

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**STATE OF IDAHO ENDOWMENT FUNDS  
ADMINISTERED BY THE ENDOWMENT FUND  
INVESTMENT BOARD**

**STATE OF IDAHO ENDOWMENT FUNDS  
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited 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, 2005, as listed in the table of contents. These financial statements are the responsibility of the management of the EFIB. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Idaho Endowment Funds administered by the EFIB, as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2005, on our consideration of the EFIB's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 11, the EFIB has restated the financial statements for the year ended June 30, 2004 to correct for an error in the allocation of the increase in fair value of investments between the permanent funds and the earnings reserve funds. There was no change in total net assets as a result of the restatement.

As discussed in Note 2, the reporting entity for the fiscal year ended June 30, 2005 includes Public Schools Endowment Fund, Pooled Endowment Funds and the Capital Permanent Endowment Fund. For the fiscal year

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ended June 30, 2004, the Capital Permanent Endowment Fund was not included with the other mentioned funds but was reported upon separately. Net assets transferred to EFIB at July 1, 2004 were \$6,225,441.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 of the EFIB. The schedules on pages 29 through 30 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The schedule on page 31 has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

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

Boise, Idaho  
August 5, 2005

**STATE OF IDAHO ENDOWMENT FUNDS  
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

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The discussion and analysis of the State of Idaho Endowment Fund's (the "Fund") financial performance provides a summary of the financial activities of the manager of the fund, the Endowment Fund Investment Board (the "EFIB"), for the year ended June 30, 2005. The Capitol Permanent Fund was separately reported on for the fiscal year ended June 30, 2004. The Capitol Permanent Fund was transferred to the Fund as of July 1, 2004, and is reported as part of the Pooled Endowment Fund as of that date. For comparative purposes, the Fund and Capitol Permanent Fund have been combined in determining June 30, 2004 amounts. This summary includes a financial summary, an overview of the Fund, the management of the Fund, and the detailed status of the Fund and its components.

**FINANCIAL HIGHLIGHTS**

*Total Fund:*

- Fund investments increased \$76.5 million, which represents a 10.0% increase from fiscal year 2004.
- Contributions accounted for \$57.5 million, or 6.8% of the investments.
- Distributions to all beneficiaries decreased 32.1% in fiscal year 2005 to \$37.4 million from \$55.1 million.

**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/or sale of endowment lands of the state.

Monies generated from lands endowed to public schools, and thus considered Public Schools Land, are invested for the benefit of Public Schools. This portion of the total fund accounts for approximately two-thirds of the total endowment funds.

An aggregate of monies is also generated from lands endowed to, and for the benefit of, seven different funds: University of Idaho Agricultural College, Charitable Institutions (Idaho State University, Industrial Training School, State Hospital North, Soldiers' 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, and University of Idaho.

The assets of all institutions are pooled together for investment purposes, and distributions are based on their proportionate share of the total Endowment Fund, with the exception of the Capitol Permanent Fund, which doesn't receive distributions.

**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 endowment funds of the state. In addition to managing the State of Idaho Endowment Funds, the EFIB also plays an investment management role for the State Insurance Fund (SIF) and the Judges' Retirement Fund (JRF).

**USING THIS ANNUAL REPORT**

The annual report consists of the independent auditors' report, the financial statements, 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 fund, as a whole, along with the specifics of the various beneficiaries.

**FINANCIAL STATEMENTS**

The financial statements and notes to the financial statements are prepared by the funds' management. They consist of a statement of net assets and a statement of activities with combined totals. The notes to the financial

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2005**

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statements are an integral part of the financial statements and provide additional information on the Fund and its operations. These financial statements focus on the total endowed assets of the State, identified by their use of funds.

The financial statements and accompanying footnotes reflect all of the assets and liabilities of the Fund using accrual basis accounting. Under accrual accounting, all of the current year's revenues and expenses are taken into account regardless of when they are received or paid. The financial statements report the Fund's net assets, the changes in investments, and the changes in cash balances. Supplemental schedules are provided for your review of detailed expenditures, gains and (losses) on fair market value of investments, and weighted return analysis of money manager.

*Total Endowment Funds:*

The total endowment fund is a combination of the Public School, Pooled Funds and Capitol Permanent Fund. The table below highlights the total distributions of the fund, by beneficiary. Typically, distributions are pre-determined, based on two related factors: 1) the last three-year moving average of the market value of the Fund and 2) the spending policy of the EFIB, as approved by the State Board of Land Commissioners. For Fiscal Year 2005 distributions, the Idaho Legislature passed House Bill (HB) 764 which detailed the distribution amount for each beneficiary. Those distribution amounts were changed during the 2005 Legislative session with Senate Bill (SB) 1162 which amended the amounts to be distributed as stated below:

Agriculture College	\$ 380,400
Charitable Institutions	1,407,450
Normal School	2,969,624
Penitentiary	1,509,520
School of Science	3,136,900
State Hospital South	1,874,720
University of Idaho	3,158,296
Public School	22,957,800
	<hr/>
Total	\$ 37,394,710
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Statement of Net Assets

Current Assets, excluding securities lending	\$ 892,028,129
Securities Lending Collateral	93,840,812
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Total Current Assets	985,868,941
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Liabilities, excluding securities lending	49,230,124
Securities Lending Collateral	93,840,812
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Total Current Liabilities	143,070,936
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Net Assets-Permanent Funds	788,897,278
Net Assets-Earnings Reserve	53,900,727
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Total Net Assets	\$ 842,798,005
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**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2005**

Statement of Activities

	<u>2005</u>
Program Revenues	
Land Department Receipts	\$ 57,492,683
Income from Investments	20,185,244
Net Increase in the Fair Value of Investments	<u>54,995,742</u>
 Total Program Revenues	 132,673,669
 Program Expenses	
Distribution to Beneficiaries	37,394,710
Distribution for Expenses-Lands	16,651,833
Distribution for Expenses-Investment Board	<u>3,515,372</u>
 Total Program Expenses	 <u>57,561,915</u>
 Net Program Revenue/Change in Net Assets	 <u>\$ 75,111,754</u>

Revenues reflect all receipts generated by the endowment and the income from investments. During fiscal year 2005, land revenues decreased by 10.0%. During the same period, income from investments increased 18.3%. Fair value of investments increased in fiscal year 2004 by \$96.8 million while in fiscal year 2005 the increase was \$55.0 million.

Total expenses reflect distributions to beneficiaries as well as expenses paid. The distribution to beneficiaries of \$37,394,710 reflects distributions to beneficiaries during the fiscal year, which represented a 32.1% decrease from fiscal year 2004. The distribution for expenses reflects the expenses paid by the EFIB to 1) the Department of Lands for its expenses associated with the management of the lands and 2) the EFIB, for the management of the investments of the Fund. Lands and EFIB expenses increased by \$4.2 million during the year. The increase for the Department of Lands was \$3.5 million and the increase in EFIB was \$697,000.

**FACTORS THAT MAY AFFECT FINANCIAL POSITION**

The Public Schools Endowment Fund and the Pooled Endowment Funds are distinct in that they have Permanent corpus and Earnings Reserve Funds. The Permanent corpus is not used to pay out expenses or distributions; rather, it receives proceeds from Land sales and mineral royalties and is impacted by market gains and losses of the fund. The Earnings Reserve Fund is used as an operating account to receive Lands money and income, payout distributions to beneficiaries and expenses, and is also affected by market gains and losses of the fund.

Under the legislation passed by the 1998 Idaho Legislature, an Earnings Reserve Fund was established to pay all expenses of the Endowment Fund and the Department of Lands and distributions to beneficiaries. Department of Lands receipts are additions to the Earnings Reserve Fund while Lands and Endowment 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 as instructed in Idaho Code 57-720.

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2005**

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On July 1, 2004 the Capitol Permanent Endowment Fund became part of the Pooled Endowment Funds. Unlike the other beneficiary accounts, they do not have an Earnings Reserve Fund. Additions to that fund include Lands revenue as well as interest income which becomes part of the permanent fund unless the Capitol Commission requests a transfer of income earned during the fiscal year.

In the current fiscal year financial statements, there are two funds with a negative Earnings Reserve Fund balance: Agricultural College and Charitable Institutions. They are both negative due to low Lands receipts and a decrease in fair value of their share of the investments in previous years. However, those funds received transfers from the General Fund on July 1, 2006 to return them to a positive balance.

In conjunction with SB 1162, SB 1194 was also passed to eliminate the negative balances of these earnings reserve funds. Effective July 1, 2005, \$2,130,000 was transferred from the State of Idaho General Fund to the Agricultural College Earnings Reserve Fund and \$2,470,000 was transferred from the State of Idaho General Fund to the Charitable Institutions Earnings Reserve Fund. The purpose of the transfers was to reallocate Endowment and General Fund support to hold all beneficiaries harmless. SB 1194 details the FY 2006 distributions to the beneficiaries and authorizes a transfer of funds from the General Fund:

	<u>2006</u>
Agriculture College	\$ -
Charitable Institutions	-
Normal School	3,205,600
Penitentiary	2,444,800
School of Science	2,848,500
State Hospital South	5,291,400
University of Idaho	3,465,500
Public Schools	<u>23,087,100</u>
Total	<u>\$ 40,342,900</u>

The EFIB and Idaho State Board of Land Commissioners approved the following spending policy levels for the beneficiaries:

	<u>Public Schools</u>	<u>Pooled</u>
FY07 .....	5%	5%
FY08 .....	5%	4%

Until such time as it is noted otherwise, the EFIB and State Board of Land Commissioners approved a stable payout for Public Schools of 5% and for the Pooled accounts 4%.

**STATE OF IDAHO ENDOWMENT FUNDS  
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**

***FINANCIAL STATEMENTS***

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

Current Assets:	
Investments, at Fair Value	\$ 839,316,611
Receivable for Unsettled Trades	47,809,898
Receivable From Idaho Department of Lands	3,306,445
Accrued Interest and Dividends Receivable	1,595,175
Securities Lending Collateral	93,840,812
Total Assets	<u>985,868,941</u>
Current Liabilities:	
Securities Lending Collateral	93,840,812
Payable for Unsettled Trades	48,566,263
Investment Manager Expenses Payable	663,861
Total Liabilities	<u>143,070,936</u>
Net Assets:	
Restricted Net Assets-Permanent Funds	
Agriculture College	14,375,883
Charitable Institutions	51,340,331
Normal School	45,999,163
Penitentiary	17,596,371
School of Science	51,653,727
State Hospital South	22,861,359
University of Idaho	39,626,416
Public School	537,181,394
Capitol Permanent Fund	8,262,634
Total Permanent Net Assets	<u>788,897,278</u>
Unrestricted Net Assets-Earnings Reserve:	
Agriculture College	(1,909,788)
Charitable Institutions	(973,128)
Normal School	4,021,243
Penitentiary	2,929,859
School of Science	3,304,113
State Hospital South	9,800,446
University of Idaho	5,254,217
Public School	31,473,765
Total Earnings Reserve Net Assets	<u>53,900,727</u>
Total Net Assets	<u>\$ 842,798,005</u>

See notes to financial statements.

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Agriculture College</u>	<u>Charitable Institutions</u>	<u>Normal School</u>	<u>Penitentiary</u>
<u>Permanent Net Assets</u>				
Program Revenues:				
Receipts from Department of Lands	\$ 1,210	\$ 13,847	\$ 14,165	\$ 285
Net Increase in the Fair Value of Investments	788,126	3,212,191	3,054,070	1,177,375
Income from Investments	-	-	-	-
Increase in Net Assets	789,336	3,226,038	3,068,235	1,177,660
Permanent Net Assets, beginning of year, as restated	13,586,547	48,114,293	42,930,928	16,418,711
Permanent Net Assets, end of year	\$ 14,375,883	\$ 51,340,331	\$ 45,999,163	\$ 17,596,371
<u>Earnings Reserve</u>				
Program Revenues:				
Receipts from Department of Lands	\$ 628,849	\$ 3,329,718	\$ 2,476,117	\$ 539,785
Net Increase in the Fair Value of Investments	-	-	266,987	196,037
Income from Investments	295,472	1,187,460	1,221,239	509,560
Total Program Revenues	924,321	4,517,178	3,964,343	1,245,382
Program Expenses:				
Distribution for Expenses - Lands	198,741	831,806	1,020,554	364,130
Distribution for Expenses - Investment Board	52,039	208,138	214,920	89,796
Distributions to beneficiaries	380,400	1,407,450	2,969,624	1,509,520
Total Program Expenses	631,180	2,447,394	4,205,098	1,963,446
Increase (Decrease) in Net Assets	293,141	2,069,784	(240,755)	(718,064)
Earnings Reserve Net Assets, beginning of year, as restated	(2,202,929)	(3,042,912)	4,261,998	3,647,923
Earnings Reserve Net Assets, end of year	\$ (1,909,788)	\$ (973,128)	\$ 4,021,243	\$ 2,929,859

See notes to financial statements.

<u>School of Science</u>	<u>State Hospital South</u>	<u>University of Idaho</u>	<u>Total Pooled</u>	<u>Public Schools</u>	<u>Capitol Permanent Fund</u>	<u>Combined Total</u>
\$ 3,681	\$ 24,409	\$ 5,160	\$ 62,757	\$ 1,551,570	\$ 1,377,536	\$ 2,991,863
3,417,253	1,461,513	2,660,537	15,771,065	35,010,915	501,531	51,283,511
-	-	-	-	-	158,125	158,125
3,420,934	1,485,922	2,665,697	15,833,822	36,562,485	2,037,192	54,433,499
48,232,793	21,375,437	36,960,719	227,619,428	500,618,909	6,225,442	734,463,779
\$ 51,653,727	\$ 22,861,359	\$ 39,626,416	\$ 243,453,250	\$ 537,181,394	\$ 8,262,634	\$ 788,897,278
\$ 3,445,260	\$ 3,433,008	\$ 2,780,535	\$ 16,633,272	\$ 37,867,548	\$ -	\$ 54,500,820
218,590	626,536	352,771	1,660,921	2,051,310	-	3,712,231
1,330,766	776,282	1,099,438	6,420,217	13,606,902	-	20,027,119
4,994,616	4,835,826	4,232,744	24,714,410	53,525,760	-	78,240,170
759,301	706,445	587,561	4,468,538	12,183,295	-	16,651,833
233,462	135,754	192,584	1,126,693	2,388,679	-	3,515,372
3,136,900	1,874,720	3,158,296	14,436,910	22,957,800	-	37,394,710
4,129,663	2,716,919	3,938,441	20,032,141	37,529,774	-	57,561,915
864,953	2,118,907	294,303	4,682,269	15,995,986	-	20,678,255
2,439,160	7,681,539	4,959,914	17,744,693	15,477,779	-	33,222,472
\$ 3,304,113	\$ 9,800,446	\$ 5,254,217	\$ 22,426,962	\$ 31,473,765	\$ -	\$ 53,900,727

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**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 Endowment Fund ("Public Schools") and the Pooled Endowment Funds ("Pooled") comprised of College of Agriculture, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South and University of Idaho held for the benefit of certain State of Idaho institutions. Beginning July 1, 1998, the EFIB was charged with the investment of the State of Idaho Capitol Permanent Endowment Fund ("Capitol Permanent Fund"). The Capitol Permanent Fund was created under Section 67-1610 of the Idaho Code and is overseen by the Idaho State Capitol Commission. The monies in the Fund are invested to produce income for the repair of the capitol building. The Capitol Permanent Fund consists entirely of a principal fund. Additions to the Capitol Permanent Fund consist primarily of proceeds from the sale of public lands held by the State Land Board, interest income net of distributions to the beneficiary and the change in fair value of investment securities. The EFIB has no jurisdiction over assets held by the State Land Board or other agencies; therefore, the EFIB gives accounting recognition only when a transaction has been consummated by the State Land Board.

The State of Idaho Endowment Funds (the "Endowment Funds") are considered part of the State of Idaho financial reporting entity and are included in the State of Idaho Comprehensive Annual Financial Report (CAFR). The Endowment Funds are invested under the variable spending policy established by the EFIB.

The Idaho Constitution, Article 9, Section 3 prohibits commingling of the Public School Endowment Fund with other funds; consequently, the Public School Endowment Fund does not participate in the earnings of the other seven funds (pooled for investment purposes) which are the Pooled Endowment Funds or the Capitol Permanent Fund.

The Public School and Pooled Endowment Funds are segregated into two Permanent Funds and two Earnings Reserve Funds. The Earnings Reserve Funds consist of the accumulated earnings distributed from the Endowment Funds or the Endowment Funds, plus dividends, interest, and realized or unrealized gains on previous earnings reserve balances. All Public School and Pooled Endowment earnings become part of the Earnings Reserve Funds. The administrative expenses of the EFIB, the Department of Lands, and the management fees for all funds are paid from the Earnings Reserve Funds, based upon legislative appropriation.

The EFIB employs 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 Funds, under new legislation enacted by the Idaho Legislature in 1998.

The new legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest Permanent 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.

## NOTES TO FINANCIAL STATEMENTS

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- (3) An Earnings Reserve Fund be created for the purpose of providing a buffer to preserve the Permanent Endowment balances.
- (4) Administrative costs be paid from earnings of the Endowment Funds instead of from annual general fund appropriations.
- (5) Distributions to beneficiaries are to be paid from the reserve pool of assets which includes investment earnings, net capital gains and receipts from the Department of Lands.

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

#### *Financial Reporting Entity*

The EFIB follows Governmental Accounting Standards Board (GASB) Statement No. 39 in determining the reporting entity. Accordingly, the financial statements include all funds for which the EFIB is financially accountable.

The EFIB is part of the State of Idaho reporting entity based on certain criteria in GASB Statement No. 14. These statements present only the funds of the EFIB and are not intended to present the financial position and results of operations of State of Idaho in conformity with generally accepted accounting principles in the United States of America.

#### *Basis of Presentation*

The EFIB is accounted for and reported as a Permanent Fund as defined by GASB Statement No. 34 and uses the 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 assets and the statement of activities display information about the EFIB. These statements include the financial activity of the overall reporting entity. These statements report all activities of the EFIB as a governmental type activity.

#### *Change in Presentation*

For the fiscal year ended June 30, 2005, the statement of net assets reports the financial position of the Public School Endowment Fund, the Pooled Endowment Funds and the Capitol Permanent Endowment Fund. For the fiscal year ended June 30, 2004, the Capitol Permanent Endowment Fund was not included and was reported in separately issued financial statements. Legislation from the State of Idaho caused financial statements of the Capitol Permanent Fund to be included with the Endowment Fund as of July 1, 2004. The statement of activities includes a separate reporting of each of the Pooled Endowment Funds as well as the Public School Endowment Fund and the Capitol Permanent Endowment Fund.

#### *Basis of Accounting*

The financial statements are prepared on the accrual basis of accounting. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the EFIB has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

## NOTES TO FINANCIAL STATEMENTS

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### *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*

The EFIB is authorized to invest the Endowment Funds in certain fixed income, equity investments and money market funds as defined by the policy of the EFIB and consistent with the prudent investor rule in 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 variable spending policy, the endowment funds may be invested in equities (60% to 80% of the investment portfolio with a current target of 70%) and fixed income (25% to 35% of the investment portfolio, with a current target of 30%)."

The following is a list of allowed investments by asset class:

- (1) Domestic equities
- (2) International equities
- (3) Fixed income securities including U.S. Government agency securities, domestic corporate bonds, notes, debentures, or convertible debt securities with a minimum "BBB" rating by Standard & Poor's or a "Baa" rating by Moody's (or equivalent ratings by other national rating services). Yankee bonds with a minimum "A" rating, commercial paper, equity-linked debt with a minimum rating of "A", pass-through mortgage-backed securities with a minimum "AAA" rating or equivalent, and collateralized mortgage obligations. Investment securities at June 30, 2005, are registered in the EFIB's name and are in compliance with EFIB policy and the Idaho Code.

Investment securities are stated at fair value in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The fair value of investment securities is based on published market prices and quotations from major investment brokers when available. Purchase and sale transactions are recorded on the trade date.

The EFIB is also allowed to write derivative instruments, specifically covered call options. Premiums received from the sale of these options are recorded as a realized gain and increase the principal balance of the investments. If the options are exercised, the gain or loss is recorded as if the security had been sold in a normal transaction. No options were outstanding as of June 30, 2005.

The EFIB periodically invests in forward and futures contracts representing agreements to buy or sell a specified amount of an underlying security at a given delivery or maturity date for an agreed-upon price. The EFIB's use of these securities is limited to small positions in the EFIB's international and domestic equity portfolios established primarily for hedging or risk reduction. The domestic equity portfolio at June 30, 2005 held 14 S&P 500 contracts with fair value of \$4.2 million and 92 ten-year treasury contracts with fair value of \$10.4 million. The mark-to-market receivable as of that date was \$18,687 which was received on July 1, 2005.

As of June 30, 2005, the EFIB held forward currency contracts representing agreements to buy or sell European Union euro, British pound sterling, Norwegian krone, Swedish krona, US dollar, Australian dollar, Swiss franc, Hong Kong dollar, Japanese yen upon established future dates for agreed-upon prices. These forward currency

## NOTES TO FINANCIAL STATEMENTS

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contracts held by the EFIB allow it to lock in future foreign exchange rates, thus reducing the risk stemming from currency fluctuations. As of June 30, 2005, the fair values of the obligations under the purchase side of these forward contracts amounted to \$45.3 million and the fair values of the obligations under the sale side of these forward contracts amounted to \$45 million.

### *Income from Investments*

Investment income is recognized when earned. Income from investments for the Public Schools and Pooled Funds are 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.

Income from investments in the Capitol Permanent Fund, exclusive of realized and unrealized gains and losses on investments, is reinvested in accordance with Idaho Code. Investment income is recognized and distributed to the beneficiary if requested and is presented in the permanent fund.

### *Gains and Losses on Sale of Investments*

The EFIB accounts for gains or losses on the sale of investments in the Public School and Pooled Funds, in accordance with Sections 57-720 and 57-724 of the Idaho Code. Unrealized gains and losses to Permanent Endowment Funds are determined by comparing the current market value of the Permanent Endowment Funds as of the end of the fiscal year, excluding funds transferred to the Permanent Endowment Funds from the Earnings Reserve Fund or funds deposited as a result of land sales or mineral royalties, to the market value of the Permanent Endowment Fund at the end of the prior fiscal year. Realized gains or losses on sale or maturity of investments are computed using the difference between actual proceeds received and the costs of investments.

Losses to the Public School Permanent Endowment Fund are made up as follows:

- (1) The State Board of Land Commissioners may annually transfer any funds in the Public School Earnings Reserve Fund that they determine will not be needed for administrative costs or scheduled distributions to the public schools in the following fiscal year to the Public School Permanent Endowment Fund, to make up for any prior losses in value.
- (2) If funds transferred from the Earnings Reserve Fund are insufficient to make up any losses in value to the Public School Permanent Endowment Fund, the remaining loss shall be made up, within ten years, by legislative transfer or appropriation. If subsequent gains, as determined pursuant to the provisions of this section, 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, 2005, cumulative losses of the Public School Permanent Endowment Fund were \$26,468,216.

Losses to Permanent Endowment Funds other than the Public School Permanent Endowment Fund shall be made up from Earnings Reserve Fund monies that the State Board of Land commissioners determines will not be needed for administrative costs of scheduled distributions to each endowments respective fund.

The EFIB accounts for gains or losses on the sale of investments in the Capitol Permanent Fund as principal transactions, in accordance with Section 67-1610 of the Idaho Code. Gains or losses on sale or maturity of investments are computed using the difference between actual proceeds received and the costs of investments.

## NOTES TO FINANCIAL STATEMENTS

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### *Distributions to Beneficiaries*

Distributions are made to public school beneficiaries on a monthly basis beginning in October 2004. Distributions to the pooled beneficiaries are made in equal installments each month on the 10th (or first business day thereafter).

### *Other*

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

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

In accordance with section 57-722 of the Idaho Code, the EFIB engages in securities lending activities, whereby certain securities (U.S. Government securities and government issues as well as equities) are loaned to specific entities. The securities borrower will pay a stated premium to the EFIB that is remitted monthly. At the time the securities are loaned, cash or other collateral is received by the EFIB. Securities lending collateral is comprised of certain U.S. Government issued or U.S. Government agency securities, and is received valued at a required margin of 102% of the market value of the securities loaned. The securities lending agreement requires daily monitoring of the market value of the securities loaned and collateral received with additional collateral obtained as necessary to meet margin requirements.

The EFIB is indemnified for fraudulent or negligent acts performed by Northern Trust Company (the "Trustees"), and should loaned securities not be returned as specified, the Trustees would be required to make the EFIB whole. As such, credit risk exposure is limited under these transactions. As of June 30, 2005, the market value of the loaned securities was \$90,898,806.

## NOTE 3 - INVESTMENTS

**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 Fund's name. At June 30, 2005, all Endowment Funds' investments were insured or registered investments, or investments held by the Endowment Funds or their agent in the Endowment Funds' name.

The State Treasurer is the custodian of the investments of the Public School Endowment Fund. All investments, including Pooled Funds and Capitol Permanent Fund are held under a safekeeping agreement with the Trust Department of the Northern Trust Company. Investments at June 30, 2005:

## NOTES TO FINANCIAL STATEMENTS

	Cost	Fair Value (1)
Fund Investments		
Marketable securities:		
Northern fixed income	\$ 240,994,604	\$ 237,430,025
Money market funds	2,938,679	2,938,679
Equity:		
S&P 500 Index	76,839,842	104,038,594
Russell 1000 Growth Index Fund	8,459,366	9,912,800
Mastrapasqua	46,856,149	50,580,811
Russell 1000 Value Index Fund	8,191,358	10,074,100
Metropolitan West	39,616,801	49,954,067
LSV Asset Management	60,450,488	65,303,012
Artisan	28,130	28,130
Oppenheimer Capital	24,524,254	28,106,045
Systematic Financial Management	18,985,307	20,507,264
Nicholas Applegate	20,174,671	23,272,136
Barrow, Hanley, Mewhinney & Strauss	22,781,847	25,499,057
Marvin & Palmer	53,482,675	59,622,721
NWQ	60,527,598	65,731,201
Clearwater	1,456,512	1,456,512
Intech	39,412,874	39,397,558
Sands Capital	44,492,906	45,463,899
Total Fund Investments	<u>\$ 770,214,061</u>	<u>\$ 839,316,611</u>

(1) Fair values of marketable securities are determined by quotations as of the last business day of June. Fair values of other investments approximate cost.

**CONCENTRATION OF CREDIT RISK** – The EFIB minimizes exposure to concentration of credit risk by requiring investment managers to provide EFIB with expected concentration of credit risk exposures in their portfolio guidelines. As of June 30, 2005, the EFIB did not hold any credit positions exceeding 5% of the total portfolio.

**INVESTMENT AND CREDIT RISK** – GASB No. 40 requires Governments to provide information about the credit risk associated with their investments by disclosing the credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations.

The EFIB Investment Policy Statement permits investment in the following types of fixed income securities:

Cash Equivalents: Treasury bills, money market funds, STIF funds, commercial paper, banker's acceptances, repurchase agreements, certificates of deposit.

Fixed Income: US Government and agency securities, corporate notes and bonds, mortgage backed bonds, preferred stocks, fixed income securities of foreign governments and corporations, planned amortization class collateralized mortgage obligations, or other "early tranche" CMO's asset backed securities.

## NOTES TO FINANCIAL STATEMENTS

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Restricted investments include interest-only (IO), principal-only (PO), residual tranche CMOs, purchases 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:

- Fund assets are to be invested only in investment grade bonds rated BBB (or equivalent) or better.
- Fund 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 Lehman Aggregate Index by more than .5 years.
- Money Market Funds selected shall contain securities who 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 EFIB's fixed income investments had the following characteristics:

	<u>Fair Value (1)</u>	<u>Modified Duration (2)</u>	<u>Average Rating</u>
Fund Investments			
Northern Lehman Aggregate Index Fund	\$ 211,391,226	4.15 years	AA1/AA2
Northern U.S. TIPS Index Fund	26,038,799	6.26 years	AAA/AAA
Northern Money Market Fund	<u>2,938,679</u>	Not applicable	A1/A1+
Total Fund Investments	<u>\$ 240,368,704</u>		

(1) Fair value of fixed income investments is determined by the custodian.

## NOTES TO FINANCIAL STATEMENTS

FOREIGN CURRENCY RISKS – The EFIB’s Investment Policy Statement permits investing up to 20% of total investments in international equities. No foreign fixed income securities are permitted except currency.

The EFIB’s exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value (1)
Common Stock		
Australia	AUD	\$ 6,213,455
Austria	EUR	1,880,706
Belgium	EUR	2,008,274
Canada	CAD	2,186,426
Canada	USD	4,300,261
South Africa	ZAR	697,759
Denmark	DKK	602,639
Finland	EUR	2,381,425
France	EUR	10,704,896
Germany	EUR	4,808,323
Germany	USD	1,441,150
Greece	EUR	1,034,263
Hong Kong	HKD	2,259,526
South Africa	USD	583,471
Ireland	EUR	1,755,343
Italy	EUR	4,285,263
Japan	JPY	26,691,730
Japan	USD	1,330,067
Mexico	USD	706,425
Netherlands	EUR	2,640,714
Portugal	EUR	1,710,571
South Korea	KRW	716,981
South Korea	USD	3,797,067
Norway	NOK	2,671,208
Singapore	SGD	837,136
Spain	EUR	2,249,212
Sweden	SEK	2,452,645
Switzerland	CHF	4,679,791
Taiwan	USD	1,902,984
United Kingdom	GBP	16,090,202
United Kingdom	USD	2,144,549
United States	USD	634,788
Total Fund Investments		<u>\$ 118,399,250</u>

(1) The fair value of the EFIB’s foreign currency is determined by the EFIB custodian.

At fiscal year-end, there were also pending foreign exchange transactions. These transactions are used primarily for hedging purposes, however some support trading activity. Outstanding contracts are as follows:

## NOTES TO FINANCIAL STATEMENTS

Currency	Fair Value Bought (1)	Book Value Bought	Fair Value Sold (1)	Book Value Sold	Unrealized Gain/Loss
Australian dollar	\$ 1,994,153	\$ 1,988,370	\$ 1,994,153	\$ 1,971,838	\$ (16,532)
British pound sterling	3,599,556	3,660,401	3,599,556	3,732,671	72,270
Euro	10,383,562	10,772,490	10,383,562	10,919,256	146,766
Hong Kong dollar	-	-	4,970	4,965	(5)
Japanese yen	-	-	3,653,951	3,738,054	84,103
Norwegian krone	1,169,558	1,202,483	1,169,558	1,203,254	771
Swedish krona	980,807	1,046,072	980,807	1,057,090	11,018
Swiss franc	2,228,502	2,320,677	2,228,502	2,355,372	34,695
United States dollar	24,982,500	24,982,500	20,990,494	20,990,494	-
Total	\$ 45,338,638	\$ 45,972,993	\$ 45,005,553	\$ 45,972,994	\$ 333,086

(1) The fair value of pending foreign exchange transactions bought and sold are determined by the EFIB custodian.

### NOTE 4 – SECURITIES LENDING

Fund policies permit EFIB to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Northern Trust Company, the Fund's custodian, lends securities of the type on loan at year-end for collateral in the form of cash, irrevocable letters of credit or other securities with at least 102% of the lent securities' fair value, and international securities for collateral worth at least 105%.

At year-end, the Fund had no credit risk exposure to borrowers because the amount the Fund owes to the borrowers exceeds the amounts the borrowers owe to the Fund. The contract with the Fund's custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities issuers while the securities are out on loan. All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is one week. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end, has a weighted average maturity of 66 days.

The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities without borrower default.

## NOTES TO FINANCIAL STATEMENTS

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	Outstanding Loans as of June 30, 2005
Fair Value of Securities Loaned for Cash Collateral	\$ 90,584,263
Fair Value of Securities Loaned for Non-Cash Collateral	314,543
Total Fair Value of Securities Loaned	<u>\$ 90,898,806</u>
Fair Value of Cash Collateral from Borrowers	\$ 93,518,500
Fair Value of Non-Cash Collateral from Borrowers	322,312
Total Fair Value of Collateral from Borrowers	<u>\$ 93,840,812</u>

### NOTE 5 - INVESTMENT INCOME

Investment income is recognized when earned. All income from investments is distributed to the Earnings Reserve Funds for the Public School Fund and Pooled Funds in accordance with Sections 57-723A and 57-724A of the Idaho Code. 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.

	2005
Income From Investments	
Short-term Investments, Fixed Income, Securities Lending	\$ 9,831,915
Equity Funds	<u>10,353,329</u>
Total	<u>\$ 20,185,244</u>

### NOTE 6 – EXPENSES

Expenses of the Public Schools and Pooled Funds are paid from the Earnings Reserve Fund and the State Insurance Fund. The State Insurance Fund portion is paid under an investment management contract. The portion paid by the State Insurance Fund is not considered an expenditure of EFIB and is therefore not included as expenditures or as reimbursements. Total expenses for fiscal year 2005 were as follows: State Insurance Fund—\$132,768 and Earnings Reserve Funds—\$3,515,372. Expenses of the Capitol Permanent Fund are paid by the General Account of the State of Idaho. Aggregate expenses for fiscal year 2005 were not significant to the fund.

### NOTE 7 – DISTRIBUTIONS

Pursuant to Section 66-1106 of the Idaho Code, Charitable Institutions' Fund income is distributed as follows: Idaho State University Fund—four-fifteenths (4/15), State Juvenile Corrections Institutions Fund—four-fifteenths (4/15), School for the Deaf and Blind Fund—one-thirtieth (1/30), Veteran's Home—Five-thirtieths (5/30), and State Hospital North Fund—four-fifteenths (4/15). Distributions to these sharing institutions at June 30, 2005:

## NOTES TO FINANCIAL STATEMENTS

### Charitable Institutions' Distributions

2005

	Factor	Beneficiaries	For Expenses - Lands	For Expenses - Investment Board
Idaho State University Fund	4/15	\$ 375,320	\$ 221,815	\$ 55,503
State Juvenile Corrections Institutions Fund	4/15	375,320	221,815	55,503
School for the Deaf and Blind Fund	1/30	46,915	27,727	6,939
Veteran's Home Fund	5/30	234,575	138,634	34,690
State Hospital North Fund	4/15	375,320	221,815	55,503
Total		\$ 1,407,450	\$ 831,806	\$ 208,138

Pursuant to Section 33-3301 of the Idaho Code, Normal School Fund Income is distributed fifty percent (50%) each to Idaho State University Department of Education and Lewis-Clark State College. Distributions to these sharing institutions at June 30, 2005 were as follows:

### Normal School Distributions

2005

	%	Beneficiaries	For Expenses - Lands	For Expenses - Investment Board
Idaho State University, Pocatello	50%	\$ 1,484,812	\$ 510,277	\$ 107,460
Lewis-Clark State College, Lewiston	50%	1,484,812	510,277	107,460
Total		\$ 2,969,624	\$ 1,020,554	\$ 214,920

## NOTE 8 – CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICT BONDS

On July 1, 2002, the credit enhancement program for school district bonds became effective. This program, in accordance with Section 57-782 of the Idaho Code and in conjunction with Chapter 53, Title 33 of the Idaho Code, requires the Public School Endowment Fund to purchase notes of the State of Idaho that are issued to avoid a default in a voter approved bond issued by a school district. This program will result in a higher credit rating for the qualifying school districts and through lower interest costs, will save the school districts in the program thousands of dollars throughout the life of the bond issue. As of June 30, 2005, the EFIB had not been required to purchase any notes and was not aware of any purchase commitments.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9 – BUDGETARY COMPARISON

Budgets are adopted on a cash basis for the Endowment Funds. The budget for administrative expenses (personnel, operating and capital outlay) in 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. The EFIB is not required by law to adopt or publish an overall budget for operations.

### NOTE 10 – SUBSEQUENT EVENT

Effective July 1, 2005, \$2,130,000 was transferred from the State of Idaho General Fund to the Agricultural College Earnings Reserve Fund and \$2,470,000 was transferred from the State of Idaho General Fund to the Charitable Institutions Earnings Reserve Fund. The purpose of the transfers was to reallocate Endowment and General Fund support to hold all beneficiaries harmless. The effect of the transfers on the net asset balances in the respective Earnings Reserve Funds at July 1, 2005 are:

	Net Assets <u>June 30, 2005</u>	<u>Transfer</u>	Net Assets <u>July 1, 2005</u>
POOLED ENDOWMENT			
Earnings Reserve Fund			
Agricultural College	\$ (1,909,788)	\$ 2,130,000	\$ 220,212
Charitable Institutions	\$ (973,128)	\$ 2,470,000	\$ 1,496,872

### NOTE 11 - RESTATEMENT OF NET ASSETS

The EFIB incorrectly calculated the allocations for the increase in fair value of investments as of the year ended June 30, 2004. The error totaling \$4,879,899 was a reduction in permanent net assets and an increase in the earnings reserve. There was no net impact on total net assets for this allocation error. The corrections are as follows:

## NOTES TO FINANCIAL STATEMENTS

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	Net Assets As Previously Reported	Restatement	As Restated
PUBLIC SCHOOL ENDOWMENT			
Permanent Fund			
Net assets – June 30, 2004	\$ 502,585,796	\$(1,966,887)	\$500,618,909
Earnings Reserve Fund			
Net assets – June 30, 2004	\$ 13,510,892	\$ 1,966,887	\$ 15,477,779
POOLED ENDOWMENT			
Permanent Fund			
Net assets – June 30, 2004			
Normal School	\$ 43,472,077	\$ (541,149)	\$ 42,930,928
Penitentiary	\$ 16,883,518	\$ (464,807)	\$ 16,418,711
School of Science	\$ 48,542,352	\$ (309,559)	\$ 48,232,793
State Hospital South	\$ 22,349,776	\$ (974,339)	\$ 21,375,437
University of Idaho	\$ 37,583,576	\$ (623,157)	\$ 36,960,719
Earnings Reserve Fund			
Net Assets – June 30, 2004			
Normal School	\$ 3,720,849	\$ 541,149	\$ 4,261,998
Penitentiary	\$ 3,183,116	\$ 464,807	\$ 3,647,923
School of Science	\$ 2,129,601	\$ 309,559	\$ 2,439,160
State Hospital South	\$ 6,707,200	\$ 974,339	\$ 7,681,539
University of Idaho	\$ 4,336,757	\$ 623,157	\$ 4,959,914



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

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

We have audited the 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, 2005, and have issued our report thereon dated August 5, 2005. 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.

*Compliance*

As part of obtaining reasonable assurance about whether the EFIB's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the EFIB's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the

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internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of State of Idaho Endowment Funds in a separate letter dated August 5, 2005.

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

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

Boise, Idaho  
August 5, 2005

**STATE OF IDAHO ENDOWMENT FUNDS  
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**

***SUPPLEMENTAL SCHEDULES***

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Cash Basis Expenditures from the State Of Idaho Reporting System	Expenses
Personnel	
Regular Certified Employee	\$ 247,641
Board/Commission Members	3,200
Fringe Benefits	73,790
Subtotal Personnel Expenditures	<u>324,631</u>
Operating	
Postage	104
Express Mail	178
Data Line Charges	8,224
Telephone	5,762
Bloomberg and Electronic Subscriptions	18,455
Individual Organization Dues	90
Publications and Subscriptions	4,737
Employee Training	3,473
Audit	46,350
Advertising and Legal Notices	1,507
Printing Expense	54
Computer Program Expense	1,682
Software	2,060
Board Meeting Expense	1,095
Total Employee Travel Expense	13,988
Office Supplies	8,156
Total Insurance	130
Office Space Rental	22,811
Governmental Overhead - State	14,792
Subtotal Operating Expenditures	<u>153,648</u>
Capital Outlay	
Furniture	5,223
Total Expenses/Budget	<u>483,502</u>
Continuous Appropriation	
Outside Manager Billing	
Dain Rauscher	145,069
Mastrapasqua Asset Management	244,825
Metropolitan West	214,632
Artisan Partners	351,337
Oppenheimer Capital	176,736
Systematic Financial Management	90,399
Nicholas Applegate	107,137
Barrow, Hanley, Mewhinney & Strauss	165,779
Marvin & Palmer	328,692
Clearwater Investments	5,412
Northern	259,355
NWQ	329,386
LSV Asset Management	123,901
Total Outside Manager Billings	<u>2,542,660</u>
Less Funds Temporarily Transferred to Northern Trust	60,962
Less Payments Made By State Insurance Fund	(132,768)
Total Expenditures - Cash Basis State of Idaho Reporting System	<u>2,954,356</u>
Add Change in Manager Fee Accrual	663,861
Less Change in Liabilities	(13,618)
Less Transactions Reported on STARS Only	(3,813)
Less Capitol Permanent Refund of Expenses	(24,452)
Less Funds Transferred back to State	(60,962)
Total Accrual Basis Expenditures - EFIB	<u>\$ 3,515,372</u>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF GAINS AND (LOSSES) ON FAIR VALUE OF PERMANENT FUNDS' INVESTMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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Summary Schedule of Gains and (Losses) on Fair Value of Investments  
Public School Endowment Fund

FYE	Beginning Corpus	Add/WD to Corpus	Adj Beginning Corpus	Ending Corpus	Net Gain (Loss)
2000				\$ 555,954,750	
2001	\$ 555,954,750	\$ 1,742,339	\$ 557,697,089	511,726,709	\$ (45,970,380)
2002	511,726,709	1,369,675	513,096,384	441,549,031	(71,547,353)
2003	441,549,031	2,190,628	443,739,659	436,160,539	(7,579,120)
2004	436,160,539	840,648	437,001,187	500,618,909	63,617,722
2005	500,618,909	1,551,570	502,170,479	537,181,394	35,010,915
			TOTAL		<u>\$ (26,468,216)</u>

Summary Schedule of Gains and (Losses) on Fair Value of Investments  
Pooled Endowment Fund

FYE	Beginning Corpus	Add/WD to Corpus	Adj Beg Value	Ending MV	Net Gain (Loss)
2000				\$ 255,539,380	
2001	\$ 255,539,380	\$ 210,500	\$ 255,749,880	234,780,589	\$ (20,969,291)
2002	234,780,589	110,000	234,890,589	201,489,044	(33,401,545)
2003	201,489,044	239,871	201,728,915	199,384,520	(2,344,395)
2004	199,384,520	28,964	199,413,484	227,619,428	28,205,944
2005	227,619,428	62,757	227,682,185	243,453,250	15,771,065
			TOTAL		<u>\$ (12,738,222)</u>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**WEIGHTED RETURN ANALYSIS BY MONEY MANAGER**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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	One-Year	Two-Year Annualized	Three-Year Annualized
Total Account	9.75	13.36	9.32
Equity Only	10.58	17.53	10.56
Fixed Only	6.96	3.50	5.68
Lehman Agg Index Fund	6.75	3.41	5.62
TIPS Index Fund	9.24	N/A	N/A
Domestic Equity	9.30	16.82	N/A
Large Cap	8.55	15.14	N/A
S&P 500 Index Fund	6.38	12.53	8.21
Russell 1000 Growth Index Fund	1.74	9.40	7.22
Mastrapasqua	4.44	12.33	10.25
Russell 1000 Value Index Fund	14.11	16.66	N/A
Metropolitan West	16.39	26.54	16.71
LSV Asset Management	17.86	N/A	N/A
Mid Cap	10.27	18.74	N/A
Oppenheimer Capital	10.27	19.97	N/A
Systematic Financial Management	21.34	22.22	N/A
Small Cap	10.78	21.64	N/A
Nicholas Applegate	8.78	19.38	9.91
Barrow, Hanley, Mewhinney & Strauss	12.66	N/A	N/A
International Equity	15.87	19.94	9.45
Marvin & Palmer	9.01	14.75	N/A
NWQ Investment	22.62	N/A	N/A
Cash	1.89	1.49	1.51

**STATE OF IDAHO ENDOWMENT FUNDS  
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**

***EXAMINATION OF MANAGEMENT'S ASSERTIONS***



## INDEPENDENT AUDITORS' REPORT ON EXAMINATION OF MANAGEMENT'S ASSERTIONS

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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 Fund") compliance with certain requirements of the Idaho Code, Chapter 7, Investment of Permanent Endowment Funds, and of the State of Idaho Endowment Fund Variable Spending Policy, during the year ended June 30, 2005, included in the accompanying Statement of Management's Assertions. Management is responsible for the Endowment Fund's compliance with these requirements. Our responsibility is to express an opinion on management's assertions about the Endowment Fund's 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 Fund's 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 Fund's 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, 2005, are fairly stated.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho  
August 5, 2005

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**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**STATEMENT OF MANAGEMENT'S ASSERTIONS**  
**YEAR ENDED JUNE 30, 2005**

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Investment securities held at June 30, 2005, were in substantial compliance with Chapter 7, Title 57, of the Idaho Code (the "Code"), and with the State of Idaho Endowment Fund Investment Board Investment Policy Statement and the following control procedures were in place for the year ended June 30, 2005 to help ensure compliance with the Code and Policy:

- Investment income and transaction information were agreed to custodian information on a monthly basis.
- 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 Chapter 7, Title 57-724, of the Code.

The Investment Manager advised the Investment Board weekly as to the percentages of the various types of holdings in the fund.

The Investment Board presented a summary report to the Land Board as required by Chapter 7, Title 57-725, of the Code.

The Investment Board has employed Eide Bailly, LLP an independent certified public accounting firm, to audit the books and records of the Endowment Fund for the year ended June 30, 2005, required by Chapter 7, Title 57-720, of the Code.