

**FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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, 2006, 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, 2006, 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 4, 2006, 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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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 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 of the EFIB. The schedules on pages 27 through 29 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 30 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.

*Eide Bailly LLP*

Boise, Idaho  
August 4, 2006

**STATE OF IDAHO ENDOWMENT FUNDS**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2006**

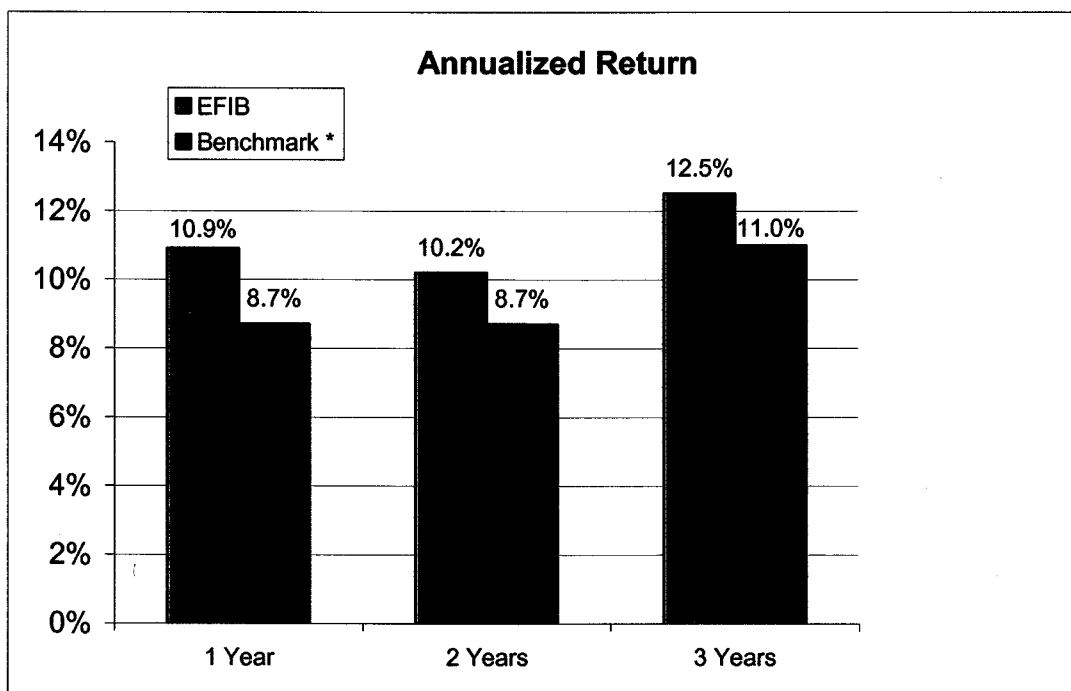
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The discussion and analysis of the State of Idaho Endowment Fund's (the Fund) financial performance provides a summary of the financial activities of the manager of the Fund, the Endowment Fund Investment Board (the EFIB), for the year ended June 30, 2006. 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 \$105.0 million, which represents a 12.5% increase from fiscal year 2005.
- Receipts from endowment lands rose to \$68.8 million, a 19.7% increase from fiscal year 2005.
- Distributions to all beneficiaries increased 7.9% in fiscal year 2006 to \$40.3 million from \$37.4 million in fiscal year 2005.
- Total investment return, before fees, was 10.9% in fiscal year 2006, compared to 9.7% in fiscal year 2005 and 16.8% in fiscal year 2004.



\*Benchmark consists 56% Russell 3000, 14% MSCI EAFE, & 30% Lehman Aggregate.

*Public School Permanent Endowment Fund*

The Public School Fund, which had been in a cumulative loss position since fiscal year 2001, moved to a cumulative gain position of \$16.5 million at the end of fiscal year 2006 as shown on the schedule of gains and losses on fair value of investments. The State Constitution requires the State to make up any losses in the Public School Permanent Endowment Fund. Idaho Code specifies that these losses, in relation to the market value of the permanent endowment fund calculated as it existed on June 30, 2000, and adjusted cumulatively as of June 30 of each fiscal year thereafter by adding the amount of funds deposited into the permanent endowment fund from and including July 1 of the preceding calendar year through and including the June 30 date of adjustment, must be made up after ten consecutive years of cumulative losses, as measured at fiscal year end.

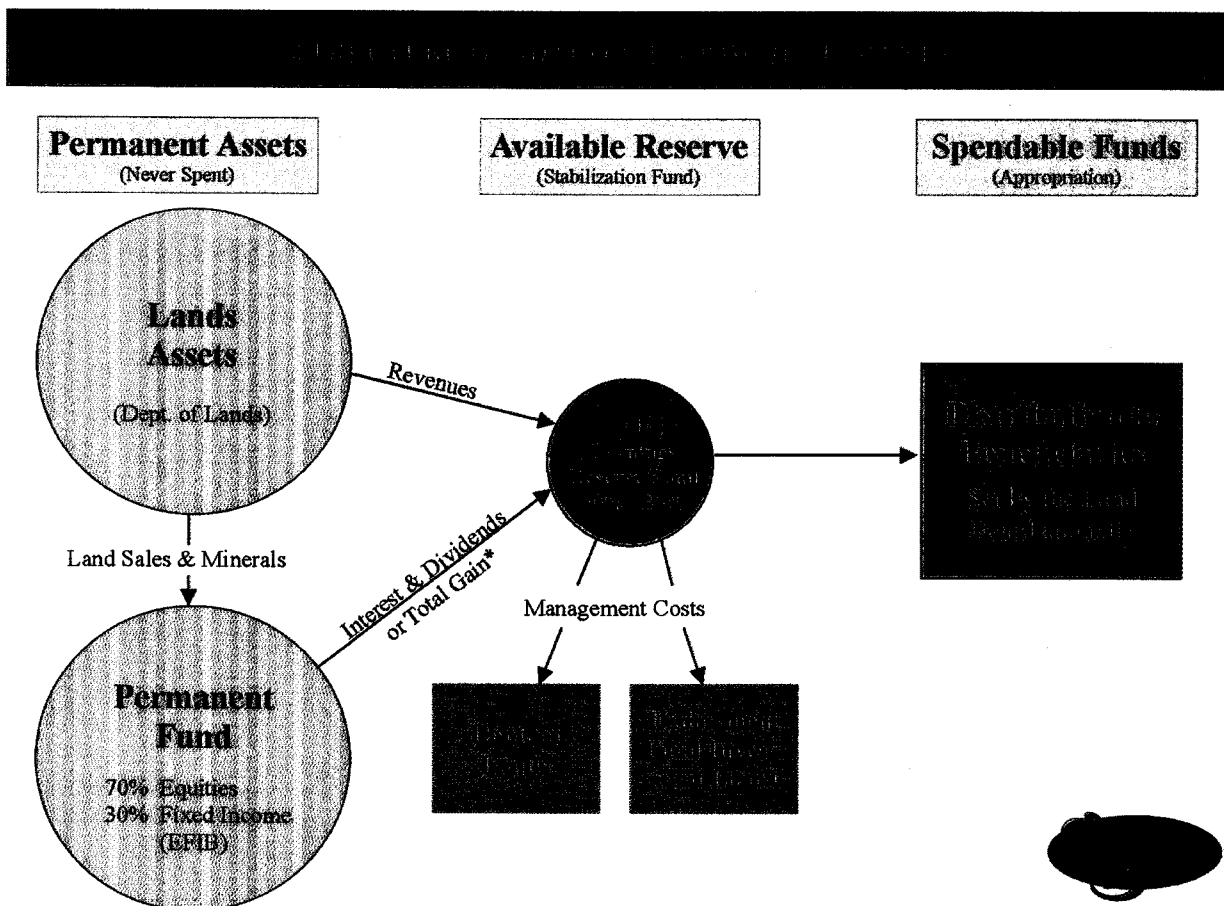
**STATE OF IDAHO ENDOWMENT FUNDS**  
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**PURPOSE OF THE STATE OF IDAHO ENDOWMENT FUNDS**

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 land assets of the State.

Monies are generated from lands endowed to, and for the benefit of nine different funds: Public Schools, 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, 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 Schools endowment account for approximately two-thirds of the total Endowment Funds.



\* When the Permanent Fund, adjusted for inflation, exceeds its June 2000 level, only total gain over inflation will be distributed to Earnings Reserve.

**STATE OF IDAHO ENDOWMENT FUNDS**  
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**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's investments and the Judges' Retirement Fund's investments.

**USING THIS ANNUAL REPORT**

The annual report consists of the independent auditors' 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 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 statements are an integral part of the financial statements and provide additional information on the Fund and its operations.

The financial statements and accompanying footnotes reflect all of the assets and liabilities of the Fund using accrual basis accounting. Under accrual accounting, all the current year's revenues and expenses are taken into account regardless of when 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 of detailed expenditures, gains and (losses) on fair market value of investments and, weighted return analysis of the money managers.

*Total Endowment Funds*

The total Endowment Fund is a combination of the Public School, Pooled and Capitol Permanent Funds. For Public School and Pooled Funds, the distributions are pre-determined based on the spending policy of the EFIB, as approved by the State Board of Land Commissioners. The Idaho Legislature passed Senate Bill (SB) 1194 for Fiscal Year 2006 distributions. There were no distributions of the Capitol Permanent Fund in fiscal year 2006. In Fiscal Year 2005 financial statements, there were two funds with a negative Earnings Reserve Fund Balance: Agricultural College and Charitable Institutions. In conjunction with SB 1194, these funds received transfers from the General Fund on July 1, 2005, in the amount of \$4,600,000 to return them to a positive balance: \$2,130,000 to Agricultural College Earnings Reserve Fund; and \$2,470,000 to Charitable Institutions Earnings Reserve Fund.

**STATE OF IDAHO ENDOWMENT FUNDS**  
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The table below highlights the total distributions of the Fund, by beneficiary:

Total Fund Distributions		
	2006	2005
Agriculture College	\$ -	\$ 380,400
Capitol Permanent Fund	-	
Charitable Institutions	-	1,407,450
Normal School	3,205,600	2,969,624
Penitentiary	2,444,800	1,509,520
School of Science	2,848,500	3,136,900
State Hospital South	5,291,400	1,874,720
University of Idaho	3,465,500	3,158,296
Public School	23,087,100	22,957,800
Total	<u>\$ 40,342,900</u>	<u>\$ 37,394,710</u>

Statement of Net Assets		
	2006	2005
Current Assets, excluding securities lending	\$ 957,985,320	\$ 892,028,129
Securities Lending Collateral	120,314,396	93,840,812
Total Current Assets	<u>1,078,299,716</u>	<u>985,868,941</u>
Liabilities, excluding securities lending	8,151,031	49,230,124
Securities Lending Collateral	120,314,396	93,840,812
Total Current Liabilities	<u>128,465,427</u>	<u>143,070,936</u>
Net Assets-Permanent Funds	858,411,662	788,897,278
Net Assets-Earnings Reserve	91,422,627	53,900,727
Total Net Assets	<u>\$ 949,834,289</u>	<u>\$ 842,798,005</u>



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Statement of Activities

	<u>2006</u>	<u>2005</u>
Program Revenues		
Land Department Receipts	\$ 68,812,351	\$ 57,492,683
Income from Investments	22,858,727	20,185,244
Increase in Value of Investments	<u>70,113,629</u>	<u>54,995,742</u>
Total Program Revenues	161,784,707	132,673,669
Program Expenses		
Distribution to Beneficiaries	40,342,900	37,394,710
Distribution for Expenses-Lands	15,172,581	16,651,833
Distribution for Expenses-Investment Board	<u>3,832,942</u>	<u>3,515,372</u>
Total Program Expenses	<u>59,348,423</u>	<u>57,561,915</u>
Increase in Net Assets before Contributions	102,436,284	75,111,754
Contributions from State of Idaho General Fund	<u>4,600,000</u>	<u>-</u>
Net Program Revenue/Change in Net Assets	<u>\$ 107,036,284</u>	<u>\$ 75,111,754</u>

Revenues reflect all receipts generated by the endowment and the income from investments. During fiscal year 2006, land revenues increased by 19.7%. During the same period, income from investments increased 13.2%.

Total expenses reflect distribution to beneficiaries as well as expenses paid. The distribution to beneficiaries of \$40,342,900 reflects distributions to beneficiaries during the fiscal year, which represented a 7.9% increase from fiscal year 2005. 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. Distributions for the Department of Lands expenses decreased by \$1.5 million.

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**FACTORS THAT MAY AFFECT FINANCIAL POSITION**

Each Endowment Fund is distinct in that it has a permanent corpus and an Earnings Reserve Fund. The permanent corpus is to remain intact while the Earnings Reserve Fund is used as an operating account to receive endowment, revenue and income as well as pay distributions to beneficiaries and expenses. It 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 EFIB and the Department of Lands (Lands) and distributions to beneficiaries. Lands receipts are additions to the Earnings Reserve Fund while 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 as instructed in *Idaho Code 57-720*.

On July 1, 2004, the Capitol Permanent Fund was pooled with the other endowment funds for investment purposes. Unlike the other beneficiary accounts, it does not have an Earnings Reserve Fund. Additions to that fund include Lands revenue as well as investment income. The EFIB authorizes distributions from the fund to the Capitol Commission, effective July 1 of each fiscal year. No distribution was made in FY 2006 but a distribution of \$413,132 was authorized by the EFIB for FY 2007.

For endowments other than the Capitol Permanent Fund, the Board of Land Commissioners has approved the following distributions to beneficiaries for FY 2007. House Bill (HB) 797, from the FY 2006 legislative session, appropriated the amounts approved by the Board of Land Commissioners. The FY 2008 approved distributions have not yet been appropriated and will be considered by the legislature in its 2007 session.

House Bill (HB) 797 details the FY 2007 distributions to the beneficiaries:

	2007
Public Schools	\$ 24,648,200
Agriculture College	661,200
Charitable Institutions	2,361,300
Normal School	2,115,700
Penitentiary	809,300
School of Science	2,375,800
State Hospital South	1,051,500
University of Idaho	1,822,600
Total	<u>\$ 35,845,600</u>

**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, 2006**

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Current Assets	
Cash with Treasurer	\$ 828,280
Investments, at Fair Value	943,274,243
Receivable for Unsettled Trades	6,629,090
Receivable From Idaho Department of Lands	5,433,952
Accrued Interest and Dividends Receivable	1,819,755
Securities Lending Collateral	120,314,396
Total Assets	<u>1,078,299,716</u>

Current Liabilities	
Securities Lending Collateral	120,314,396
Payable for Unsettled Trades	7,178,137
Investment Manager Expenses Payable	972,894
Total Liabilities	<u>128,465,427</u>

Restricted Net Assets	
Nonexpendable Net Assets - Permanent Funds	
Agriculture College	15,524,870
Charitable Institutions	55,458,050
Normal School	49,679,177
Penitentiary	19,001,035
School of Science	55,774,865
State Hospital South	24,691,932
University of Idaho	42,802,083
Public School	581,893,579
Capitol Permanent Fund	13,586,071
Total Permanent Net Assets	<u>858,411,662</u>

Expendable Net Assets - Earnings Reserve	
Agriculture College	2,322,348
Charitable Institutions	5,643,691
Normal School	5,106,702
Penitentiary	1,070,481
School of Science	3,359,463
State Hospital South	9,031,226
University of Idaho	5,838,487
Public School	59,050,229
Total Earnings Reserve Net Assets	<u>91,422,627</u>
Total Net Assets	<u>\$ 949,834,289</u>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2006**

	<u>Agriculture College</u>	<u>Charitable Institutions</u>	<u>Normal School</u>	<u>Penitentiary</u>	<u>School of Science</u>
<u>Permanent Net Assets</u>					
Program Revenues:					
Receipts from Department of Lands	\$ 2,992	\$ 23,989	\$ 12,861	\$ 2,070	\$ 4,022
Net Increase in the Fair Value of Investments	1,145,995	4,093,730	3,667,153	1,402,594	4,117,116
Income from Investments	-	-	-	-	-
Increase in Net Assets	1,148,987	4,117,719	3,680,014	1,404,664	4,121,138
Permanent Net Assets, beginning of year	14,375,883	51,340,331	45,999,163	17,596,371	51,653,727
Permanent Net Assets, end of year	\$ 15,524,870	\$ 55,458,050	\$ 49,679,177	\$ 19,001,035	\$ 55,774,865
<u>Earnings Reserve</u>					
Program Revenues:					
Receipts from Department of Lands	\$ 1,763,345	\$ 3,275,988	\$ 3,746,330	\$ 412,013	\$ 2,143,125
Net Increase in Fair Value of Investments	171,428	416,599	376,960	79,019	247,984
Income from Investments	418,370	1,460,555	1,322,556	514,721	1,451,486
Total Program Revenues	2,353,143	5,153,142	5,445,846	1,005,753	3,842,595
Program Expenses:					
Distribution for Expenses - Lands	180,554	758,629	930,079	332,280	691,870
Distribution for Expenses - Investment Board	70,453	247,694	224,708	88,051	246,875
Distributions to beneficiaries	-	-	3,205,600	2,444,800	2,848,500
Total Program Expenses	251,007	1,006,323	4,360,387	2,865,131	3,787,245
Increase (Decrease) in Net Assets before Contributions	2,102,136	4,146,819	1,085,459	(1,859,378)	55,350
Contributions from General Fund	2,130,000	2,470,000	-	-	-
Increase (Decrease) in Net Assets	4,232,136	6,616,819	1,085,459	(1,859,378)	55,350
Earnings Reserve Net Assets, beginning of year	(1,909,788)	(973,128)	4,021,243	2,929,859	3,304,113
Earnings Reserve Net Assets, end of year	\$ 2,322,348	\$ 5,643,691	\$ 5,106,702	\$ 1,070,481	\$ 3,359,463

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

<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>
\$ 7,896	\$ 16,159	\$ 69,989	\$ 1,758,724	\$ 4,042,969	\$ 5,871,682
1,822,677	3,159,508	19,408,773	42,953,461	1,002,879	63,365,113
-	-	-	-	277,589	277,589
1,830,573	3,175,667	19,478,762	44,712,185	5,323,437	69,514,384
22,861,359	39,626,416	243,453,250	537,181,394	8,262,634	788,897,278
\$ 24,691,932	\$ 42,802,083	\$ 262,932,012	\$ 581,893,579	\$ 13,586,071	\$ 858,411,662
\$ 3,794,289	\$ 3,165,475	\$ 18,300,565	\$ 44,640,104	\$ -	\$ 62,940,669
666,655	430,978	2,389,623	4,358,893	-	6,748,516
849,964	1,191,364	7,209,016	15,372,122	-	22,581,138
5,310,908	4,787,817	27,899,204	64,371,119	-	92,270,323
643,317	535,592	4,072,321	11,100,260	-	15,172,581
145,411	202,455	1,225,647	2,607,295	-	3,832,942
5,291,400	3,465,500	17,255,800	23,087,100	-	40,342,900
6,080,128	4,203,547	22,553,768	36,794,655	-	59,348,423
(769,220)	584,270	5,345,436	27,576,464	-	32,921,900
-	-	4,600,000	-	-	4,600,000
(769,220)	584,270	9,945,436	27,576,464	-	37,521,900
9,800,446	5,254,217	22,426,962	31,473,765	-	53,900,727
\$ 9,031,226	\$ 5,838,487	\$ 32,372,398	\$ 59,050,229	\$ -	\$ 91,422,627

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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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, the Pooled Endowment Funds (College of Agriculture, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, University of Idaho), and the Capitol Permanent Fund held for the benefit of certain State of Idaho institutions. 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 EFIB has no jurisdiction over assets held by the 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 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 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.
- (3) An Earnings Reserve Fund is established to create a buffer to preserve the Permanent Endowment balances.
- (4) Administrative costs are paid from earnings of the Endowment Funds instead of from annual General Fund appropriations.
- (5) Distributions to beneficiaries are to be paid from the Earnings Reserve Funds, which includes investment earnings, net capital gains and receipts from the Department of Lands.

## NOTES TO FINANCIAL STATEMENTS

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### 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 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 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. Given the type of assets and liabilities held by EFIB, there are no adjustments required to convert from modified accrual basis to full accrual basis as required by GASB 34.

#### *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 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 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%).



## NOTES TO FINANCIAL STATEMENTS

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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, 2006, 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, 2006.

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 rebalancing. The portfolio at June 30, 2006 held 153 ten-year treasury contracts with fair value of \$16 million, and 1 S&P 500 contract with fair value of \$319,850. The mark-to-market receivable as of that date was \$71,628, which was received on July 1, 2006.

As of June 30, 2006, the EFIB held forward currency contracts representing agreements to buy or sell U.S. dollars, Euros, British pounds, Japanese yen, Swiss francs, Danish krone, Hong Kong dollars, Norwegian krone, and Swedish krona upon established future dates for agreed-upon prices. These forward currency 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, 2006, the fair values of the obligations under the purchase side of these forward contracts amounted to \$16.4 million and the fair values of the obligations under the sale side of these forward contracts amounted to \$16.4 million.

The Joint Powers Investment Pool was established as a cooperative endeavor to enable public entities of the State of Idaho to aggregate funds for investment. This pooling is intended to improve administrative efficiency and increase investment yield. The Local Government Investment Pool is managed by the State of Idaho Treasurer's office. The funds of the pool are invested in certificates of deposit, repurchase agreements, and U.S. government securities. The certificates of deposit are federally insured. The U.S. government securities and the collateral for the repurchase agreements are held in trust by a safekeeping bank.

An annual audit of Joint Powers Investment Pool is conducted by the State Legislative Auditors Office. The Legislative Auditor of the State of Idaho has full access to the records of the Pool.

## NOTES TO FINANCIAL STATEMENTS

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### *Income from Investments*

Investment income is recognized when earned. 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.

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

The EFIB accounts for gains or losses on the sale of investments, in accordance with Section 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 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.

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 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, 2006, the cumulative losses of the Public School Endowment Fund were made up and a cumulative gain of \$16.5 million was in place.

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 or scheduled distributions to each endowments respective fund.

### *Distributions to Beneficiaries*

Distributions to the public school and pooled beneficiaries are made in equal installments each month on the 10th (or first business day thereafter).

### *Expendable and Nonexpendable Net Assets*

Net assets of the earnings reserve are expendable net assets of the EFIB. These expendable net assets are used for distributions to beneficiaries and distributions for expenses of the EFIB and the State of Idaho Department of Lands. Permanent net assets are nonexpendable.

## NOTES TO FINANCIAL STATEMENTS

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### *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.

## NOTES TO FINANCIAL STATEMENTS

### 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 EFIB's name. At June 30, 2006, all of the EFIB's investments were insured or registered investments, or investments held by the EFIB or their agent in the EFIB's 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, 2006:

	Cost	Fair Value
Fund Investments		
Marketable securities:		
Northern fixed income	\$ 275,830,971	\$ 260,102,091
Money market funds	7,162,950	7,162,950
Equity:		
S&P 500 Index	79,493,909	111,848,485
Russell 1000 Growth Index Fund	8,681,844	10,462,317
Mastrapasqua	48,535,699	56,465,473
Russell 1000 Value Index Fund	5,593,903	6,897,165
Metropolitan West	45,022,741	61,460,466
LSV Asset Management	53,452,544	60,745,172
Oppenheimer Capital	28,826,942	31,502,071
Systematic Financial Management	22,364,286	24,520,746
Nicholas Applegate	25,650,463	29,949,680
Barrow, Hanley, Mewhinney & Strauss	25,393,737	31,732,016
Marvin & Palmer	63,247,556	75,024,776
NWQ	64,422,586	75,469,855
Clearwater	1,103,748	1,103,748
Intech	52,265,385	52,069,504
Sands Capital	43,838,004	46,757,728
Total Fund Investments	<u>\$ 850,887,268</u>	<u>\$ 943,274,243</u>

## NOTES TO FINANCIAL STATEMENTS

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**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, SIF funds, commercial paper, banker's acceptances, repurchase agreements, certificates of deposit.

Fixed Income: U.S. 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.

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

- EFIB assets are to be invested only in investment grade bonds rated BBB (or equivalent) or better.
- EFIB 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 that 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:

	Fair Value	Modified Duration	Average Rating
Fund Investments			
Northern Lehman Aggregate Index Fund	\$ 231,738,547	4.79 years	AA1/AA2
Northern U.S. TIPS Index Fund	28,363,344	6.12 years	AAA/AAA
Northern Money Market Fund	7,162,950	Not Applicable	A1/A1+
Total Fund Investments	<u>\$ 267,264,841</u>		

## 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
Common Stock		
Australia	AUD	\$ 5,978,079
Belgium	EUR	2,489,970
Canada	CAD	1,832,920
China	HKD	1,585,964
South Africa	ZAR	725,445
Finland	EUR	2,264,776
France	EUR	10,983,406
Germany	EUR	6,238,452
Hong Kong	HKD	913,210
Italy	EUR	8,631,278
Japan	JPY	34,501,921
Mexico	MXN	406,652
Netherlands	EUR	5,813,224
Portugal	EUR	1,359,370
South Korea	KRW	1,480,430
Norway	NOK	2,795,648
Singapore	SGD	1,291,675
Sweden	SEK	2,297,635
Switzerland	CHF	8,232,694
United Kingdom	GBP	23,238,563
Total Fund Investments		<u>\$ 123,061,312</u>

## NOTES TO FINANCIAL STATEMENTS

One of EFIB's International Equity managers has authority to enter into foreign currency transactions to hedge a portion of their portfolio, but did not have any hedges in place as of June 30, 2006. However, at fiscal year-end, there were pending foreign exchange transactions, all of which were used to support trading activity. Outstanding contracts are as follows:

Currency	Fair Value Bought (1)	Book Value Bought	Fair Value Sold (1)	Book Value Sold	Unrealized Gain/Loss
Australian dollar	\$ 215,437	\$ 214,209	\$ -	\$ -	\$ 1,228
British pound sterling	461,517	461,494	-	-	23
Hong Kong dollar	156,595	156,585	-	-	10
Japanese yen	-	-	564,960	557,180	(7,780)
Swedish krona	367,664	360,972	-	-	6,692
Swiss franc	369,410	363,651	271,536	267,303	(4,233)
Total	<u>\$ 1,570,623</u>	<u>\$ 1,556,911</u>	<u>\$ 836,496</u>	<u>\$ 824,483</u>	<u>\$ (4,060)</u>

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

### NOTE 4 – SECURITIES LENDING

EFIB policies permit lending 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, EFIB'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, EFIB had no credit risk exposure to borrowers because the amount EFIB owes to the borrowers exceeds the amounts the borrowers owe to EFIB. The contract with EFIB's custodian requires it to indemnify EFIB if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay EFIB for income distributions by the securities issuers while the securities are out on loan. All securities loans can be terminated on demand by either EFIB 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 72 days.

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

## NOTES TO FINANCIAL STATEMENTS

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	Outstanding Loans as of June 30, 2006
Fair Value of Securities Loaned for Cash Collateral	\$ 114,282,165
Fair Value of Securities Loaned for Non-Cash Collateral	3,517,480
Total Fair Value of Securities Loaned	<u>\$ 117,799,645</u>
Fair Value of Cash Collateral from Borrowers	\$ 116,735,363
Fair Value of Non-Cash Collateral from Borrowers	3,579,033
Total Fair Value of Collateral from Borrowers	<u>\$ 120,314,396</u>

### NOTE 5- INVESTMENT INCOME

Investment income is recognized when earned. All income from investments is distributed to the Earnings Reserve 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.

Income From Investments	
Short-term Investments, Fixed Income, Securities Lending	\$ 13,093,610
Equity Funds	<u>9,765,118</u>
Total	<u>\$ 22,858,728</u>

### NOTE 6 – CONTRIBUTIONS FROM THE STATE OF IDAHO

Effective July 1, 2005, \$2,130,000 was contributed from the State of Idaho General Fund to the Agricultural College Earnings Reserve Fund and \$2,470,000 was contributed from the State of Idaho General Fund to the Charitable Institutions Earnings Reserve Fund. The purpose of the contributions was to reallocate Endowment and General Fund support to hold all beneficiaries harmless.

### NOTE 7 – EXPENSES

Expenses of the EFIB are paid from the Earnings Reserve Funds and by 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 the Endowment Funds and is therefore not included as expenditures or as reimbursements in these financial statements. Total expenses for fiscal year 2006 were \$143,964 for the State Insurance Fund.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 8 – 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), State Hospital North Fund—four-fifteenths (4/15), Veteran's Home—Five-thirtieths (5/30), and School for the Deaf and Blind Fund—one-thirtieth (1/30). Distributions to these sharing institutions at June 30, 2006:

#### Charitable Institutions' Distributions

	Factor	Beneficiaries	For Expenses - Lands	For Expenses - Investment Board
Idaho State University Fund	4/15	\$ -	\$ 202,301	\$ 66,052
State Juvenile Corrections Institutions Fund	4/15	-	202,301	66,052
School for the Deaf and Blind Fund	1/30	-	25,288	8,256
Veteran's Home Fund	5/30	-	126,438	41,282
State Hospital North Fund	4/15	-	202,301	66,052
Total		\$ -	\$ 758,629	\$ 247,694

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, 2006 were as follows:

#### Normal School Distributions

	%	Beneficiaries	For Expenses - Lands	For Expenses - Investment Board
Idaho State University, Pocatello	50%	\$ 1,602,800	\$ 465,040	\$ 112,354
Lewis-Clark State College, Lewiston	50%	1,602,800	465,039	112,354
Total		\$ 3,205,600	\$ 930,079	\$ 224,708

### NOTE 9 – 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 results 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, 2006, 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 10 – 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 11 – SUBSEQUENT EVENT

For Fiscal Year 2007, the Idaho State Legislature eliminated the Scaling Forest Products and Timber Road Maintenance dedicated accounts. All fund balances and spending authority associated with those accounts, as well as the balance in the Hazardous Materials dedicated fund associated with endowment lands, were transferred to the Endowment Fund's Earnings Reserve. An estimated \$8,000,000 of fund balances is expected to be transferred subsequent to June 30, 2006. Of this amount \$6,469,439 was transferred on August 16, 2006.

On July 1, 2006, the EFIB transferred \$413,132 from the Capitol Permanent Fund to the Capitol Commission.

For endowments other than the Capitol Permanent Fund, on August 8, 2006, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2008. The FY 2008 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2007 session.

	2008
Public Schools	\$ 26,995,000
Agriculture College	725,000
Charitable Institutions	2,582,000
Normal School	2,310,000
Penitentiary	728,000
School of Science	2,138,000
State Hospital South	1,149,000
University of Idaho	1,990,000
Total	<u>\$ 38,617,000</u>



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITORS' 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**

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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, 2006, and have issued our report thereon dated August 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

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 reportable 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 caused by error or fraud 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 internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted a matter 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 4, 2006.

*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*.

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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.

*Eide Sully LLP*

Boise, Idaho  
August 4, 2006

**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**  
**YEAR ENDED JUNE 30, 2006**

Cash Basis Expenditures from the State Of Idaho Reporting System	Expenses
<b>PERSONNEL</b>	
Regular Certified Employee	\$ 229,735
Board/Commission Members	2,300
Total Benefits	71,550
Subtotal Personnel Expenditures	<u>303,585</u>
<b>OPERATING</b>	
Postage/Express Mail	794
Telephone and Data Line Charges	8,217
Equipment Rental - Bloomberg	25,443
Publications & Subscriptions	6,705
Employee Training and Individual Dues	2,480
Audit	57,650
Printing and Photocopy Expense	277
Travel and Board Meeting Expenses	12,054
Office and Other Materials and Supplies	7,932
Office Space and Other Equip Rentals	48,901
Computer Programming and Software	5,097
Governmental Overhead - State	14,632
Other Expenses	3,704
Subtotal Operating Expenditures	<u>193,886</u>
<b>CAPITAL OUTLAY</b>	
Furniture	488
Other Office Equipment	298
Computer Equipment	10,451
Subtotal Capital Expenditures	<u>11,237</u>
<b>TOTAL EXPENSES/BUDGET</b>	<u>508,708</u>
<b>CONTINUOUS APPROPRIATION</b>	
Outside Manager Billing	
RBC Dain Rauscher	173,832
Barrow, Hanley, Mewhinney & Strauss	130,909
Clearwater Investments	44,658
Enhanced Investments (INTECH)	185,070
LSV Asset Management	307,950
Marvin & Palmer and Associates	390,139
Mastrapasqua Asset Management	277,743
Metropolitan West Capitol Management	227,884
Nicholas Applegate	134,209
Northern Trust	314,563
Tradewinds NWQ	406,249
Oppenheimer Capital	197,850
Sands Capital Management	304,347
Systematic Financial Management	110,356
Total Outside Manager Billings	<u>3,205,759</u>
Less Payments Made By State Insurance Fund	<u>(143,964)</u>
Total Expenditures - Cash Basis State of Idaho Reporting System	<u>3,570,503</u>
Add Change in Manager Fee Accrual	<u>309,033</u>
Less Change in Liabilities	(7,837)
Less Capitol Permanent Refund of Expenses	(38,757)
Total Accrual Basis Expenditures - EFIB	<u>\$ 3,832,942</u>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF PUBLIC SCHOOL AND POOLED NET ASSETS**  
**JUNE 30, 2006**

	Public School	Capitol Permanent and Pooled	Total EFIB
<b>Current Assets</b>			
Investment in an External Investment Pool	\$ 661,806	\$ 166,474	\$ 828,280
Investments, at Fair Value	636,183,201	307,091,042	943,274,243
Receivable for Unsettled Trades	4,470,933	2,158,157	6,629,090
Receivable From Idaho Department of Lands	3,906,075	1,527,877	5,433,952
Accrued Interest and Dividends Receivable	1,227,318	592,437	1,819,755
Securities Lending Collateral	81,145,010	39,169,386	120,314,396
Total Assets	727,594,343	350,705,373	1,078,299,716
<b>Current Liabilities</b>			
Securities Lending Collateral	81,145,010	39,169,386	120,314,396
Payable for Unsettled Trades	4,841,233	2,336,904	7,178,137
Investment Manager Expenses Payable	664,292	308,602	972,894
Total Liabilities	86,650,535	41,814,892	128,465,427
<b>Restricted Net Assets</b>			
<b>Nonexpendable Net Assets - Permanent Funds</b>			
Agriculture College	-	15,524,870	15,524,870
Charitable Institutions	-	55,458,050	55,458,050
Normal School	-	49,679,177	49,679,177
Penitentiary	-	19,001,035	19,001,035
School of Science	-	55,774,865	55,774,865
State Hospital South	-	24,691,932	24,691,932
University of Idaho	-	42,802,083	42,802,083
Public School	581,893,579	-	581,893,579
Capitol Permanent Fund	-	13,586,071	13,586,071
Total Permanent Net Assets	581,893,579	276,518,083	858,411,662
<b>Expendable Net Assets - Earnings Reserve</b>			
Agriculture College	-	2,322,348	2,322,348
Charitable Institutions	-	5,643,691	5,643,691
Normal School	-	5,106,702	5,106,702
Penitentiary	-	1,070,481	1,070,481
School of Science	-	3,359,463	3,359,463
State Hospital South	-	9,031,226	9,031,226
University of Idaho	-	5,838,487	5,838,487
Public School	59,050,229	-	59,050,229
Total Earnings Reserve Net Assets	59,050,229	32,372,398	91,422,627
Total Net Assets	\$ 640,943,808	\$ 308,890,481	\$ 949,834,289

**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, 2006**

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

FYE	Beginning Corpus	Additions to Corpus	Adjusted 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
2006	537,181,394	1,758,724	538,940,118	581,893,579	42,953,461
TOTAL				\$	<u>16,485,245</u>

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

FYE	Beginning Corpus	Additions to Corpus	Adjusted Beginning Corpus	Ending Corpus	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
2006	243,453,250	69,989	243,523,239	262,932,012	19,408,773
TOTAL				\$	<u>6,670,551</u>



**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF WEIGHTED RETURN ANALYSIS BY ASSET MANAGER**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	1-Year Annual	2-Yr. Annual	3-Yr. Annual	5-Yr. Annual
<b>Total Account</b>	<b>10.9</b>	<b>10.3</b>	<b>12.5</b>	<b>5.9</b>
<i>Total Fund Benchmark*</i>	<i>7.5</i>	<i>7.9</i>	<i>10.2</i>	<i>4.7</i>
*Total fund benchmark consists 56% Russell 3000, 14% MSCI EAFE, & 30% Lehman Aggregate.				
<b>Total Fixed Income</b>	<b>(0.8)</b>	<b>3.0</b>	<b>2.0</b>	<b>4.7</b>
NTGI TIPS	(1.5)	3.8		
LB U.S. Aggregate	(0.9)	2.9	2.1	5.0
<b>Total Equity</b>	<b>15.9</b>	<b>13.2</b>	<b>17.0</b>	<b>5.1</b>
<i>Russell 3000</i>	<i>9.6</i>	<i>8.8</i>	<i>12.6</i>	<i>3.5</i>
<b>Total Large Cap</b>	<b>10.9</b>	<b>9.8</b>	<b>13.8</b>	
NTGI S&P 500				
S&P 500	8.7	7.5	11.2	
<b>Total Large Growth</b>	<b>5.8</b>	<b>3.3</b>		
INTECH	7.4			
NTGI Russell 1000 Growth				
Sands Capital	3.5			
<i>Russell 1000 Growth</i>	<i>6.1</i>	<i>3.9</i>	<i>8.4</i>	<i>(0.8)</i>
<b>Total Large Value</b>	<b>18.2</b>	<b>17.3</b>		
LSV Asset Management	14.8	16.3		
Metropolitan West	23.3	19.8	25.4	11.3
NTGI Russell 1000 Value				
<i>Russell 1000 Value</i>	<i>12.1</i>	<i>13.1</i>	<i>15.7</i>	<i>6.9</i>
<b>Total Mid Cap</b>	<b>13.5</b>	<b>11.9</b>	<b>17.0</b>	
Mastrapasqua*	11.3	7.8	12.0	(0.83)
Oppenheimer Capital	13.1	11.7	17.6	
Systematic Financial	19.5	20.4	21.3	
<i>Russell Mid Cap Index</i>	<i>13.7</i>	<i>15.4</i>	<i>19.9</i>	<i>9.9</i>
<b>Total Small Cap</b>	<b>26.2</b>	<b>18.2</b>	<b>23.1</b>	
Nicholas Applegate	28.9	18.4	22.5	5.8
Barrow, Hanley M & S	23.6	18.0		
<i>Russell 2000 Index</i>	<i>14.6</i>	<i>12.0</i>	<i>18.7</i>	<i>8.5</i>
<b>Total International Equity</b>	<b>26.8</b>	<b>21.2</b>	<b>22.2</b>	<b>9.6</b>
Marvin & Palmer	26.6	17.5	18.6	
Tradewinds NWQ	26.9	24.7		
<i>MSCI EAFE</i>	<i>27.1</i>	<i>20.4</i>	<i>24.4</i>	<i>10.4</i>

**Managers Hired** None  
**Managers Discharged** None

Results are gross of management fees & expenses.

\* Changed mandate from Large Cap to Mid Cap in June 2005

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

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



CPAs & BUSINESS ADVISORS

## 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, 2006, 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, 2006, 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 Land Board, and the EFIB and is not intended and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Boise, Idaho  
August 4, 2006

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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, 2006**

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Investment securities held at June 30, 2006, were in 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 procedure was in place for the year ended June 30, 2006 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 Chapter 7, Title 57-724, of the Code.

The Investment Manager advised the Investment Board monthly 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, 2006, required by Chapter 7, Title 57-720, of the Code.