,059,301	511,571,551	(125,780,137)	(65,487,750)
2010	2,790,873	579,850,174	583,075,344	68,712,920	3,225,170
2011	3,843,950	583,694,124	714,690,423	127,771,129	130,996,299
2012	2,669,972	586,364,096	708,395,945	(8,964,450)	122,031,849
2013	2,322,465	\$ 588,686,561	\$ 792,921,747	82,203,337	\$ 204,235,186
TOTAL	\$ 32,731,811			\$ 204,235,186	

The Adjusted Original Corpus above is the same as the Loss Benchmark as defined by Section 57-724 of *Idaho Code*. Any cumulative loss in the Public School Permanent Fund (vs. the Loss Benchmark) that remains after ten years must be made up by the State. At the end of FY 2013, the Fund had a cumulative gain above principal or corpus of \$204 million. See Note 2, *Losses in Principal of the Permanent Funds* for more information.

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
GROSS OF FEES
PERIOD ENDING JUNE 30, 2013

Gross of Fees	FY 2013	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
Total Account	14.4	7.4	12.9	13.6	6.5
<i>Benchmark</i>	<i>12.8</i>	<i>6.9</i>	<i>12.0</i>	<i>12.3</i>	<i>5.6</i>
Total fund benchmark: 49% Russell 3000, 21% MSCI ACWI ex-US, & 30% BC Aggregate.					
Total Fixed Income	(1.4)	3.3	3.6	5.0	5.2
State Street Bond Fund	(1.4)	3.3	3.6	-	-
<i>Fixed Income Benchmark</i>	<i>(1.3)</i>	<i>3.3</i>	<i>3.6</i>	<i>5.1</i>	<i>5.1</i>
<i>BC U.S. Aggregate Index</i>	<i>(0.7)</i>	<i>3.3</i>	<i>3.5</i>	<i>5.0</i>	<i>5.2</i>
<i>BC US TIPS Index</i>	<i>(4.8)</i>	<i>3.1</i>	<i>4.6</i>	<i>5.8</i>	<i>4.4</i>
Total fixed income benchmark: 85% B.C Aggregate & 15% TIPS					
Total Domestic Equity	24.0	12.8	20.0	20.1	8.8
<i>Russell 3000 Index</i>	<i>21.5</i>	<i>12.3</i>	<i>18.6</i>	<i>17.9</i>	<i>7.3</i>
Large Cap Core	20.6	12.8	18.5	17.5	7.2
<i>S&P 500 Index</i>	<i>20.6</i>	<i>12.8</i>	<i>18.5</i>	<i>17.4</i>	<i>7.0</i>
Large Cap Growth	16.7	12.0	20.9	20.6	9.5
INTECH	15.9	10.1	17.9	16.6	7.2
Sands Capital Mgt.	17.5	13.9	23.9	24.6	12.2
<i>Russell 1000 Growth Index</i>	<i>17.1</i>	<i>11.3</i>	<i>18.7</i>	<i>17.4</i>	<i>7.5</i>
Large Cap Value	30.2	15.5	20.4	19.7	8.8
LSV	31.1	14.9	19.3	18.8	7.9
Robeco Investment Mgmt	29.3	16.1	-	-	-
<i>Russell 1000 Value Index</i>	<i>25.3</i>	<i>13.6</i>	<i>18.5</i>	<i>18.1</i>	<i>6.7</i>
Mid Cap	25.3	10.9	18.5	19.5	7.1
Systematic	23.6	8.5	17.7	19.4	8.1
TimesSquare	26.8	13.3	19.2	19.6	-
<i>Russell Mid Cap Index</i>	<i>25.4</i>	<i>11.1</i>	<i>19.5</i>	<i>20.9</i>	<i>8.3</i>
Small Cap	33.3	11.2	21.9	25.9	13.5
Eagle	28.6	8.4	21.1	23.1	11.3
Barrow, Hanley	37.2	13.0	22.0	27.7	14.6
<i>Russell 2000 Index</i>	<i>24.2</i>	<i>10.3</i>	<i>18.7</i>	<i>19.4</i>	<i>8.8</i>
Global Equity	14.0	5.2	11.8	-	-
Aberdeen	12.9	5.7	13.5	-	-
Lazard	15.2	4.7	10.2	-	-
<i>MSCI ACWI</i>	<i>16.6</i>	<i>4.4</i>	<i>12.4</i>	<i>12.2</i>	<i>2.3</i>
International Equity	15.0	(2.1)	7.0	7.9	(1.2)
Marvin & Palmer	21.2	2.3	12.3	11.8	(2.6)
Capital International*	3.9	(9.8)	0.3	5.5	-
GMO**	(1.4)	(10.1)	2.8	7.3	-
<i>MSCI ACWI ex-US Index</i>	<i>13.6</i>	<i>(1.5)</i>	<i>8.0</i>	<i>8.6</i>	<i>(0.8)</i>

* Annual performance net of 0.8% manager fees

** Annual performance net of 1.2% manager fees

The actual returns of terminated managers are included in the Total Account and the appropriate category sub-total.

Manager changes in FY 2013:

Managers Hired: Allianz NFJ International Value

Managers Discharged: Vanguard Total International Stock Fund

The S&P 500 mandate managed by Northern Trust was changed from a comingled fund to a separate account.

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
NET OF FEES
PERIOD ENDING JUNE 30, 2013

Net of Fees	FY 2013	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
Total Account	13.9	7.1	12.5	13.2	6.1
<i>Benchmark</i>	<i>12.8</i>	<i>6.9</i>	<i>12.0</i>	<i>12.3</i>	<i>5.6</i>
Total fund benchmark: 49% Russell 3000, 21% MSCI ACWI ex-US, & 30% BC Aggregate.					
Total Fixed Income	(1.4)	3.3	3.6	5.0	5.1
State Street Bond Fund	(1.4)	3.3	3.6	-	-
Fixed Income Benchmark	(1.3)	3.3	3.6	5.1	5.1
<i>BC U.S. Aggregate Index</i>	<i>(0.7)</i>	<i>3.3</i>	<i>3.5</i>	<i>5.0</i>	<i>5.2</i>
<i>BC US TIPS Index</i>	<i>(4.8)</i>	<i>3.1</i>	<i>4.6</i>	<i>5.8</i>	<i>4.4</i>
Total fixed income benchmark: 85% B.C Aggregate & 15% TIPS					
Total Domestic Equity	23.5	12.3	19.4	19.6	8.3
<i>Russell 3000 Index</i>	<i>21.5</i>	<i>12.3</i>	<i>18.6</i>	<i>17.9</i>	<i>7.3</i>
Large Cap Core	20.6	12.8	18.5	17.4	7.0
<i>S&P 500 Index</i>	<i>20.6</i>	<i>12.8</i>	<i>18.5</i>	<i>17.4</i>	<i>7.0</i>
Large Cap Growth	16.1	11.3	20.2	19.9	8.9
INTECH	15.4	9.6	17.5	16.1	6.7
Sands Capital Mgt.	16.9	13.2	23.2	23.9	11.5
<i>Russell 1000 Growth Index</i>	<i>17.1</i>	<i>11.3</i>	<i>18.7</i>	<i>17.4</i>	<i>7.5</i>
Large Cap Value	29.5	14.9	19.9	19.1	8.2
LSV	30.6	14.4	18.8	18.2	7.4
Robeco Investment Mgmt	28.8	15.6	-	-	-
<i>Russell 1000 Value Index</i>	<i>25.3</i>	<i>13.6</i>	<i>18.5</i>	<i>18.1</i>	<i>6.7</i>
Mid Cap	24.5	10.2	17.8	18.8	6.5
Systematic	23.1	8.0	17.2	18.9	7.6
TimesSquare	26.0	12.6	18.4	18.8	-
<i>Russell Mid Cap Index</i>	<i>25.4</i>	<i>11.1</i>	<i>19.5</i>	<i>20.9</i>	<i>8.3</i>
Small Cap	32.5	10.5	21.1	25.1	12.7
Eagle	27.8	7.7	20.3	22.3	10.6
Barrow, Hanley	36.7	12.4	21.3	27.0	14.0
<i>Russell 2000 Index</i>	<i>24.2</i>	<i>10.3</i>	<i>18.7</i>	<i>19.4</i>	<i>8.8</i>
Global Equity	13.2	4.4	11.0	-	-
Aberdeen	12.3	5.0	12.8	-	-
Lazard	14.4	3.9	9.4	-	-
<i>MSCI ACWI</i>	<i>16.6</i>	<i>4.4</i>	<i>12.4</i>	<i>12.2</i>	<i>2.3</i>
International Equity	14.4	(2.6)	6.4	7.4	(1.7)
Marvin & Palmer	20.6	1.7	11.7	11.2	(3.2)
Capital International	3.9	(9.8)	0.3	5.5	-
GMO	(1.4)	(10.1)	2.8	7.3	-
<i>MSCI ACWI ex-US Index</i>	<i>13.6</i>	<i>(1.5)</i>	<i>8.0</i>	<i>8.6</i>	<i>(0.8)</i>

The actual returns of terminated managers are included in the Total Account and the appropriate category sub-total.

Manager changes in FY 2013:

Managers Hired: Allianz NFJ International Value

Managers Discharged: Vanguard Total International Stock Fund

The S&P 500 mandate managed by Northern Trust was changed from a comingled fund to a separate account.

**STATE OF IDAHO ENDOWMENT FUNDS
BROKERAGE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

SCHEDULE OF BROKERAGE COMMISSIONS*

Broker Name	Shares Traded		Dollar Volume of Trades	Commission Dollar Amount	Commission per Share
Merrill Lynch	6,100,249	\$	103,124,291	\$ 92,497	\$ 0.015
Credit Suisse	7,864,999		123,520,667	65,532	0.008
Lynch, Jones & Ryan	2,398,339		52,684,380	62,177	0.026
UBS	1,880,656		42,715,622	41,081	0.022
Goldman Sachs	2,783,808		26,560,733	33,784	0.012
Investment Technology	2,368,688		82,335,824	31,582	0.013
Deutsche Bank	1,079,612		36,767,875	23,884	0.022
Bear Stearns	1,114,468		31,354,971	22,230	0.020
Instinet	2,352,113		40,051,987	19,304	0.008
CitiGroup	1,491,600		18,346,471	15,533	0.010
Jefferies	619,918		27,464,698	14,106	0.023
Liquidnet	814,993		30,671,199	13,420	0.016
CAPIS	333,600		20,011,908	10,297	0.031
Barclays Capital	313,118		10,029,694	8,600	0.027
RBC Dain Rauscher	356,691		17,252,122	8,479	0.024
J.P. Morgan	395,370		7,477,687	8,242	0.021
Knight Trading	230,675		9,915,759	6,923	0.030
Stifel Nicholas & Co.	179,318		5,781,233	5,557	0.031
Bloomberg Tradebook	271,722		6,155,843	5,434	0.020
Morgan Stanley	676,050		6,968,888	5,411	0.008
Other Brokers < \$5,000	6,847,482		162,655,543	120,232	0.018
Total	40,473,469	\$	861,847,395	\$ 614,305	\$ 0.015

* Equity trading only. No commissions are paid on fixed income trades.



EXAMINATION OF MANAGEMENT'S ASSERTIONS

**State of Idaho
Endowment Funds**



INDEPENDENT ACCOUNTANTS' REPORT ON EXAMINATION OF MANAGEMENT'S ASSERTIONS

To the Investment Board
**State of Idaho Endowment Funds Administered by the
Endowment Fund Investment Board**
Boise, Idaho

We have examined management's assertions about the State of Idaho Endowment Funds' (the Endowment Funds) compliance with certain requirements of the *Idaho Code*, Chapter 7, Investment of Permanent Endowment Funds, and of the State of Idaho Endowment Fund Investment Board Statement of Investment Policy, during the year ended June 30, 2013, included in the accompanying Statement of Management's Assertions. Management is responsible for the Endowment Funds' compliance with these requirements. Our responsibility is to express an opinion on management's assertions about the Endowment Funds' compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about the Endowment Funds' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the Endowment Funds' compliance with specified requirements.

In our opinion, management's assertions that the Endowment Fund complied with the aforementioned requirements for the year ended June 30, 2013, are fairly stated, in all material respects.

This report is intended for the information and use of the Legislature of the State of Idaho, the State Board of Land Commissioners, and the EFIB and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Boise, Idaho
September 09, 2013

**STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF MANAGEMENT'S ASSERTIONS
YEAR ENDED JUNE 30, 2013**

Investment securities held at June 30, 2013 were in compliance with *Idaho Code* Chapter 7, Title 57 and with the State of Idaho Endowment Fund Investment Board Statement of Investment Policy. The following control procedure was in place for the year ended June 30, 2013 to help ensure compliance with the Code and Policy:

- Investment managers provided reconciliations of their custodial data on a monthly basis.

The distribution of income from investments and the determination of net capital gains and losses were performed in accordance with *Idaho Code* 57-724.

The Investment Board presented a summary report to the State Board of Land Commissioners as required by *Idaho Code* 57-725.

The Investment Board has employed Eide Bailly, LLP an independent certified public accounting firm, to audit the books and records of the Endowment Funds for the year ended June 30, 2013, as required by *Idaho Code* 57-720.

At June 30, 2013, there were no vacancies on the nine-member Investment Board that is specified in *Idaho Code* 57-718

During the year ended June 30, 2013, the Investment Board met at least quarterly, as required by *Idaho Code* 57-719.